Furstenau Wealth Update
February 18, 2025

The Markets

Why are stock markets wary of tariffs?

In two of the last three weeks, tariff announcements led to late week stock market sell-offs. Stocks quickly recovered lost value, but uncertainty about the administration's trade policy and the potential impact of that policy on U.S. companies remained. That's likely to be the case until it becomes clear whether the Trump administration sees tariffs as a negotiating tactic or a means to cover the cost of extending 2017 tax cuts.

If tariffs are a negotiating tactic and unlikely to be implemented, the effect on the U.S. economy, businesses, and stocks may be less significant than if tariffs are put in place. The Tax Foundation evaluated the administration's proposal for a universal baseline tariff and reported, "the 10 percent tariff would generate $2 trillion of increased revenue, while the 20 percent tariff would generate $3.3 trillion over a decade."

While increased tax revenue is alluring, the catch is that tariffs are taxes added to the prices of materials and goods purchased by American businesses. Often, the cost is passed on to consumers, reported Anshu Siripurapu and Noah Berman of the Council on Foreign Relations (CFR). As a result, the trillions of dollars that could be generated would come from American pockets. According to CFR estimates:

"A 25 percent tariff on Canada and Mexico will raise production costs for U.S. automakers, adding up to $3,000 to the price of some of the roughly sixteen million cars sold in the United States each year. Grocery costs could rise, too, as Mexico is the United States' biggest source of fresh produce, supplying more than 60 percent of U.S. vegetable imports and nearly half of all fruit and nut imports."

Higher prices may reduce demand for goods and services, slowing sales and reducing companies' profits (and earnings). If earnings growth slows, publicly traded companies' stock prices could be affected. David Kostin, chief U.S. equity strategist at Goldman Sachs Research reported, "...every five-percentage-point increase in the U.S. tariff rate is estimated to reduce [Standard & Poor's 500 Index] earnings per share by roughly 1-2 [percent]." Goldman's estimates suggest the 10 percent tariff placed on China in early February could raise the effective U.S. tariff rate by about 4.7 percentage points.

In addition, businesses may be vulnerable to retaliatory tariffs imposed by other nations. For example, "American farmers and ranchers incurred the most widespread damage from this retaliation following the 2018 tariffs. The damage was so great that the [first] Trump administration authorized $61 billion in emergency relief payments to cushion farmers and ranchers from the blow…an amount roughly equivalent to all of the tariff revenue collected from U.S. businesses," reported Adam S. Hersh and Josh Bivens of The Economic Policy Institute.

Investors appeared to shrug off concerns about tariffs and trade wars last week. Denitsa Tsekova of Bloomberg reported, "This week's vow for reciprocal tariffs comes not long after [President Trump] delayed threats against Canada and Mexico, signaling to many investors that he won't take action that enacts lasting damage to Wall Street."

Last week, higher than expected inflation numbers and weaker than expected retail sales data gave investors pause, but major U.S. stock indices finished the week higher. The yield on the benchmark 10-year U.S. Treasury moved lower over the week.

Data as of 2/14/25	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	1.5%	4.0%	22.3%	11.6%	12.6%	11.3%
Dow Jones Global ex-U.S. Index	1.9	6.1	11.1	1.3	3.0	2.8
10-year Treasury Note (yield only)	4.5	N/A	4.3	2.0	1.6	2.2
Gold (per ounce)	1.6	11.9	47.2	16.1	13.1	9.0
Bloomberg Commodity Index	1.6	7.2	11.0	-1.6	7.0	0.2

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT DO YOU KNOW ABOUT BUYING A HOUSE? First-time home buyers have a lot to think about. A house is a big investment, so it's important to do the research and develop some checklists that can help you compare and evaluate the options available to you. One checklist might include key points to observe during home showings. For example, did you know it's a good idea to begin your home tour in the basement (assuming the house has one)? If you find issues that significantly affect the structure's integrity, end the tour there.

Here are a few things to consider:

- **The inspection**. Many people have been told that requiring an inspection may mean they won't get the house. But waiving an inspection can be costly, especially if the home has significant problems. One option "is to include a home inspection 'for informational purposes' in your contract. This means that you won't hold home sellers responsible for making repairs or fronting the money for them—and could make sellers more likely to accept your offer," reported Kelsey Ogletree of Realtor.com. If the home has serious issues, you can back away from the sale although your earnest money may be at risk.

- **The neighborhood**. You can learn a lot about prospective neighborhoods online, but it's a good idea to spend time there, too. Drive through the community. Take walks through the neighborhood at different times of the day and different days of the week. Chat with people you see. The more information you gather, the more confident you will be about your decision.

- **Your actual monthly costs**. After buying a home, the amount you owe each month is usually several hundred dollars more than your mortgage expense. That's because the payment to your lender will include property taxes and homeowner's insurance costs that are held in escrow and, usually, paid by the lender when due.

When you're ready to buy a home, leverage your resources—including online research and friends and family members—and gather the information you need to feel confident that you're making a sound decision.

Weekly Focus – Think About It
"In love of home, the love of country has its rise."

—Charles Dickens, novelist

Best regards,

Ryan D. Furstenau

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.
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