

Talbot Financial – First Quarter 2025 Review

We understand how concerned you may be with the uncertainty from the Trump Administration's tariff decisions and the impact it is having on your investment portfolio. Our view is universally imposing such high levels of tariffs with our global trade partners is bad economic policy and not in the long-term best interest of our country. Our role as your investment advisor is to analyze the potential effects of the policies on the companies in your portfolio.

The tariffs will likely lead to increased levels of inflation. Fortunately, the large industry leading companies in your Talbot Financial portfolio are well positioned to handle inflationary pressures. Furthermore, history has shown a reactionary move of selling stocks of high-quality companies in a market correction is not a beneficial longer-term strategy. We subscribe to the adage that "time in the market is more important than timing the market" over the long run.

Importantly, history also validates that poor fiscal policy is eventually corrected. For example, one week after President Trump announced the Liberation Day tariffs, he dropped the tariff limit to 10% for a 90-day review period. Ultimately, these initial tariff rates could be an opening negotiation and not a permanent approach.

If tariffs do remain in place, inflation, as measured by the Consumer Price Index (CPI), could increase from the current 2.8% rate to a 4%-5% range. This is a reasonable range for inflation and not one that implies an imminent economic slowdown. Note that inflation was 9% as recent as the summer of 2022, and quickly declined over the past few years.

The companies in your investment portfolio can withstand inflationary pressures. The common characteristics of these companies include:

- Exemplary financial strength and stability – strong balance sheets, robust cash flow, and low debt levels.
- Pricing power – established brands with strong market shares, thereby allowing for greater pricing power.
- Established supply chains and diversification – more diversified supply chains, which can mitigate tariff impacts placed on a specific region.
- Investment capital available to react to the most favorable geography.

In summary, while we do not agree with recent tariff decisions as they increase the likelihood of higher inflation, we have constructed a portfolio of companies that are better

able to combat inflation. These companies are also more likely to take market share during turbulent economic times than others.

We are always available to review your portfolio in person, by phone or on a Zoom conference. Please contact us to review or to answer any questions you may have.

Best wishes,

Talbot Financial, LLC

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