PERSONAL WEALTH ADVISORY BY
Laird Norton Wetherby

Executive Summary
Q2 2025 Economic Commentary

On April 2, President Trump proposed a substantial reengineering in U.S. trade policy that, to a great extent, is likely to determine the direction of global markets for years to come. While the magnitude of the tariffs was surprising, the ongoing shift away from globalization was not unexpected and something we posited in our Q1 2022 Commentary.

The impact of much higher U.S. tariffs, which have already been revised multiple times, has not yet manifested in high frequency economic data. As a result, an uncertainty premium is being priced into virtually every asset class, creating challenges for risk taking and long-term planning.

All asset classes have been impacted, most of them negatively. However, it is important to remind ourselves of the big gains in U.S. equities in 2023 and 2024. As such, the S&P 500 is currently about where it was a year ago. At this point remaining unemotional and disciplined in the face of volatile headlines is of the utmost importance.

Looking forward, we think markets will continue to be heavily influenced by these factors:

- **Potential for negotiations and less uncertainty as upside catalysts.** There have been indications of room for compromise and movement toward restructuring relationships between the U.S. and its trading partners.
- **The Fed's potential unwillingness to lower interest rates in the near term,** given the great uncertainty about tariffs and their impact on the job market and inflation, as well as a pro-growth fiscal policy including tax cuts.
- **U.S. debt levels at all-time highs and vulnerable to rising yields.** With U.S. government debt hovering at $36 trillion (higher than GDP), and U.S. interest payments now over $1 trillion annually, it is the U.S. bond market (i.e. yield levels) that has higher relevance to policy making rather than the equity market.
- **The U.S. dollar status as reserve currency being questioned.** While the dollar is not likely to lose its status as the global reserve currency, the fact that this is even a consideration is notable.
- **Ongoing geopolitical risks.** The multi-year wars in Ukraine and Gaza continue, for example, despite many recent efforts to bring them to a resolution.

Unless they are reversed or watered down, the Trump administration's policies indicate the potential for higher inflation in the short-to-intermediate term, greater U.S. debt, and continued uncertainty, which suggest a mixed bag for the equity markets but likely headwinds for U.S. Treasuries and the bond markets.

In the U.S. equity market, companies with mostly domestic operations have begun to outperform those exposed to global trade flows. At the same time, non-U.S. economies—particularly in Europe—have surprised to the upside. Higher government spending expected in Europe and elsewhere plus growth initiatives, combined with a weaker dollar, could further boost returns on foreign equities if capital continues flowing abroad.

LNW portfolios have long maintained global diversification across the U.S., developed, and emerging markets. As we've noted in prior Commentaries, foreign equity valuations have remained attractive. With the potential for stronger growth abroad and possible weakness in U.S. mega tech, that value may finally be getting noticed.

Potential risk mitigators within LNW portfolios include: Allocations to cash and cash equivalents; high-quality bonds; core hedge funds and real assets. Return enhancers include allocations to foreign markets, private markets and select hedge funds.

For investors, the challenge is managing through today's short-term policy fog without losing sight of the long-term investment plan. In this environment, adherence to diversified, strategic portfolio allocations is essential—not only to reduce downside risk but also to capture emerging opportunities. In volatile markets, thoughtful rebalancing and tax-loss harvesting can ensure portfolios maintain the targeted risk profile needed to achieve client goals, setting portfolios up for success in the years ahead while also reducing the potential drag of taxes.

Please read our full *Q2 2025 Commentary* for more detail.