Introduction:

In light of recent volatility and the unexpected announcement of new tariffs, we wanted to share some timely thoughts with you. This isn't our usual quarterly letter, but a timely update on fast-moving developments and an open invitation to have a conversation. In times like these, staying connected and informed is more important than ever.

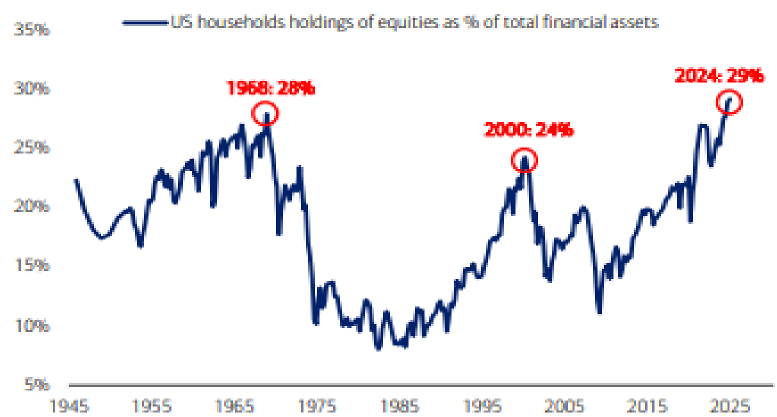
As we talked about in our 1st quarter investor newsletter, the economy was humming along, inflation was declining, employment was solid, and we were expecting an increase in capital markets activity, M&A, and IPOs. However, the announcement of tariffs wreaked havoc on the stock market and global economies last week. We wanted to review with you how we are navigating this uncertainty and our overall thoughts on the market. Unlike our typical quarterly newsletters, we're skipping the usual lighthearted Cliff Clavin commentary. You'll have to wait a few weeks, for when we publish our 2nd quarter investor newsletter.

Investing in the Stock Market:

Not everyone is glued to CNBC or tracking the price of Apple each morning. While we know you care about the performance of your portfolio, many US households are more concerned and focused on job security, gas prices, and grocery bills.

This chart from Bank of America shows that equities make up approximately 29% of the average US household's total assets. Home equity values are up 80% since 2020 to $35 trillion, but this wealth isn't liquid.

Chart 5: Stocks at record 29% of US household financial assets
US household holdings of equities as % of total financial assets



Source: BofA Global Investment Strategy, Haver, Fed Flow of Funds
BofA GLOBAL RESEARCH

This tariff announcement is one of the most significant shifts in US trade policy in decades. The administration's policies are clearly attempting to re-orient global trading flows. Whether you agree or disagree with these strategies, there is no doubt that this is 100% self-inflicted. The markets (both equities and debt) are weighing in and the results are similar to what was experienced during COVID-19. The stock market's real-world importance, especially considering its role in household wealth and consumer behavior, will be noticed with consumer sentiment and spending. If nearly 30% of household assets are in the market, a 10% to 20% drawdown directly impacts consumer spending power, which ultimately impacts our economy. As we know, US consumer spending represents 75% of GDP. Put simply, if the US consumer weakens, so does the broader economy.

Some investors are hoping that the market's declines will cause President Trump to re-think these tariffs. However, comments like "The operation is over! The patient lived, and is healing", isn't terrifically reassuring.

Tariffs: A Sudden Shock

President Trump's "reciprocal tariffs" were well-telegraphed on the campaign trail and previewed long before his April 2nd "Liberation Day" announcement from the White House Rose Garden. However, the market was caught off guard by both the timing and magnitude of the tariffs. Many expected a tariff rate of roughly 10%, but the average announced rate was 18%, with some as high as 46% (e.g., Vietnam). Additionally, many anticipated a negotiation phase following the announcements, not immediate implementation starting on April 5th.

While most expected a confrontation with China - which received a 34% tariff rate - few foresaw the size and scope of the broader tariff levels across multiple regions. Tariffs introduce uncertainty, add cost pressures, and disrupt global supply chains—all of which matter deeply to market dynamics.

Markets Hate Uncertainty:

The response from markets has been swift, with the S&P 500 declining nearly (20%) from peak to trough. While painful, that type of selloff is not unusual in a historical context. During the Dotcom crash, the S&P 500 experienced a (49%) peak-to-trough decline; during the Financial Crisis, it fell (57%); and more recently, during COVID-19, we saw a (34%) pullback.

Over the last 75 years, the average intra-year market drop has been (14%). Volatility is the toll investors pay on the road to long-term returns. While this recent pullback has been uncomfortable, now is an important time for investors to re-evaluate and understand what they own.

Do you know the resiliency of the supply chains tied to your investments? Are your holdings prepared for continued regulatory unpredictability and volatility? For the last few years, all investors had to do was own the Magnificent Seven. Now, it's harder to generate alpha - and more important to be selective.

The Impact (of Tariffs) on Earnings:

What impact will tariffs have on 2025 earnings estimates? The US equity markets - and especially the Magnificent Seven - are heavily exposed to global revenue. It is estimated that 42% of S&P 500 revenues come from abroad, and more than half of the Magnificent 7's revenues come from outside the US. Over the last couple of days, Apple lost a staggering $640 billion in market capitalization.

Other sectors, especially consumer retail, are deeply tied to Asian supply chains. As we all learned during COVID-19, supply chain disruptions can be a serious challenge for manufacturers. They are complex and difficult to relocate quickly. Consider sneaker manufacturing: just four countries produce nearly all of the world's sneakers. Vietnam, Nike's primary production hub for our favorite shoes – Air Jordans - received a massive 47% tariff. Shifting production from high-tariff countries to the US won't be quick or easy.

Next week, we'll start to hear from companies regarding their 1st quarter results and their guidance for the remainder of the year. Full year expectations should begin to decline, from over 10% earnings growth a month ago to low-to-mid single digit growth – maybe even lower. Back a couple of months ago, the S&P's 12-month forward P/E was 3 points higher than the 19x it trades at now. As earning expectations come down, it will act as a governor to the market's overall valuation.

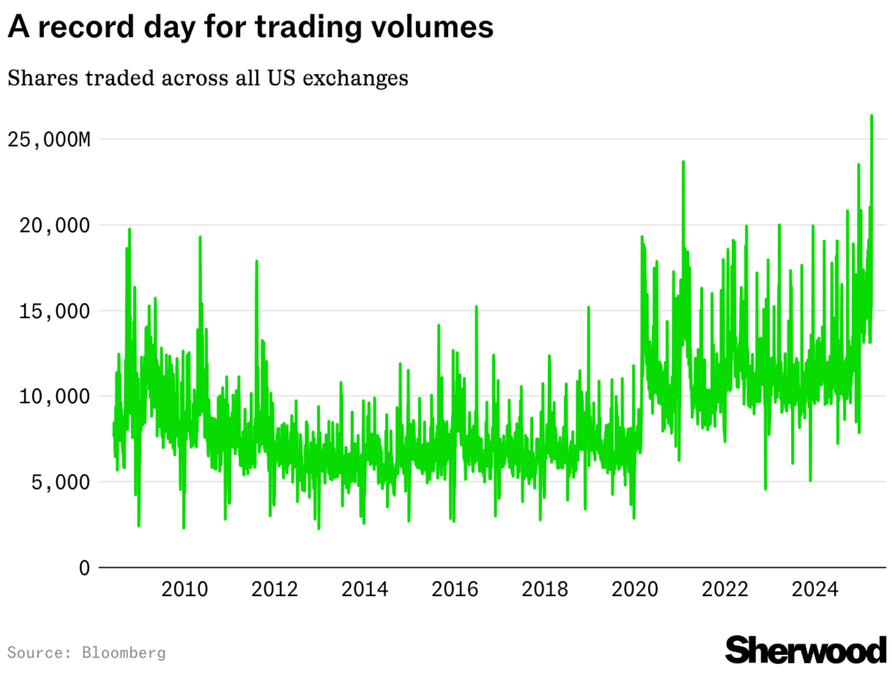
The last week has reminded us of one of our favorite Warren Buffett quotes. With the market sell-off, "the tide has rolled out and we get to see who has been swimming naked." We still believe that the two quintessential FINTECH industries are the payments sector and the exchanges. To our benefit and yours, both should fare well with current market conditions.

Uncertainty = Trading:

Not all companies are negatively impacted from tariffs and uncertainty. During periods of market stress, exchanges have historically been one of the best places to hide. In fact, business is booming for the exchanges. We have owned many of these businesses for decades and have consistently seen their resiliency shine during volatile times.

We've discussed CME many times in our research, as it historically has been one of our largest positions. As the world's largest derivative exchange, it provides trading venues for interest rates, equities, commodities, and metals. With institutional investors actively hedging risks, we expect CME volumes to remain strong.

It recently reported 1st quarter ADV (average daily volumes), which had all-time records hit on interest rate contracts, equities, agricultural products, foreign currency, crypto and international volumes. Oil prices are down sharply, with benchmark crude futures plunging below $60 a barrel, from a recent peak of $80 a barrel in late January. We expect sell-side analysts will raise (not lower) CME revenue and earnings expectations shortly.



Look at this chart from Bloomberg on equity trading volumes across all US exchanges. As one would expect, trading volumes surge when uncertainty spikes. In March, Nasdaq reported a +29% increase in U.S. equity volumes and a +32% increase in U.S. options trading.

CBOE generates roughly 40% of its revenue from proprietary index products like S&P options, VIX options, and VIX futures—all of which remain in high demand.

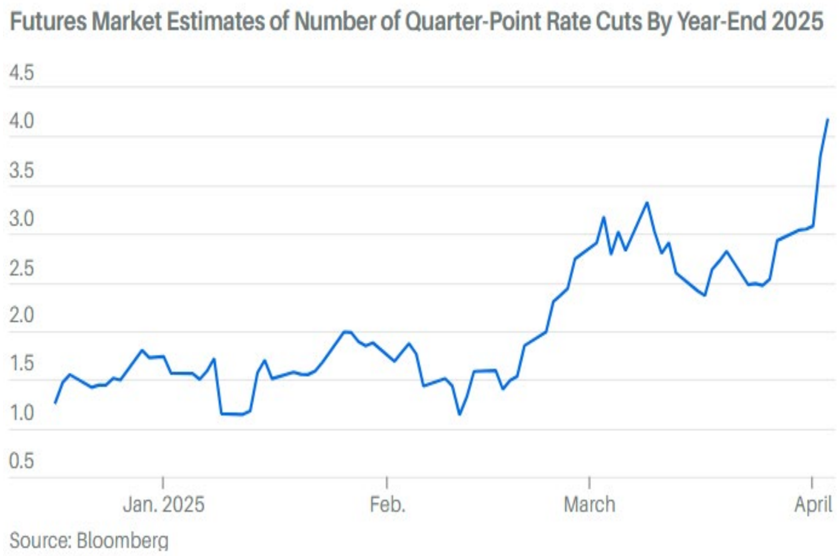
For the exchanges, which have ample scale and capacity to handle these volumes, each incremental trade is nearly 90% profit. More volatility means more trading, which translates into more revenue and stronger earnings for exchanges.

Quite simply: uncertainty benefits the exchanges, which is one of our largest areas of exposure.

What the Fed Might Do?

With recession risks rising, more firms now expect the Fed to cut rates multiple times this year. On Truth Social, President Trump stated "This would be a PERFECT time for Fed Chairman Jerome Powell to cut interest rates." Chairman Powell countered that statement and said "It's not clear at this time what the appropriate path of monetary policy will be."

Just one month ago, the CME Fed Watch tool [(click here)]() anticipated two interest rate cuts this year. Now, as this chart from Bloomberg shows, the market is pricing in four to five 25-basis-point cuts.

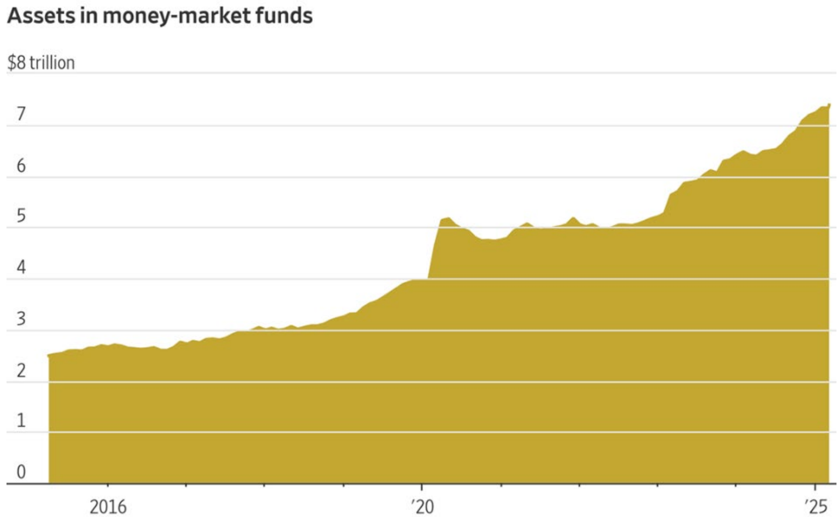


The Fed is walking a tightrope: inflation control vs. growth support. And while many hope the "Fed Put" is still alive, we're not so sure. The Fed has two mandates - inflation and employment - not stock market protection. Investors hoping the Fed will act as a backstop to a declining stock market, may get disappointed.

During COVID-19, the Fed cut interest rates, and made sure banks didn't face a liquidity squeeze. We're just not sure the Fed is willing to step into this mess, as it typically likes to be "fashionably late". Despite being appointed by President Trump in early 2018, we just don't believe Chairman Powell is inclined to "bail out" this White House. His focus will likely remain data driven, not politically reactive.

Conclusion:

Inflation remains a concern, geopolitical risks persist, mounting deficits and national debt loom on the horizon and now we have this unusual tariff situation. Instability like this can feel uncomfortable, but it also creates opportunity. The tariff situation is perplexing, and nobody truly knows how it will ultimately unfold. But not everyone is fully invested in the stock market right now.



As shown in this chart, the amount of money currently parked in money market funds has reached an all-time high of $7 trillion. While we're not calling a bottom - and we certainly aren't advising investors to blindly "buy the dip" - it's worth noting that there's ample dry powder sitting on the sidelines.

As the outlook becomes clearer, that capital may seek re-entry into the market. We remain fully invested but maintain some excess cash, which we are selectively deploying during this period of stress.

We've experienced market turbulence before and are very comfortable managing our way through this environment. We remain focused and disciplined, resisting the temptation to chase rallies or deviate from our strategy. In our opinion, now is the time for risk management and process to take center stage - not to panic.

History has shown that markets thrive despite their "wall of worry," often using uncertainty as fuel for growth. Our philosophy is unchanged: focus on long-term growth, free cash flow, and staying prepared for the unexpected - regardless of short-term volatility.

Countries like Japan, South Korea and Taiwan, that rely on the US for protection and security, will likely be the first to negotiate. Others like China, might choose to "dig in" and "fight to the end". The world economy is becoming more closed than open. There are more fractures in trading relationships, rather than integrated supply chains. While the last several decades have seen increased globalization, the opposite now seems likely – increased isolationism. Unfortunately, we believe this tariff confusion is likely to remain awhile.

Manole Capital recently celebrated its 10th birthday, and we wouldn't be here without your trust and loyalty. We remain committed to our vision of FINTECH, providing access to exciting opportunities in this dynamic and rapidly evolving space. If you're wondering how to position during this volatile period - or whether it's time to redeploy cash - we're here to help. Please don't hesitate to reach out if you'd like to revisit your portfolio, talk through your exposure, or simply ask questions about what all this means.

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