Monthly Newsletter

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RWA WEALTH PARTNERS

Q2 OUTLOOK

Navigating Uncertainty: Tariffs, Market Volatility and the Case for Endurance

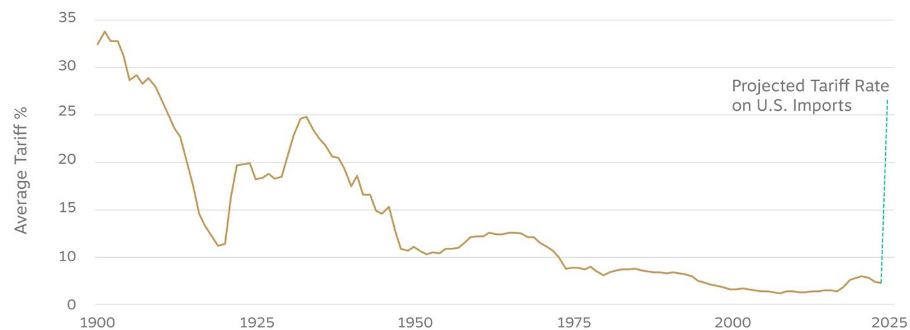
As we round out a wild month of news, it's clear that investors and business leaders are navigating a landscape shaped by shifting policy winds and market turbulence. The latest developments on tariffs, in particular, have dominated the national narrative—casting a long shadow over sentiment and strategy.

Tariffs: The Seesaw Continues

April opened with a jolt after President Trump unveiled tariff rates that far exceeded market expectations. While those initial figures have since been dialed back, the dust has yet to settle. What seems increasingly likely is that we'll land somewhere closer to the levels anticipated at the start of the month, with the most significant tariffs reserved for Chinese imports.

Even with these revisions, tariffs remain at levels not seen in nearly a century. The policies themselves—and the persistent uncertainty surrounding them—are already weighing on business and consumer confidence, as recent survey data makes plain. It's hard to blame anyone for hesitating in such an environment: When the rules of the game shift daily, decision-making becomes a moving target.

U.S. Average Tariff Rate



Sources: Fitch Ratings and Bloomberg as of 4/17/25.

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It's also become clear that the primary target of Trump's trade war is China. From the president's point of view, China poses a threat to the U.S. and is to blame for many of our country's problems. His solutions include restoring domestic manufacturing and reducing trade deficits.

China's response, meanwhile, has been largely symbolic, but the risks run deeper than tit-for-tat levies on goods. With the U.S. exporting far more services to China than physical products, there's

real potential for retaliation to spill over into sectors that touch a broader swath of the economy. And given China's mixed record on honoring past agreements, continued complexity seems all but assured.

It's worth remembering that tariffs are, at their core, a form of tax. They have the power to dampen consumer demand, raise business costs and slow economic growth. As these measures take effect, it's critical for policymakers to consider ways to cushion the blow—whether through targeted tax relief, debt reduction or other fiscal tools. Such moves could offer a much-needed tailwind for the markets in the months ahead.

Market Dynamics: See the Silver Lining

Periods of sharp declines in the market naturally breed anxiety and a focus on what could go wrong next. But for long-term investors with vision beyond the next few months or even years, it's just as important to ask: What could go right from here?

> "It's hard to blame anyone for hesitating in such an environment: When the rules of the game shift daily, decision-making becomes a moving target."

Past data offers some comfort. Historically, when the S&P 500 has suffered a drawdown of around 15%—as we've seen during the worst of the sell-off this month—subsequent one-year returns have been positive nearly 85% of the time, with average gains in the double digits. Lower prices, while unnerving in the moment, create a margin of safety and set the stage for future opportunity. In other words, the lower stock prices we are seeing today solve many of the problems that were confronting investors just a few months ago. Some of the bad consequences of the tariffs are already discounted in today's market.

Of course, this doesn't suggest the worst is behind us. Economic indicators often lag market movements, and we may see further softening in unemployment, consumer spending or corporate earnings before the data turns a corner. But markets look forward, and by the time the numbers signal recovery, the market may already be well on its way higher. Waiting for an "all clear" is rarely a winning strategy.

Context Matters: Today's Imbalances Are Different

It's tempting to draw parallels between today's turbulence and the crises of the past quarter-century—the dot-com bust, the 2008 financial crisis or the COVID-19 sell-off. But the imbalances we face now are fundamentally different.

The tech giants leading today's market have matured, boasting robust balance sheets and seasoned management teams. Unlike the fragile companies of the dot-com era, these firms are equipped to weather uncertainty. And while the challenges are real, much of the current turmoil is self-inflicted—driven by policy choices that, as we've seen, can be reversed with a single statement or social media post.

In contrast, during the financial crisis in 2008, some people were seriously wondering if the financial system would even survive. Five years ago, during COVID-19, we were all wondering if the world would survive. This is not like those past crises.

Stay the Course

While the headlines may focus on volatility in the markets, and even fan the flames of uncertainty, the bigger picture is far more encouraging. There is a lot to be optimistic about. Longevity, medical advances, opportunities for strategic giving and legacy planning, rapid technological innovation—we all have much to look forward to. The string that ties it all together is America's ability to adapt

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and reinvent itself, whether that's economically, technologically, culturally or politically.

With prudent planning, a diversified approach, a long-term perspective and guidance from your advisor, you can look ahead with optimism. That's why in this environment, the risk of overreacting is just as great as the risk of inaction. Volatile markets tempt us to make drastic moves, but history shows that endurance and discipline are your best allies.

When thinking about how to position portfolios in this environment, we must extend our view beyond just the next three to six months. We're looking years into the future. This is the same vision we bring when designing financial plans. We must focus on longer-term expectations to determine which investments can provide value to your portfolio. And while we don't believe this is a time to go bottom fishing, it does offer opportunities to reposition portfolios that may have grown overly concentrated in some individual stocks, particularly large-cap growth stocks.

As always, we encourage you to lean on your advisor and your long-term financial plan. These are the moments that demonstrate our value—and your resolve. If you're considering adjustments or simply want to talk through the implications for your portfolio, your advisor is here to help.

In times like these, patience and perspective are more valuable than ever. The path forward may be uncertain, but a clear-eyed view of your goals will see you through.

BOND INVESTING

Are Muni Markets Facing Upheaval?

The Trump administration's policies are having far-reaching effects on stock and bond markets worldwide. This month, we turn to Senior Vice President and Fixed Income Manager Chris Keith to share his perspective on what might happen in the municipal bond market as the federal government cuts funding for state-run programs nationwide.

In my home state of Massachusetts, there's an ideological battle brewing between Harvard University and President Trump's administration, with a lot of financial funding on the line. I believe Harvard, with its prestige, image and stature, will survive this battle no matter what the outcome. Of course, Harvard's $50 billion endowment helps even if there are some restrictions on how it may be used. But what about state and local governments that don't enjoy the same resources—how will they fare in the age of reduced federal funding?

The Triple Challenge Facing State and Local Governments

In my opinion, state and local governments may be facing a three-pronged challenge: a moderating economy, COVID-19 relief funds drying up and now reduced federal aid and spending cuts. Estimates suggest that federal aid to state and local governments last year was over $1 trillion and was applied to health care needs, education, and street and highway projects, among other uses.

In an environment where news changes quickly, predicting how reductions in federal funding and state and local government support ends is a difficult task, but it's something we're preparing for at RWA.

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What Are Municipal Bonds?

Before discussing the implications, let's clarify what municipal bonds are. Municipal bonds (or "munis") are debt securities issued by state and local governments to finance public projects such as schools, highways, water systems and other infrastructure. When you purchase a municipal bond, you're essentially lending money to the issuing government entity, which promises to pay you interest (typically semiannually) and return your principal at maturity.

Why Consider Municipal Bonds?

Investors are often attracted to municipal bonds for several compelling reasons:

- **Tax advantages:** Interest income from many municipal bonds is exempt from federal income tax and, in some cases, from state and local taxes for residents of the issuing state.
- **Lower default risk:** Historically, municipal bonds have shown significantly lower default rates than corporate bonds with similar ratings—from 1970 through 2023, munis defaulted at a rate of 0.1% compared with 2.2% for corporates, according to Moody's and AllianceBernstein.
- **Portfolio diversification:** Municipal bonds provide exposure to different economic drivers than corporate or Treasury bonds, helping to reduce overall portfolio risk.
- **Community impact:** Your investment directly supports essential public services and infrastructure in communities across America.

The Changing Fiscal Landscape

The days of budget excesses (surpluses) appear over as COVID-19 relief funds fade. With pandemic funds gone, diminishing federal aid, and an economy expected to downshift, many state and local governments will be required to tighten their fiscal belts. This likely means a combination of spending less and reducing services. While the causes are different this time, we've invested through this type of "lean years" environment before: Expect to see an increase in negative news headlines about city and state budgets (the headlines will probably be worse than the actual news) accompanied by warnings and credit rating downgrades. But I don't expect a dramatic increase in municipal issuer defaults.

Revenue Generation Will Continue

We know municipalities will have a need for capital no matter what the cost because they always do, if for no other reason than just to keep up with maintenance projects. Companies typically need to sell a product to raise revenue, but state and local governments raise revenue through taxation and user fees. It won't be quick, easy or popular, but state and local governments will use the tools they have to raise the revenue they need to finance operations and keep a balanced budget.

States like mine impose income and sales taxes for their primary source of revenue. Tax hikes and service cuts will be applied in tandem when revenue dips. My state also maintains a "rainy day" fund estimated at more than $8 billion, though it has been reluctant to tap into it.

At the local level, property owners pay for schools, salaries, buildings, services and municipal equipment through their ad valorem (assessed on value) property taxes, while projects such as water, sewer and utilities will be predominantly paid for by user fees. We sympathize with tax and rate payers, but these typically are not optional expenses, and the gap between revenue and expenses must be closed.

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What Happens Next: Our Outlook and Strategy

As federal support diminishes, here are four things we expect to unfold in the municipal bond market:

1. **Short-term volatility:** Municipal bond prices may experience downward pressure as negative headlines emerge about budget challenges. This could create temporary buying opportunities for strategic investors.
2. **Credit quality divergence:** We anticipate growing quality differences between municipalities based on their fiscal discipline, revenue diversity and reserve levels. States and localities with strong management and diverse economies will likely weather the storm better than those heavily dependent on federal aid.
3. **Higher yields:** New bond issues will likely need to offer more attractive yields to entice investors, particularly in jurisdictions facing greater fiscal challenges. This creates potential opportunities for income-focused investors.
4. **Importance of sector selectivity:** Essential service providers (water, sewer, power) will generally maintain more stable revenue streams than those dependent on discretionary spending or tourism.

When this happens, muni investors need to be prepared for the negative headlines and recognize that existing bonds may see their prices decline in response.

The Opportunity Ahead

But there's also an opportunity both to help and to benefit. Investing in new projects is how individuals and institutions can lend assistance, and newer bonds added to portfolios and funds may carry higher yields (when bond prices fall, yields rise). Of course, investing in this environment will require a bit more research and understanding of which areas to favor and which to avoid. It may also require additional efforts to diversify your holdings within the asset class even though munis have a historically low default rate.

Our approach at RWA will focus on:

- Emphasizing high-quality issuers with strong revenue-generating capabilities
- Diversifying across multiple states and sectors to reduce concentration risk
- Maintaining appropriate liquidity to capitalize on market dislocations
- Conducting enhanced credit analysis to identify resilient municipalities

So, while reduced federal aid is likely to be a trend over the next few years, it does not mean a calamity is coming for muni bond investors. With careful selection and proper diversification, municipal bonds can continue to play an important role in investment portfolios—potentially offering even more attractive entry points for investors in the coming months.

For more information on how RWA approaches municipal bond investing or to discuss whether a muni bond portfolio is right for you, please contact your advisor.

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INVESTOR PERSPECTIVE

Is Financial Media Consuming You?

It can happen to anyone, at any time, whether you're scrolling through your phone or glancing up at a television. There, in block letters, you see: "Analysts predict a 60% chance of recession" or "Stocks drop the most since 2020." It looks bad; it *feels* bad. You wonder, "What should I do?"

Every day, we're bombarded with financial headlines designed to grab attention, especially during times of economic stress and market disruption. Markets don't simply decline, they "plunge." Inflation doesn't just increase, it "skyrockets." These loaded descriptions aren't accidental; they're crafted to trigger emotional responses and keep you clicking, watching and worrying. But for long-term investors, this constant stream of alarming news creates a dangerous impulse to act when staying the course would often serve you better.

Why Financial Media Can Lead You Astray

Financial news outlets face fierce competition for your attention. So they make bolder predictions and pen even more sensational headlines to stand out. Media figures often speak with an air of confidence and conviction. But there's little basis for that authority beyond their visibility—and they rarely (if ever) take accountability when they get it wrong.

So how reliable are these endless expert predictions? The evidence isn't encouraging. A rigorous academic study by CXO Advisory Group examined over 6,500 market forecasts from 68 different experts spanning more than a decade. The findings were sobering: Forecaster accuracy mostly ranged between 30%–60%, and the average success rate was below 50%—worse than a coin flip. The best forecaster achieved around 70% accuracy, while the worst managed only 17%. Most notable market celebrities fell somewhere in the mediocre middle.

Perhaps most telling is the gap between confidence and reality. Professional economic forecasters reported being 53% confident in their predictions but were correct only 23% of the time.

The media's focus on daily market movements also creates a dangerous mismatch with your long-term investment horizons. While headlines obsess over weekly fluctuations, your financial goals likely span decades, even generations. This disconnect can prompt hasty decisions based on temporary conditions.

Redefining What Investment Success Actually Means

The true measure of investment success isn't beating an arbitrary market index—it's meeting your personal financial goals. Are you on track for retirement? Can you fund your children's education? Will you achieve the lifestyle you've envisioned?

Research consistently shows that investors who stick with their long-term plans outperform those who react to market news. When we respond emotionally to headlines, we often end up buying high and selling low—precisely the opposite of successful investing. Our fear of losing money is typically greater than our desire to make money, which makes negative financial news particularly powerful and potentially harmful. (For more on these biases, read our article on Daniel Kahneman's groundbreaking work: https://rwawealth.com/newsletter-4-2024/#kahneman)

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Our Advice for Assessing Financial News

Filter for relevance. Before reacting to a financial headline, ask yourself: “Does this news actually change my long-term financial situation?” Most often, the answer is no. Market fluctuations, even significant ones, are normal and already factored into your long-term plan.

> “The true measure of investment success isn’t beating an arbitrary market index—it’s meeting your personal financial goals.”

Create emotional distance. When news triggers anxiety or excitement about your investments, create space before acting. Wait 24–48 hours before making any decisions. Better yet, reach out to your advisory team for perspective. They can help interpret the news in the context of your specific financial plan and provide the objectivity that might be difficult during emotional moments.

Use news as context. Financial news provides background information about the economic landscape—it shouldn’t serve as investment instructions. Understanding broad trends can be valuable, but individual headlines rarely warrant portfolio changes.

Recognize when adjustments make sense. The right time to revisit your wealth strategy is typically when your life circumstances change—not when the market fluctuates. Marriage, career changes or approaching retirement might warrant discussion with your advisory team during your regularly scheduled reviews.

The Path Forward

Success in investing comes not from reacting to every headline, but from developing a sound plan and sticking with it through market cycles. While financial media will continue its pattern of sensationalism, you can choose a different path—one of measured, thoughtful decision-making in partnership with your advisory team.

The next time alarming financial news tempts you to act, remember that markets will always fluctuate, but your strategy doesn’t need to. Your team at RWA stands ready to help you interpret the noise and stay focused on what truly matters: your long-term financial well-being.

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