80 YEARS JAG CAPITAL MANAGEMENT LLC

Quarterly Comments

Tariff Tantrum Turbulence

Market Overview

"There are decades where nothing happens; and there are weeks where decades happen."

–attributed to Vladimir Ilyich Lenin

As usual, we completed a rough draft of this commentary a week or so prior to the end of the quarter. We had planned to deliver a relatively routine letter, which would review the events of the 1st quarter and give readers a sense of our forward outlook. It might go without saying, but President Trump's April 2 "Liberation Day" tariff announcement resulted in a significant re-write.

To put it lightly, President Trump's tariffs are more aggressive, more global, and more immediate than most anyone expected, including us. Many investors assumed that "reciprocal" tariffs simply meant that US tariffs would rise to match the rates other countries apply to our goods. This proved inaccurate. Instead, President Trump is applying an across the board 10% tariff to imports from every nation, as well as reciprocal tariffs to some countries. Rather than equalizing US tariffs with other countries' tariff rates, reciprocal tariff rates are calculated by dividing the US trade deficit ratio by two. For example, if the US has a $50 billion trade deficit with Country X and imports $100 billion worth of goods from that country, here is how the Trump administration is calculating the reciprocal tariff rate for Country X:

- **Trade deficit: $100 billion - $50 billion = $50 billion**
- **Trade deficit ratio: $50 billion/$100 billion = 0.5 (50%)**
- **Reciprocal tariff rate: 50%/2 = 25%**

For example, China will be subjected to a 34% tariff, comprised of the baseline 10% (which became effective at midnight April 3rd) and an additional 24% reciprocal tariff to become effective April 9. Vietnam, which had levied an average tariff of 9.4% on US goods, will be hit with a total tariff of 46%. China has quickly decided to retaliate with 34% tariffs on US imports, which raises the specter of all-out trade war. Suffice to say that the Liberation Day announcement has been very poorly received by the investment markets.

The S&P 500 suffered a combined loss of 10.5% on April 3-4, marking its worst two-day drop since 2020 during the early days of COVID and its 4th-worst since 1950. Bonds rallied sharply, with 10-year Treasury yields falling from 4.20% to 4.01%. Given that there were already signs that the economy was slowing prior to the tariff announcement, markets are now pricing in increased risk of a recession.

"Hold everything!"

Source: Cartoonstock.com

Firm Highlights

JAG is excited to welcome **Chrissy Prinster** to the team as Client Service Coordinator. Chrissy brings over 6 years of experience in the financial services industry, working closely with clients and providing exceptional service.

Congratulations to **Eric Bruce**, who we recognized last quarter for embodying our Curious core value. Since joining JAG as Operations Assistant in 2023, Eric has continuously worked to learn and improve JAG's processes. He has also expanded his responsibilites to become an important component of our trading desk operations. Eric is also an excellent colleague, and we are thrilled to call him our teammate.

The self-imposed chaos of the last few days reminds us of a quote from G.K. Chesterton, who wrote, "Don't ever take the fence down until you know why it was put up." The administration's lightning-fast move to upend long-established global trade arrangements makes us wonder if the President or his advisors have put enough thought into the first- and second-order effects of ripping down the "fences" that have guarded orderly global commerce for decades.

That said, even Chesterton might agree that there are times when even the most carefully constructed barriers must be dismantled – for example, to allow an ambulance to reach a severly injured person. President Trump clearly views the current US trade situation as a bona fide emergency and is acting accordingly. Investors do not agree with him, at least not yet.

We suspect that the administration's shorter-term priorities are skewed more toward bringing down interest rates than propping up the stock market. In a way, this makes sense: lower interest rates could make homes more affordable and ease pressure on middle-class households, which are clear goals of the Trump administration. While it is possible that this strategy might pay off in time for the economy, in the short term it has left equity investors feeling a bit neglected and very much on edge.

Market Outlook

Last quarter, we described our outlook as "optimistically cautious" – a slight twist on the "cautiously optimistic" stance we had maintained for most of the prior two years. We still feel this way today, although we admit that the short-term outlook is anything

"I sense fear."

Source: Cartoonstock.com

but clear for the markets and the economy. However, we are growing incrementally more bullish on the long-term outlook for equities, given the ongoing valuation reset we are experiencing and increasingly dour investor sentiment. After all, one silver lining of market corrections is that they make stocks cheaper, while at the same time depressing investor expectations. These are the necessary ingredients to kindle new bull markets. In my 30+ years in the investment industry, I have seen time and again that periods of significant investor fear have tended to represent good buying opportunities for long-term investors. We suspect that this pattern could be repeated once the current turbulence passes.

In the meantime, stocks are licking their wounds from the worst quarterly performance in nearly three years and facing twin headwinds of policy uncertainty and potential economic slowing. However, it is important to remember that the current selloff is being driven largely by fear and loathing of the outlook for global trade, rather than by deteriorating corporate fundamentals. In other words, investors are reacting to what could happen next. In our experience, corrections inevitably lead to panicky market action, as the worst-case scenario becomes more realistic. The flip side is that if upcoming policy decisions and economic trends turn out to be even a touch higher than the market's doomsday assumptions, we could be in for a substantial rebound over the intermediate and longer term.

Here are some of the key factors we will be watching in the weeks and months ahead:

- **Trade & Tariff Policy:** In our humble opinion, the communication and execution of our nation's trade policy can certainly be improved. The administration may be learning the hard way that inconsistent "shock and awe" policy announcements can do more harm than good. Regardless of what specific tariff actions ultimately stick, a steadier and more transparent approach to messaging would be a welcome change. Also, we believe it is more likely than not that the President's onerous reciprocal tariff rates are at least partially negotiable. By way of example, we note that within the first 48 hours after President Trump's tariff announcement, Vietnam had already offered an olive branch to trade negotiations. We think it is probable that other leaders will do the same in the coming weeks, which could provide room for Trump to "declare victory." If we are correct, this would likely go a long way to calming investors' nerves.
- **Economic Growth Resilience:** Second, despite all the scary headlines, the actual economy has so far held up well. While recession worries have grown, most hard data painted a relatively resilient picture. Weekly jobless claims remain low, the unemployment rate is close to historic lows. Although things could change, there is little evidence in real-world data to suggest that the economy is falling off a cliff. If the economic indicators stay solid through the spring, it should help push back on those recession fears and could provide fuel for a market rebound. While it is certainly possible that policymakers could fumble us into recession, a prolonged economic slowdown would clearly work against President Trump's stated goals of full employment, higher wages for the middle class, and increased domestic business activity. Our educated guess is that he and his advisors adjust their tariff implementation plan if signs of economic distress appear in the coming weeks.
- **Valuations & Sentiment:** Third, the pullback in stock prices has brought valuations down to earth. At the start of the year, valuations were demanding, and investor sentiment was bullish - a combination that history shows can result in unpleasant surprises. The current correction has compressed valuations to more reasonable levels, and investor sentiment is now extremely bearish. Although it may sound counterintuitive, these are conditions which tend to precede sustainable equity market rallies.

- **Policy Adjustments:** Most of the time, it is difficult to accurately determine "the" cause of daily gyrations in the investment markets. From our standpoint, the current Tariff Tantrum represents an exception to the rule. The bad news is that this situation has been self-inflicted by US trade policy. But the (potential) good news is that adjustments to policy could easily and quickly mitigate some of the damage. We have no special insight into how President Trump and his team are thinking now, but we suspect continued market chaos could influence their plans.

We have helped our clients navigate a variety of corrections, crises, and bear markets over the past several decades. While these sorts of market events are never enjoyable, our long experience has equipped us to deal with them prudently and effectively. As always, thank you for the opportunity to serve you.

Happy spring to you and yours!

Norm

Norm Conley
CEO, Chief Investment Officer &
Portfolio Manager

"The market was volatile."

Source: Cartoonstock.com

Disclosures

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Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.

JAG CAPITAL MANAGEMENT LLC
1610 Des Peres Road, Suite 120
St. Louis, MO 63131