

HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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(Note: We are in a fast-moving environment where events may change daily. This commentary is published effective April 8.)

Three months ago we wrote a mostly upbeat commentary. We had enjoyed two gangbuster years in the stock market. We expected slower but still positive growth for 2025 based upon good economic fundamentals and the stimulative impact from tax and regulatory policies in the new Trump Administration. We did add a caveat about the uncertainties of tariff strategy.

So, okay, yes, the caveat about tariffs was a bit understated on our part – to put it mildly. President Trump is unexpectedly aggressive in trying to change the global trade system. The whole investment community is a bit stunned. His evolving statements on tariffs produced negative stock market results for the first quarter. His more formal announcement on April 2 – dubbed Liberation Day – has tanked the market into bear market territory.

The President has imposed across-the-board tariffs of 10% on all imports – and considerably higher rates for certain countries and products. His stated goal is to reset the nation's trade relationships, raise revenue, and boost domestic production. The widespread critics of this tariff policy say it will create both inflation and economic slowdown, possibly recession.

We understand the pros and cons of the tariff debate. Our major concern is the uncertainty that goes with that debate. The stock market can adjust to major change. But we foresee the possibility for tariff policy to become an extended multi-national, multi-industry negotiation. The parts will be continuously moving for some indefinite period. The market will not be happy in this scenario.

This period reminds us of the onset of the Covid pandemic in 2020. The questions are many and the answers are unknown. We liked Jerome Powell in his comments on April 4. He was calm. He said the Federal Reserve will watch events unfold before making decisions. At Hudson Advisors, we share that viewpoint. We do not advocate selling into a declining or volatile market. We will advise clients to hold steady with confidence that diversified portfolios will prove resilient as the tariff story unfolds.

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MARKET TRENDS

The accompanying chart summarizes stock and bond market trends for the first quarter. Stock prices slumped and bond prices rose.

Equity Market: We begin 2025 with rich stock prices from the run-up of the two previous years. The market was a little nervous about fluctuating job numbers. But the S&P 500 reached an all-time peak of 6,144 on February 14. Then the market grew unsettled and negative as President Trump intensified his statements – sometimes in contradictory ways – about his intentions for actions on tariffs. March saw the worst month for stocks since the downbeat times of 2022.

As of March 31, the S&P 500 was negative 4.27% for the quarter. Much of the decline occurred in the technology sector with the Nasdaq Composite down 10.26%. Technology was also hit by concerns over the future profitability of AI strategies. The Russell 2000 was down 9.48% given its large dependence on imported goods and supplies. Least affected was the Dow Jones Industrial which was negative 0.87% for the quarter.

Then came the bombshell of Liberation Day on April 2nd. The following two days were calamitous for the market. The S&P 500 fell nearly 10% in two days. On Monday the 7th, the market gyrated – but less than the previous week – although it did fall into bear market territory with a loss over 20% from its highpoint in February. The Nasdaq Composite and Russell 2000 had both entered bear market territory on Friday.

Fixed Income Market: Considerable money flowed from equities into bonds. The benchmark 10-Year Treasury note ended March with a yield of 4.26% versus 4.58% at the start of the year. It was down to 4.01% on April 4. (Yields move inversely to prices.)

MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrial Average TR	-0.87
S&P 500 Index TR	-4.27
Russell 2000 Index TR	-9.48
NASDAQ Composite TR	-10.26
EAFE Index NR	6.86
Bloomberg Aggregate Bond Treasury TR	2.92

Source: Morningstar® as of March 31, 2025

THE OUTLOOK

The Economy: Last fall the outlook for the US economy in 2025 was optimistic. The consensus forecast was for 2.1% growth in GDP – not as strong as 2024 – but still healthy. Inflation was expected to gradually abate to the Federal Reserve target of 2% and the labor market would be strong. The Federal Reserve would be able to move ahead with three to four interest rate cuts.

The reality in the first quarter was different. Inflation in February was 2.8% over the last 12- month period. Job numbers have fluctuated. Employers added 228,000 jobs in March – but January and February numbers were much weaker. Unemployment is slightly higher than last year at 4.2 percent. Most concerning, the Conference Board survey of consumer confidence is at a four-year low point.

These economic concerns existed before the onslaught of the tariff saga. No credible economist can now predict the economic outlook. We have too many unanswered questions. Will other countries strike back with reciprocal tariff actions – as China did rapidly –or seek to negotiate?

Will US industry groups win exemptions from the White House? How much of the tariff cost will importing companies absorb as opposed to passing onto consumers? Will those consumers recoil at higher prices and cut back spending? Will businesses curtail investment and spending? We agree with what Chairman Powell has said. It will take some time for these questions to get sorted out. However, we almost certainly are looking at the prospect of higher prices and slower growth – which is the unpleasant stagflation scenario. We also may slip into recession.

The Market: Given these extensive uncertainties, forecasts for the stock market are just speculative guesses. One good note is that corporate earnings for the first quarter will be above 10%. Future earnings performance is now unpredictable. The price/earnings ratio on the S&P 500 was 25.19 at market close on April 4 – down from 29.86 at the beginning of the year. What happens going forward to this ratio is also a difficult prediction.

At Hudson Advisors, we liked a quote we saw from a Japanese businessman: “A period of chaos may ensue, but ultimately the situation will stabilize.” We lean towards stabilization sooner rather than later. We think it quite possible for the market to stay within a narrow trading range until the tariff situation sorts itself out. We anticipate that the Trump policies on taxation and deregulation will assist to offset some of the current nervousness.

OUR STRATEGIES

Asset Allocation: Most clients should stick to portfolio strategies previously identified. Diversification is our friend in this market environment. For new clients, we recommend a 60% allocation to equities to be phased in over a 12- to -18- month period. The other 40% of assets will be short to intermediate-term bonds, cash, and alternative investments. We will talk with clients who have special investment situations that may require alternate asset allocations.

Preferred Equities: As always, despite market conditions, we look for long-term equity opportunities. Our focus is on companies that can weather both the short-term period and flourish in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. We especially like the following sectors because they have some protection from tariff-related volatility:

HEALTH CARE: This sector lagged in 2024 but has comeback potential with its continuous evolution and response to global health needs.

CONSUMER STAPLES: Consumers need certain basic goods even in difficult economic times.

INDUSTRIALS: Federal government investment in infrastructure, much of it already underway, should work in favor of basic materials and construction companies. The need to rebuild after extreme weather events is also obvious.

TECHNOLOGY: Despite their recent downturn, the large tech companies provide the grain of our daily lives and will benefit from the long-term development of artificial intelligence.

UTILITIES: Demand for energy is growing – in part because of AI – and utilities are challenged to expand transmission capabilities for both traditional and new clean energies. These stocks will become more interesting opportunities.

Other Assets: Our aversion to long-term bonds remains. But we explore various maturities through laddered investments with a mix of U.S. Government, municipal, and high- quality corporate bonds. We also like the current opportunities in money market funds. Also, for some clients, we look at alternative investments through Broadly Syndicated Loan vehicles and Collateralized Loan Obligations which can provide investors with greater security through collateral, yields, and a hedge against inflation through floating rate structures.

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