PROSPERITY MARKET UPDATE

Experienced market analysis builds investment confidence.

Given the current concerns, we wanted to reach out and let you know that we are closely monitoring the markets. We also want to offer some context around recent developments, share our perspective on the current environment, and outline potential outcomes moving forward.

High Level Summary:

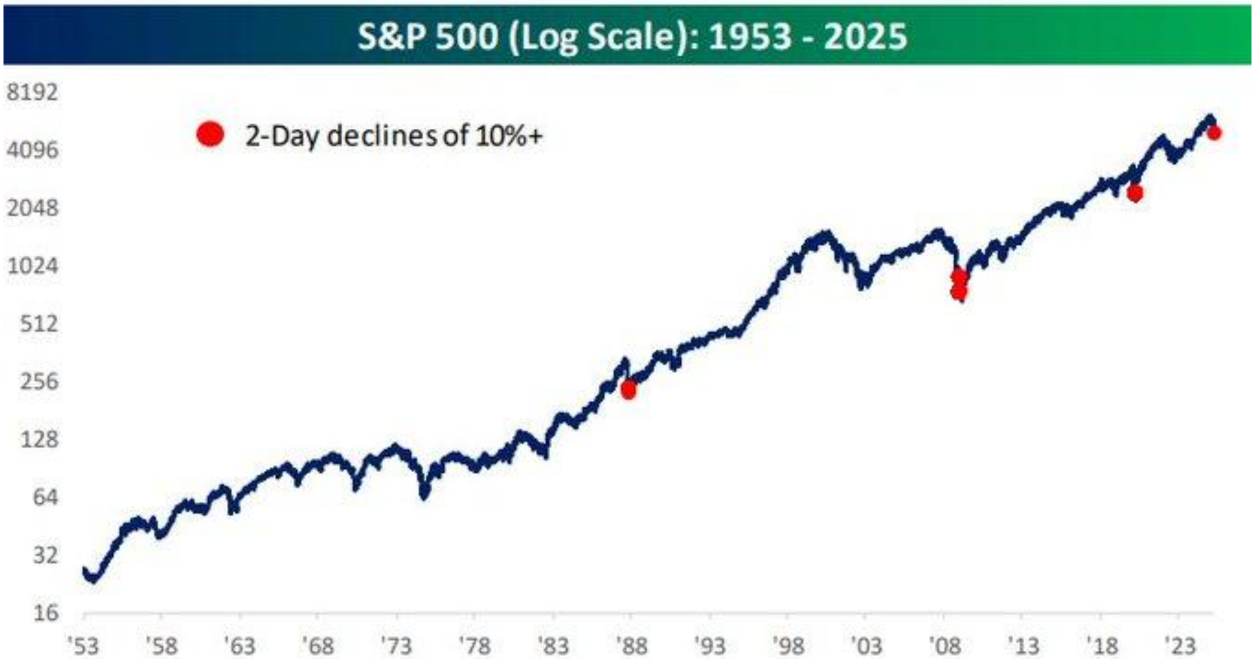
The recent spike in tariffs — and the corresponding market selloff — has understandably created concern. However, it's critical to step back, maintain perspective, and remember that markets often react strongly to uncertainty, not just fundamentals. Tariffs introduce uncertainty around global trade, corporate margins, and supply chains. But uncertainty isn't the same as permanent damage. Markets often overshoot in both directions when pricing in new information — especially geopolitical or policy-driven news like this. Historically, tariff announcements are often the starting point for negotiation — not the end state. Many proposed tariffs never fully materialize or are rolled back once diplomatic progress is made. Positioning portfolios based on the worst-case scenario may result in missed opportunities if the situation stabilizes or improves. History shows that sharp market declines tied to policy surprises (e.g., Brexit, U.S.-China trade tensions, etc.) are often followed by recoveries once the policy path becomes clearer. Panic selling during periods of stress usually results in locking in losses right before a rebound.

Market Update: Escalation in Tariffs and Historic Volatility

On April 2nd, President Trump unveiled the "Liberation Day" tariff initiative, an aggressive trade policy shift that significantly exceeded market expectations. The newly announced measures will elevate the U.S. effective tariff rate to the highest level in over a century—surpassing even the Smoot-Hawley peak of 20%. Beginning April 5th, a 10% blanket tariff was implemented, followed by a series of reciprocal country-specific tariffs starting April 9th. For instance, China faces an additional 54% levy, bringing the total tariff on Chinese imports to 68%. Should these measures persist, the U.S. average tariff rate could rise to about 25%.

Market Context and Historical Analogues

The S&P 500's 10.5% drop over two trading days last Thursday and Friday marks only the **fourth such instance since 1952** (following 1987, 2008, and 2020). Historically, such events have prompted swift intervention from the Fed, Congress, and the White House—often paving the way for strong market rebounds.



Source: Marketwatch

To put this in context, the last few days of market decline was more severe than the 2010 Flash Crash, China's 2015 Black Monday, the 1997 Asian Financial Crisis, and the 2011 U.S. debt downgrade selloff. Thursday and Friday's performance makes the short list of times when the S&P 500 fell more than -4.5%. Here's what the S&P 500 did next:

S&P 500 after 2 consecutive days of -4.5% declines
@SubuTrade

	1 Day Later	2 Days Later	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	1 Year Later
October 29, 1929	12.53%	18.21%	4.60%	-5.82%	5.97%	1.13%	6.90%	26.63%	5.24%
November 6, 1929	3.69%	2.77%	-14.31%	3.20%	10.29%	3.01%	7.23%	24.84%	3.30%
November 12, 1929	-5.71%	2.72%	10.52%	10.30%	13.03%	13.67%	22.42%	35.02%	7.69%
July 20, 1933	-8.70%	-8.14%	0.19%	-0.76%	1.80%	2.37%	-3.22%	-8.14%	-7.00%
October 19, 1933	2.90%	-0.46%	11.85%	4.07%	12.54%	19.40%	13.94%	23.58%	4.18%
May 14, 1940	0.97%	1.95%	-4.77%	-10.02%	-9.24%	-3.89%	-1.95%	2.92%	-2.43%
October 19, 1987	5.33%	14.92%	1.26%	13.75%	8.09%	8.07%	10.89%	14.71%	22.94%
November 6, 2008	2.89%	1.58%	0.71%	-16.85%	0.53%	0.54%	-3.87%	0.48%	18.17%
November 20, 2008	6.32%	13.21%	19.11%	16.43%	15.84%	10.57%	2.75%	20.98%	45.05%
March 12, 2020	9.29%	-3.81%	-2.87%	6.02%	11.33%	15.70%	21.02%	34.61%	58.96%
April 4, 2025?									
Average:	**2.95%**	**4.29%**	**2.63%**	**2.03%**	**7.02%**	**7.05%**	**7.61%**	**17.56%**	**15.61%**
% Positive:	**80%**	**70%**	**70%**	**60%**	**90%**	**90%**	**70%**	**90%**	**80%**
Average Max Loss	-1.44%	-1.87%	-4.40%	-8.05%	-8.10%	-8.24%	-8.39%	-11.11%	-11.35%
Average Max Gain	4.39%	6.98%	9.26%	9.83%	12.03%	13.88%	15.33%	23.38%	30.26%

As we can glean from history, the market has a good chance of being higher over the coming periods. This is why we have not materially sold investments during this selloff. After a sharp market decline, sales crystallizes losses. It turns paper losses into permanent ones. Historically, markets have recovered from every major downturn — often sharply and without warning. Selling in a panic locks you out of the rebound. A key point to remember is that during market declines, it's impossible to predict exactly when the bottom will occur. Ideally, we could avoid being invested while the market is falling and then re-enter when it begins to recover. However, without the benefit of a crystal ball, this is extremely difficult to execute. The primary risk of attempting to time the market during drawdowns is the potential to miss out on the recovery. This risk should not be underestimated.

Historical U.S. Tariffs

We have seen the U.S. enacted tariffs in the past. The green arrows on the chart below show that often the implementation of tariffs corresponded to market bottoms.

Source: Remac

Corporate Fallout and Economic Implications

The sudden policy shift is already disrupting corporate strategy:

- Nintendo has delayed its U.S. Switch 2 launch.

- Land Rover is exiting the U.S. market.
- Apple is relocating 10% of iPhone production from China (54% tariff) to Brazil (10% tariff).
- BMW will absorb tariff costs for 30 days before potentially raising prices or halting U.S. operations.
- Boeing faces severe supply chain disruptions due to tariff-impacted parts from Taiwan.
- IPO activity has stalled, with Klarna and StubHub withdrawing recent offerings.
- M&A pipelines are expected to slow considerably.

As a result, we anticipate a wave of companies suspending forward guidance in the upcoming earnings season. This level of uncertainty is undermining capital markets' ability to function normally. **However, this could quickly change if we get a response from the government.**

Investor Positioning and Portfolio Strategy

Selective tax-loss harvesting has been executed, but we have not initiated broad-based asset reallocation. This is a *self-inflicted bear market*, not the result of cyclical economic deterioration, at least not yet. We expect legal and political pushbacks that could mitigate or delay the implementation of these tariffs. There is also potential for fiscal policy response such as Fed moving to cut interest rates, or the injection of liquidity by the U.S. treasury. All options could be on the table. It's anyone's guess as to how the government may respond. However, we are closely monitoring the situation and may choose to adjust the portfolio if we gain confidence in the future direction of tariffs and the implications on the economy.

Macroeconomic Projections

The following reflects our current thinking based on the information available at this time. Given the rapidly evolving news cycle, our views may shift as new developments emerge.

- **Recession Risk**: Not our base case, though probability has increased.
- **Tariff Impact**: The effective rate could rise from 2.5% to 25%, though we expect ultimately negotiated reductions to 10–15%.
- **Inflation**: CPI expected to rise to ~4.0% in 2025 and moderate to 3.5% in 2026 due to pass-through pricing.
- **Federal Reserve Outlook**: Base case remains for two rate cuts in 2025. However, the Fed faces a dual challenge: slowing growth and renewed inflation pressure.

Final Thoughts

Markets are in a period of heightened uncertainty—not a permanent state, but a volatile transition. The selloff is not a reflection of deteriorating fundamentals, but rather a reaction to unpredictable policy developments. A single positive headline—whether on trade negotiations, fiscal stimulus, or monetary easing—could significantly reprice risk assets. In periods of significant market disruption, governments and central banks often step in. Whether it's through fiscal stimulus, regulatory adjustments, or monetary easing, policy tools exist that could mitigate some of the economic drag from tariffs.

We remain vigilant and ready to adapt as the situation evolves. While the path forward is uncertain, history suggests that moments of extreme dislocation often present opportunity. While tariffs are creating headwinds and market volatility, this isn't the first time global trade tensions have rattled investors — and it won't be the last. What matters most is staying disciplined, keeping perspective, and remembering that successful investing requires tuning out short-term noise and focusing on long-term value. As always, we stand beside our investors, confident that long-term discipline will be rewarded.

As always, if you have any questions or would like to review your portfolio in greater detail, please reach out to your personal financial advisor.

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