

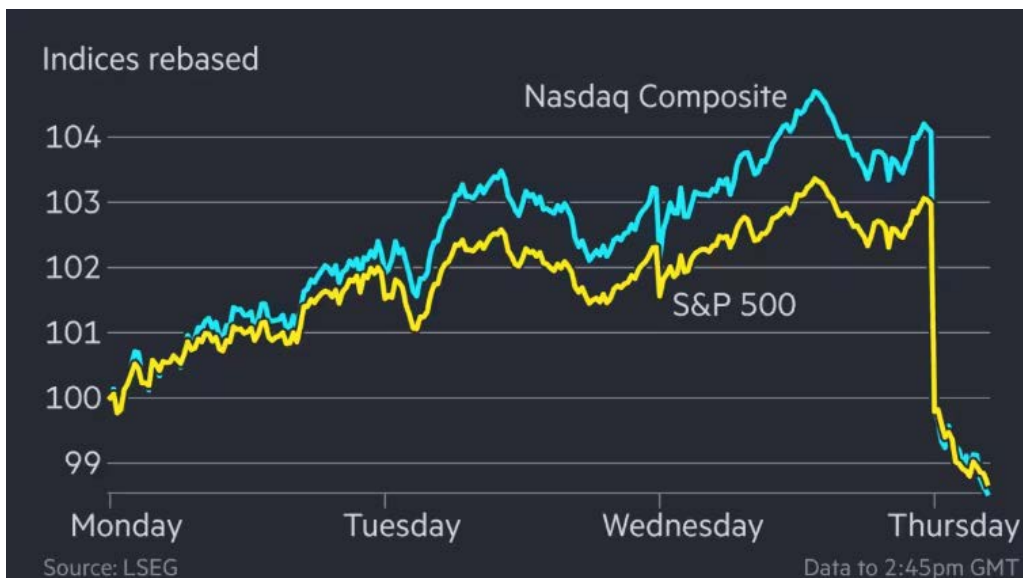


April 4, 2025

Steady-at-the Helm (at Least Until Some of the Fog Clears)

Dear Client,

The investment markets were not surprised that the Trump administration announced sweeping new tariffs, the shock to the markets stemmed from their extent and severity. Apparently, the markets assumed the tariffs would be less severe given that the stock market advanced by 7% over the three days leading up to the anticipated Rose Garden announcement on Wednesday. But alas, Trump's tariff blitz sent the markets into a tailspin on Thursday as can be seen in the line graph below. The technology-heavy NASDAQ Index fell by 6%, the S&P 500 fell by 5%, and non-US stocks fared somewhat better with a drop of slightly less than 4%. Thursday was the largest one-day loss for the stock market since March of 2020 (during the COVID downturn). On the positive side, bond prices rose as investors sought a safe haven during the stock market sell-off. For a representative 50% bond and 50% globally diversified stock portfolio, Thursday's decline in value was 1.9%.



So here we are, in the early stages of a global trade war which has significantly increased the odds of a recession which just a few months ago seemed out of the question. And unlike most economic downturns in the past, should we experience a recession this year it will have been caused by self-inflicted wounds. But rather than bemoaning the causes of this unfortunate turn of events, we believe it's time to carefully consider the potential economic scenarios as to how this might all play out before we make significant adjustments to our financial plans or our portfolio allocations. One thing we know from investment lessons from the past is that it's unwise to react emotionally to sudden downturns in the markets. Rather, it's a time to maintain a steady hand at the helm while we carefully consider what changes might be beneficial to improve the likelihood of a successful journey over the long term.

In the meantime, here are some thoughts as we consider possible outcomes.

Short-term consequences and reactions?

- Economists have warned that Trump's tariffs will be passed on to consumers leading to higher prices, at least in the short term, and slower economic growth which when combined might lead to a period of "stagflation", i.e., stagnant growth and higher inflation.
- The new tariffs will likely raise the cost of imported goods ranging from clothing to automobiles. Even domestically produced goods would likely rise given reduced competition, limited supply, and higher demand. Consumers may face significant price shocks in the coming months.
- While the administration might hope these new tariffs will lead to concessions from other countries, our foreign trading partners may react by introducing retaliatory tariff measures thus further exasperating the negative short-term impact on the global economy. (China retaliated today by imposing a 34% reciprocal tariff rate on U.S. goods.)
- We may see challenges to the extreme tariff policies given that Congress holds the power under the U.S. Constitution to impose duties and regulate foreign commerce (e.g., several Republicans recently joined Democrats in passing a resolution in the U.S. Senate to block Trump's tariffs on Canada).
- It's possible some of the extreme tariffs will be reduced on certain countries given potential bilateral agreements. (On Thursday, Trump indicated he's open to negotiations and, today, it was announced that Vietnam and Cambodia have asked for a three-month delay in applying the new tariffs while they attempt to negotiate better terms.)
- Stock prices, especially for companies heavily reliant on foreign production, will continue to be under the greatest pressure (e.g., the share price of Apple stock plunged by more than 9% on Thursday given that most of their iPhones are produced in China. Apple was down another 7% as of this writing).
- It's possible the global stock market will fall into bear market territory, i.e., a decline in prices of 20% or more. By midday Friday, the MSCI All Country World Stock Market Index had declined by close to 15% from its February 18th record high. More often than not, such downturns have created buying opportunities (remember Warren Buffett's sage advice, "be greedy when others are fearful").
- Bond prices are likely to remain stable or even rise given their role as a safe haven (e.g., intermediate-term U.S. Treasury prices rose by about 1% on Thursday).

Longer-term impact?

- Eventually, global trade patterns will adjust to the higher tariffs and businesses will adapt, although the adjustment process will be painful and will likely take several years to unfold. It takes time to build new manufacturing plants and hire and train new workers (this is one reason why it would have been more sensible to have phased-in the tariffs thereby allowing time for supply chains and U.S. companies to adapt.)
- It's possible there will be a resurgence in manufacturing in the United States which would open up job opportunities and create favorable economic growth. Perhaps there will be greater opportunities for small and mid-sized U.S. companies within the manufacturing sectors. However, given the current shortage of skilled workers combined

with more restrictive immigration policies, the longer-term impact might lead to greater use of automation, including artificial intelligence, which, ironically, might end up creating fewer new jobs than the administration envisions.

- It's unlikely that these high tariffs will endure given political and economic pressures, especially from businesses and consumers. In looking back at the history of tariffs in the United States, they have never achieved their intended goals over the long term. Even William McKinley, Trump's tariff idol, admitted that his high tariff policies in the 19th century were a mistake. Following the enactment of the Tariff Act of 1890 which McKinley championed as a congressman, tariff rates were increased to a range of 38% to 49.5% across all imports. Unsurprisingly, these tariffs were not well received by Americans given the resultant steep increase in consumer prices. Shortly after their enactment, McKinley's party (Republican) lost control of its House majority, and two years later lost control of the Senate and Presidency. (Mark Twain is attributed with the saying "History doesn't repeat itself, but it often rhymes".)

We will report back with further thoughts and commentary once some of the current fog lifts around the future of tariffs and as economists develop new scenarios about the future growth of the global economy. Our investment committee will be meeting early next week to review the latest information from the economists and portfolio strategists we follow closely. In the meantime, please do not hesitate to let us know if you would like to discuss your financial plan or portfolio allocation.

Best regards,

Warner and Your Team at Aequitas

Note: The phrase "steady as she goes" is a nautical term where the helmsman of the ship is instructed to maintain a steady course if a thick blanket of blinding fog rolls in, or when a worse than expected storm develops. Maintaining a steady hand at the helm allows time for the captain and navigator to make adjustments to the ship's future course direction should changes be necessary.

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