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Markets can handle good news, and markets can handle bad news, but markets hate uncertainty. This adage, long recognized on Wall Street, accurately describes current investor sentiment. The prospect of tariffs, government austerity measures, and lower demand for artificial intelligence hardware and infrastructure caused investors to assume a defensive posture during the first quarter of 2025. Then, on April 2, the Trump administration announced tariffs that were much higher than expected, prompting an equity sell-off reminiscent of the early days of the COVID-19 pandemic.

Alongside investors, consumer and corporate sentiment has also deteriorated year-to-date. While many business leaders support efforts toward fairer trade practices, they eagerly await clear terms to facilitate necessary adjustments in their supply chains. Those who support tariffs argue they could ultimately foster more balanced trade relations and genuine free trade agreements, but the unpredictability surrounding tariff implementation, scope, and duration may dampen business investment and consumer spending. In addition, U.S. trading partners appear poised to respond with their own measures, broadening the economic impact and potentially harming export-oriented industries.

Frustratingly for many investors, this is all transpiring at a time when market fundamentals are otherwise optimistic. During the first quarter, earnings season was strong, economic indicators were favorable without prompting the Fed to hike rates, and inflation remained modest.

Riverbridge's portfolio companies have advantages relative to the broader market in a tariff regime.

Prior to the market's fixation on tariffs, the major negative shock occurred in January when DeepSeek, a Chinese company, unveiled an AI model that uses less sophisticated chips but rivals the quality of established competitors. This revelation prompted concerns about the viability and sustainability of the massive investments currently being made to develop

large language models and data centers, leading some to speculate about a potential AI market bubble and prompting declines in many of the artificial intelligence-related stocks responsible for recent market gains.

Riverbridge's portfolios are well-positioned in this environment. Our core investment criteria seek out companies that can generate unit growth regardless of the economic backdrop because they have strategic customer relationships and provide high-value or even mission-critical services that are more likely to be the last thing cut out of a budget rather than the first. Relative to the broader market, our companies have higher degrees of recurring revenue and tend to be less impacted by deteriorating economic growth.

Maintaining a long-term perspective remains crucial for navigating uncertainty.

In addition, Riverbridge's portfolio companies have two advantages relative to the broader market in a tariff regime. First, we own fewer companies that have global supply chains, instead owning a higher proportion of domestically focused software, professional service, and healthcare providers. Second, we seek to own companies with recognized value propositions and competitive differentiation, which enables pricing power should input costs rise.

Despite the current volatility, the long-term outlook for U.S. markets remains positive. The U.S. economy continues to be among the strongest globally, market valuations are above long-term averages but remain reasonable, and fundamental indicators are solid. Maintaining a long-term perspective, focusing on quality investments, and resisting the urge to time the market remain crucial principles for navigating uncertainty and achieving financial goals. True investment success stems from maintaining a decade-long perspective, rather than reacting impulsively to quarterly fluctuations.

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