

April 2025

Tariffs and Turbulence

In early April, the Trump Administration unveiled its “Liberation Day” tariff plan, and it came as quite a shock, with the scope and severity of the proposed retaliatory tariffs far exceeding market expectations. What made the announcement even more surprising was the broad, sweeping approach—marking a sharp departure from the more targeted tariff strategy employed during President Trump’s first term. We wrote about this startling situation at the time in a special client communication, and we would like to reiterate most of that commentary again here because it’s worth repeating and still explains much of our reasoning about the recent market volatility and our outlook going forward. With potential benefits in the form of possible reshoring, lower trade deficits and elevated revenues all off in the extended future, the immediate question on investor minds is just how much the administration’s attempt to fundamentally reset global trade will negatively impact the current economy and inflation.



We entered the year with a 2.4% economic growth rate and pre-tariff inflation that was tracking at about the 2.8% level. By some short-hand estimates, every 10-percentage point increase in tariff rates equates to roughly 1% drag on GDP and 1% increase to inflation. This suggests that even with the most recent, modified tariffs that were part of the subsequent 90-day pause that came a week after the initial announcement, the likelihood of a low-grade recession is nonetheless still higher than when the year began. While the administration also previously signaled the need for a higher threshold for economic pain in anticipation of these actions, early indications suggest that reciprocal tariff levels were in large part intended as an opening negotiation gambit and, with the postponement until early July, there will be more time for more negotiations and fine-tuning. Of course, this offers little comfort to investors and corporations alike in the near term.

As of this writing, over 75 countries have reportedly reached out to begin trade negotiations with the United States, and if this continues, most countries could signal their intent to negotiate rather than retaliate. Some smaller countries like Vietnam, where exports to the U.S. as a percentage of their GDP are high, have already announced plans to lower or even eliminate their tariffs on U.S. goods. However, countries with less economic exposure to the U.S. may not be as willing to change.

Importantly, beyond the initial broad-based response from countries looking to negotiate, there are also a series of exclusions in the underlying fine print behind the headlines. Specifically, there were no additional tariffs imposed on Canada and Mexico, and goods that are compliant with the U.S.-Mexico-Canada agreement (USMCA), which replaced NAFTA in 2020 (under the first Trump Administration), are fully exempt from tariffs. All in, approximately 50% of imports from Mexico and about 40% of imports from Canada are completely unaffected. The result is a weighted tariff level well below 10% for both trading partners. Outside of these North American geographic exclusions, some major industry categories have also been so far excluded from tariffs, including many of the semiconductors, pharmaceuticals, and critical minerals. Altogether, about one-third of the imports coming into the U.S. are presently exempt from tariffs, mitigating a sizable portion of the rather shocking headline announcement levels.

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Commentary – cont’d

All of this is happening at a time when by most measures, the U.S. economy had been going strong. Noteworthy in this regard—although it received limited media attention when it was announced—the March jobs report came in stronger than expected. Even though it’s a lagging indicator, this report carries particular significance as it reflects the recent period when many Federal government job disruptions and layoffs occurred. More broadly, the economy remains on solid footing, with aggregate leverage (a.k.a. borrowing) ratios for both businesses and households now below 2019 levels, plus \$6 trillion in estimated cash still sitting on the sidelines, and U.S. companies just posting one of their strongest quarters of earnings growth in three years during last year’s fourth quarter. While the new trade uncertainty will inevitably weigh on many of these metrics, one silver lining is that we do enter this period of disruption from a solid base.

Given the recent uncertainties in the market, the S&P 500 dipped into bear market territory in April. Interestingly, the market fell by a similar amount back in 2018 in response to tariff-driven concerns and yet it finished materially higher within a year’s time. The question this time is just how much bad news is already being priced into the market at this point. While impossible to know, declines of this magnitude usually suggest pronounced risk to corporate earnings and the economy. The Friday after the tariff announcement, the Volatility Index (VIX) reached its highest level since the onset of the 2020 pandemic—mirroring levels last seen during the Great Financial Crisis in 2008—highlighting just how elevated fear has currently become. However, unlike those past structural crises, today’s market disruption is largely self-inflicted and still mainly dependent upon the administration’s evolving approach, or possibly even some reversals as necessary; and hence market expectations for the future could materially change at any moment. This creates a highly unpredictable short-term environment but also leaves room for partial resolution, whether through policy shifts in Washington or successful negotiations with many of our key trading partners. In this context, a measured, incremental ongoing assessment and reaction makes sense.

Furthermore, unlike many periods of market volatility in the past decade or so—where almost all assets behaved similarly—highly diversified, globally allocated portfolios are now helping to mitigate volatility, even in the equity markets. During the first quarter of this year, bonds, real estate, commodities and international stocks were actually up in the face of the rather pronounced U.S.-led sell-off, providing a reminder of the importance of diversification and the benefit of a balanced approach to portfolio management.

While uncertainty remains elevated, we remain steadfast in our belief that staying calm and disciplined during moments of market duress is critically important, and that rebalancing portfolios as opportunities present themselves during such periods of market volatility is essential. This disciplined approach has been a cornerstone of our investment philosophy since the firm’s founding—and it has reliably benefited our clients over time.

While the recent and rather sustained volatility surely feels very unsettling, history has consistently shown that market recoveries often begin when investor conviction drops precipitously, and when uncertainty feels almost overwhelming and endless. Periods of dislocation have—time and again—given way to resolution, renewed growth, and rewarding opportunity for long-term investors. With solid existing economic fundamentals, resilient corporate balance sheets, and potential for meaningful policy shifts or diplomatic progress in the works, the foundation for recovery can be laid.

When the world becomes hyper-focused on the short term, it can be valuable to think long term and take advantage of the emotions of the moment. We remain confident that with patience, discipline, and long-term perspective, investors will benefit as markets stabilize and prospects improve. If you have questions or would like to discuss your individual situation, we encourage you to connect with your Wealth Manager.

Brenda Vingiello, CFA
Chief Investment Officer
bvingiello@sandhillglobaladvisors.com

Why Family Meetings Help Estate Planning Goals

The importance of well-crafted and proactive estate planning documents is widely understood by most families with significant wealth, but arguably an even more important element for successful wealth transfer is how such plans are ultimately interpreted and properly executed by the recipients after one's passing. One practice that can really help the next generation better appreciate the overall intentions of thoughtfully laid-out estate plans is by holding a family meeting, or series of meetings. In addition, many families find that it is useful to work with their Wealth Manager to help organize and facilitate such meetings for the following reasons:



1. **Establishing and Aligning Financial Goals:** Family meetings provide an opportunity to discuss and align long-term financial goals, such as wealth preservation, education funding, or charitable objectives. This increases the odds that everyone is on the same page and helps define the family's financial vision for the future.
2. **Wealth Education and Communication:** Families can use meetings to educate younger generations about managing wealth, understanding financial concepts, and the importance of stewardship. Wealth Managers can act as neutral third parties to help improve financial literacy and, in turn, communication among family members.
3. **Estate and Succession Planning:** Planning for the transfer of wealth to future generations is also often a critical aspect of family wealth management. Wealth Managers can help determine if documents are up to date and aligned with current goals or address potential conflicts that might otherwise be sensitive topics in family discussions. Some discussions can prompt the desire to amend existing documents, which helps focus follow-up work with their estate planning attorney.
4. **Risk Management and Asset Protection:** Wealthy families often hold significant assets that need to be protected from financial risks, legal issues, or market volatility. A Wealth Manager can help guide families in thinking through interrelated strategies involving insurance, trusts, or asset diversification to safeguard wealth against unforeseen challenges.
5. **Conflict Resolution and Family Harmony:** Wealth Managers can serve as mediators, helping resolve potential disputes and managing family dynamics, especially when there are differences in opinions regarding spending, investments, or wealth distribution. Having a neutral party involved can help keep decisions focused on objective reasoning and advice rather than emotions.

Family meetings foster communication, create unified strategic thinking, and help set families up for continued financial success across generations. Wealth Managers can play a valuable role as neutral facilitator and coordinator of family meetings, improving the odds that families with significant wealth can be confident that their thoughtful estate plans and goals are well understood and appreciated before that opportunity is no longer available. As President Eisenhower once famously said, "Plans are nothing; planning is everything." Your Wealth Manager is happy to discuss family meeting ideas that might make sense for your family.

*Jeffrey Abadie, CFP®
Senior Wealth Manager
jabadie@sandhillglobaladvisors.com*

Raising Wealth-Wise Gen Alpha Kids in a Digital World

Recently, my two-year-old daughter tapped the screen of a toy expecting it to do something—anything!—instantly. When it didn't respond, she frowned and moved on, already looking for something else to capture her attention. In that simple moment, I saw the world she's growing up in: one of instant feedback, endless options, and increasingly invisible value. She's growing up in an ecosystem where, even for adults, swiping a screen can feel more “real” than handing over a \$20 bill.

As a Financial Planner, I think about money and long-term planning every day. But becoming a parent made me realize that raising kids with a healthy relationship to wealth isn't just about accounts, trusts, or tax strategy. It's about values. It's about preparation. And more than anything, it's about stewardship—especially in a world where artificial intelligence can give basic advice in seconds, digital wallets make spending frictionless, and crypto memes carry more influence than policy.



So how do we raise financially competent, grounded kids in an age of hyper-convenience and infinite distraction?

One of the biggest challenges facing Gen Alpha is that much of their financial experience won't be tangible. There's no paper trail to follow, no coins to count. Venmo, debit cards, digital wallets, and even in-game currencies blur the lines between virtual and real. Our job as parents is to help them see that just because they can't touch it doesn't mean it isn't real. Digital convenience doesn't excuse financial carelessness.

Financial literacy used to start with a piggy bank. For us parents of Gen Alpha kids, it might start with explaining why you need a password to buy things on an iPad. While technology is a powerful tool, it shouldn't be the only tool. Some lessons, perhaps the most powerful ones, still need to be felt in real life. Counting coins in your piggy bank may feel old-fashioned, but it helps lay the foundation for understanding. Feeling a lemonade stand flop due to poor planning and perhaps not knowing how to make change with real dollars and cents is a better learning experience than any app can provide.

Preparing our kids for financial stewardship isn't about giving them a perfect roadmap. It's about giving them a strong foundation and helping them understand not just how money works, but what it can do. As my daughter grows, we plan to involve her in our financial decisions in small, meaningful ways so she feels the weight and joy of where our family resources are allocated. One day, she'll learn about our investments, and about how we choose to grow and preserve wealth. But first, she'll learn what we value—and why it matters. She'll come of age in a world of digital currencies, instant transactions, and rapid change. But with values rooted in patience, purpose, and perspective, we hope she won't just manage wealth; she'll be prepared to carry it forward with clarity, care, and character.

At Sand Hill, we're here to be a resource for families navigating these questions. Whether you're deciding how to structure generational wealth, how to prepare your children for what they'll inherit, or how to make smart, strategic financial decisions today, we're here to help you create a plan that's tailored to your life—and theirs. Because raising financially savvy kids isn't just about giving them money. It's about giving them confidence, clarity, and tools to manage it well. The good news is you don't have to do it alone.

*Miriam Santiago, CFP®
Financial Planner
msantiago@sandhillglobaladvisors.com*

Why Muted Guidance Signals Sunshine Ahead

Given the market backdrop, we are diving into the curious dance of public companies offering muted guidance during economic uncertainty—and how this often sets the stage for earnings surprises once conditions stabilize. I am a fan of Peter Sellers, the late actor who played in favorite films such as *Dr. Strangelove* and *The Pink Panther*. Given we don't anticipate a doomsday scenario, I am leaning into the character of the delightfully naïve sage, Chauncey Gardiner, made famous by him in the film *Being There*. One of the movie's memorable quotes stated, "As long as the roots are not severed, all is well. And all will be well in the garden." Let's explore how this wisdom applies to the capital markets with some historical context.

Picture the economy as a garden, occasionally shrouded in fog, but with the sun eager to break through. When economic skies turn gray—think geopolitical tensions, or supply chain hiccups—public companies often play it safe. Like cautious gardeners expecting frost, they trim their earnings forecasts, projecting modest revenue growth or margin pressure. This "muted guidance" isn't pessimism; it's a pragmatic strategy. Executives, wary of overpromising during uncertainty, set conservative targets to help avoid future disappointments which can lead to further downside volatility.



Ideally, this conservatism often lays the groundwork for future upside performance. When companies drop their earnings forecasts, they create a low bar that's easier to clear. As the fog of uncertainty lifts—say, when consumer demand rebounds or supply chains unclog—actual earnings often outshine projections. Like resilient perennials, U.S. capital markets tend to keep blooming despite the occasional chill.

We have seen this dynamic before. During the European debt crisis (2011-2012), S&P 500 companies frequently lowered guidance. By late 2011, "fourth quarter and first-quarter earnings growth estimates for the S&P 500 companies (had) been cut sharply... underscoring worries about the outlook for companies".¹ Importantly, the financial headlines were not too dissimilar to this year which included "U.S. equity markets recorded quarterly losses as investor sentiment soured due to continuing anemic economic growth, U.S. debt ceiling debate, S&P's U.S. sovereign downgrade, and the European sovereign Debt Crisis".² As 2012 arrived, the headlines changed to "S&P 500 off to best start in 25 years",³ which helped drive the index to a +16% total return that year.

A similar pattern emerged during the global growth slowdown of 2015-2016, driven by concerns over China's economy. "During the month of January (2016), Q1 bottom-up EPS estimates dropped by 4.7%."⁴ Although 2016 had its volatility, the S&P 500 ended the year with a total return of +11.5%.

Why does this happen? The U.S. financial system is a master at adapting. Companies pivot—cutting costs, streamlining operations, or finding new revenue streams—like gardeners pruning weak branches to encourage stronger blooms. Chauncey's metaphor fits perfectly: "In the garden, growth has its seasons... there is spring and summer, but there is also fall and winter. And then spring and summer again." Analysts, initially bearish, revise estimates upward as clarity emerges, and stock prices often follow.

Early 2025 has its unique qualities, but the capital markets have had a continued string of macro-related cliffhangers for decades and since 2012, the S&P 500 has climbed over 460%, shrugging off multiple "foggy" periods, awarding investors who navigated the headlines. Although there are no guarantees, post each plot twist and economic hiccup, the markets tend to stabilize, delivering returns that surprise the skeptics. So, when guidance looks gloomy, don't despair. The fog will lift, the sun will burn through, and the garden will thrive. There will always be a set of market watchers calling for calamity, but we continue to expect that from this self-inflicted market disruption will evolve green shoots in the garden.

1 - www.reuters.com/article/us-usa-markets-stocks-idUSTRE7B904720111210

2 - www.sifma.org/wp-content/uploads/2017/05/us-research-quarterly-2011-q3.pdf

3 - www.financialpost.com/investing/sp-500-off-to-best-start-in-25-years

4 - www.insight.factser.com/2016/01/earningsinsight_1.29.16

Mark Strahs

Co-Chief Investment Officer

mstrahs@sandhillglobaladvisors.com

Roth Asset Basics

“Should I contribute to a Roth IRA? How can I contribute to a Roth IRA?” Before answering those questions, we need to define what Roth assets are. The difference between a Roth IRA and traditional IRA is that Roth contributions are made with after-tax assets, and any growth on assets inside the Roth is tax-free. Withdrawals from Roth accounts are also tax-free once you reach age 59½ and meet a 5-year aging rule. That makes Roth accounts, both IRAs and 401(k)s, very attractive for those in a low tax bracket or with a long-time horizon. Roth accounts also are not subject to required minimum distributions, giving owners more flexibility in growing these balances and building generational wealth.



There are several ways to contribute to Roth accounts. The right one for you depends on how much you earn, cash flow, time horizon or whether your employer offers a Roth 401(k). If you are within certain modified adjusted growth income limits set forth by the IRS, you can simply open a Roth IRA account and contribute to it directly. For 2025, those income limits are:

- **Single Tax Filer:** Contributions phase out between \$150,000 and \$165,000.
- **Married (filing jointly):** Contributions phase out between \$236,000 and \$246,000.

If you fall below these earnings limits, you can contribute up to a maximum of \$7,000 in 2025 (\$8,000 if you're over age 50) or 100% of your earned income, whichever is less. The deadline to contribute to a Roth IRA for tax year 2025 is April 15, 2026. For young people starting out, contributing to a Roth IRA in the early earnings years can be quite attractive as you're generally in a lower tax bracket and have many years of investment growth ahead of you. Over time, even small contributions can really add up.

If your employer offers a 401(k), you may have the option of making Roth 401(k) contributions. In 2025, you can contribute up to \$23,500 through payroll deductions (with an additional \$7,500 for those 50 or older). These are after-tax contributions, and any growth within the Roth account is generally tax-free.

If your income is higher than the contribution limits for a Roth IRA, don't worry! Another option is a backdoor Roth IRA, although this is a more complicated way to contribute. To avoid pitfalls and unintended consequences, be sure you are familiar with all the steps and consult a professional tax advisor on how the taxes will work for you.

1. Make a non-deductible IRA contribution (a maximum of \$7,000 or \$8,000 if you're age 50 or older in 2025) into a traditional IRA account.
2. Convert the amount to a Roth IRA account.

Where it gets complicated is calculating how much tax you will owe. Since you are contributing after-tax money to the traditional IRA, one would assume you have satisfied your tax obligation for the Roth conversion. If you have pre-tax assets in any other IRA—401(k) accounts are excluded—the IRS requires you to calculate the pro-rata amount of your contribution, that is pre-tax versus after-tax. While this may sound like a double tax on the Roth contribution, that's not accurate. The IRS simply wants the saver to pay a pro-rata amount based on pre-tax IRA assets. You're paying tax now versus when you would take a normal IRA distribution if you had not converted those assets to a Roth. Again, because of the complexity of the tax equation, be sure to check with your CPA or tax advisor for guidance.

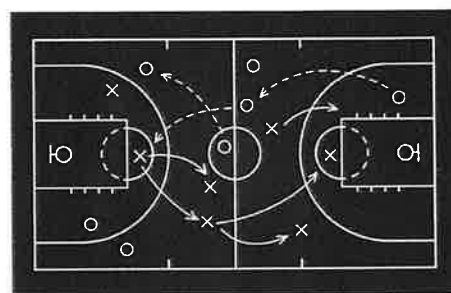
If you're thinking about making Roth contributions but are unsure of how to proceed, please contact your Wealth Manager.

Janet Hoffmann, CFA, CFP®
Senior Wealth Manager
jhoffmann@sandhillglobaladvisors.com

Why Portfolio Diversification Matters

March Madness is a welcomed time of year in the basketball world, but madness in the stock market isn't as joyful to watch. While both may be accompanied by nail biting and stomach-churning ups and downs, investors want more wins than losses in their portfolios at the end of the tournament. In our view, a diversified portfolio is a key strategy for investors seeking to ease market-related madness. At its core, diversification involves spreading investments across a variety of assets, sectors, and geographic regions with the goal of minimizing the impact of any single investment's poor performance on the overall portfolio. By balancing various investments, a diversified portfolio aims to achieve more stable returns while mitigating potential losses from individual asset downturn.

One of the primary benefits of a diversified portfolio is risk reduction. In financial markets, risks are inherent, but not all assets are affected by the same factors. For instance, while the stock market may experience a downturn due to economic recessions or geopolitical tensions, other asset classes—such as bonds, commodities, or real estate—might remain stable or even thrive. By holding a combination of different types of investments, investors can reduce their exposure to any single source of risk. In essence, the gains from some investments could potentially offset the losses from others, leading to a more stable overall portfolio performance.



Another significant advantage of diversification is the potential for improved risk-adjusted returns. A diversified portfolio is designed to balance the risk-reward ratio. The idea is not just to reduce risk, but to do so while maintaining a reasonable level of return. This is measured using metrics such as the Sharpe ratio, which compares the return of an investment to its risk. A diversified portfolio often leads to a higher Sharpe ratio because it combines assets that behave differently under various market conditions. For example, bonds tend to have less volatile performance in times of market volatility, while stocks may provide higher returns during periods of economic growth. By including both in a portfolio, investors are likely to enhance their overall returns relative to the risk taken.

Long-term growth is often facilitated by diversification. Diversified portfolios tend to perform well over long periods because they are structured, in varying degrees, to weather both bull and bear markets. While it might not generate the highest returns in the short term, over the long run, a diversified portfolio has the potential to generate consistent, sustainable growth. This is especially true when investors maintain a long-term investment horizon and avoid making knee-jerk reactions to short-term market movements.

Lastly, diversification offers greater flexibility for adjusting to changing market conditions. As economic landscapes evolve, so do the opportunities and risks associated with different asset classes and even sectors within those asset classes. A diversified portfolio allows investors to shift their holdings to rebalance according to market trends, interest rates, or other factors, and ensure that their investments remain aligned with their financial goals and risk tolerance.

Whether picking brackets or investments, it's important to have a balance of strategy and the ability to handle the inevitable highs and lows. Just like betting on some tournament upsets, Cinderella teams, and dominant #1 programs, spreading investments across different assets, sectors, and regions can mitigate risk, protect against volatility, and position portfolios for stable growth.

Megan Breslin
Senior Wealth Manager
mbreslin@sandhillglobaladvisors.com

Understanding When Parents Must Pay Taxes for Their Children

The carefree days of summer camp for my children seem like long ago. My children, now teenagers, have summer jobs—and earned income—so the conversations around the dinner table range from saving, investing, and/or spending their earnings and taxes. TAXES, “gulp”, what?

Many parents assume that children are exempt from tax obligations, but this is not always the case. In certain situations, a child's income may be subject to taxation, and parents must be mindful of these rules to avoid penalties and ensure compliance with tax laws. Whether it's from earned income, investments, or gifts, parents should understand the circumstances under which their child may owe taxes and when they are responsible for reporting and paying them.



If a child earns income from a job, such as working at a retail store, babysitting, or doing freelance work, they may be required to file a tax return. According to IRS guidelines, a dependent child who earns more than the standard deduction for a single filer (\$15,000 in 2025) must file a tax return. However, even if a child's income is below this threshold, filing a return may still be beneficial if taxes were withheld and they are eligible for a refund.

Investment income, such as interest, dividends, and capital gains, can also be taxable for children. If a child's unearned income exceeds \$2,700 (as of 2025), the IRS applies the “kiddie tax”, which means the excess amount is taxed at the parents' marginal tax rate instead of the child's lower rate. This rule was designed to prevent parents from shifting large amounts of investment income to their children to take advantage of lower tax brackets.

In today's digital age, many children and teenagers earn money from entrepreneurial activities such as YouTube channels, online stores, or gig economy jobs like dog walking or tutoring. If a child earns \$400 or more from self-employment, they must file a tax return and pay self-employment tax, which covers Social Security and Medicare contributions. Parents should track their child's earnings and ensure they comply with these requirements.

Another source of “income” for kids come in the form of gifts from parents and grandparents. Parents and grandparents often gift money to children, either directly or through custodial accounts like UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act) accounts or trusts established for the child. While gifts themselves are not taxable to the child upon receipt, any interest, dividends, or capital gains generated by the gifted assets may be subject to taxation. If the child is the beneficiary of a trust, distributions may also trigger tax liabilities, depending on how the trust is structured.

Education-related funds, such as earnings from 529 plans, are typically tax-free if used for qualified education expenses. However, scholarships, grants, or fellowships that exceed tuition costs or are used for non-qualified expenses may be taxable. Parents should ensure they properly allocate education funds to minimize tax liabilities.

While children may not always owe taxes, parents must be mindful of tax rules related to their child's income, investments, and financial gifts. Understanding these regulations can help parents avoid penalties, optimize tax savings, and ensure their child remains in good standing with the IRS. This may be a great opportunity to enhance your child's financial literacy! Your Sand Hill Wealth Manager is also on deck to help with these conversations if that's of interest to mom or dad! There's a lot of ground to cover in financial literacy and it's something we at Sand Hill are passionate about.

Source: www.irs.gov



www.sandhillglobaladvisors.com

245 Lytton Avenue · Suite 300 · Palo Alto · CA · 94301 · (650) 854-9150
Four Embarcadero Center · Suite 3150 · San Francisco · CA · 94111 · (415) 291-9999

Sara Craven, CFP®, CEPA®
Chief Wealth Manager
scraven@sandhillglobaladvisors.com



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1/1/2025 to 3/31/2025

SHGA Quarterly Investment Commentary

The first quarter of this year marked a sharp shift in market sentiment, as initial optimism coming into the year based on a perceived business-friendly administration quickly turned into mounting uncertainty on multiple fronts. In just two months' time, the new administration's whirlwind agenda had far-reaching implications for federal employees, universities, government contractors, and companies with global supply chains. By the end of the quarter, U.S. financial markets were clearly processing the prevailing uncertainty, with stock prices declining. The most pronounced correction occurred in the mega-cap technology sector, where valuations had already appeared stretched at the start of the year. However, asset diversification proved beneficial — gains in commodities, international equities, REITs, and bonds helped offset much of the weakness in U.S. stocks.

Despite the growing concerns, economic indicators continued to point to a generally healthy economy, with steady job growth and moderating inflation. That said, a surge in imports—driven by companies rushing to get ahead of anticipated tariff-related price hikes—dampened GDP growth. As a result, we expect GDP for the quarter to show only modest gains.

Late in the quarter, when the NASDAQ was down double-digits from its peak, we added a small position in an ETF that invests in the 100 largest stocks in the NASDAQ. We funded this addition by trimming commodities and bonds following a period of outperformance.

Volatility has increased further in the second quarter, driven by the announcement of broad tariffs and retaliatory measures in early April. While we don't expect these tariffs to remain in place long, or at least not as severely as announced—given their potential to harm the economy and trigger a recession—they have nonetheless introduced a heightened, and possibly sustained, level of uncertainty for the near term. Fortunately, the economy and corporate earnings were on strong footing when the new year began, providing a solid foundation to help withstand some of these current difficulties, at least for some period. Although abrupt and severe market swings can be uncomfortable -- whatever the cause -- they often present attractive long-term buying opportunities, and we intend to stick to our sensible discipline of maintaining investment strategy and rebalancing portfolios through the current challenging market environment.

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