AEQUITAS INVESTMENT ADVISORS, LLC

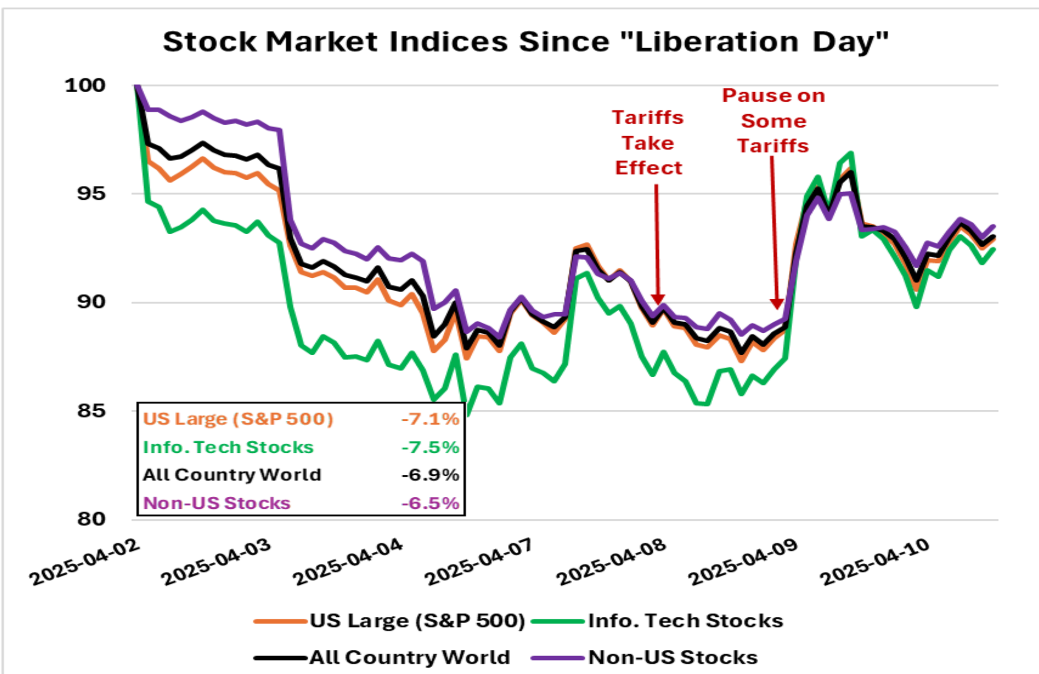
FINANCIAL PLANNING AND PORTFOLIO MANAGEMENT

April 14, 2025

Steady at the Helm – Navigating Through the Rough Seas of Tariff Volatility

Dear Client,

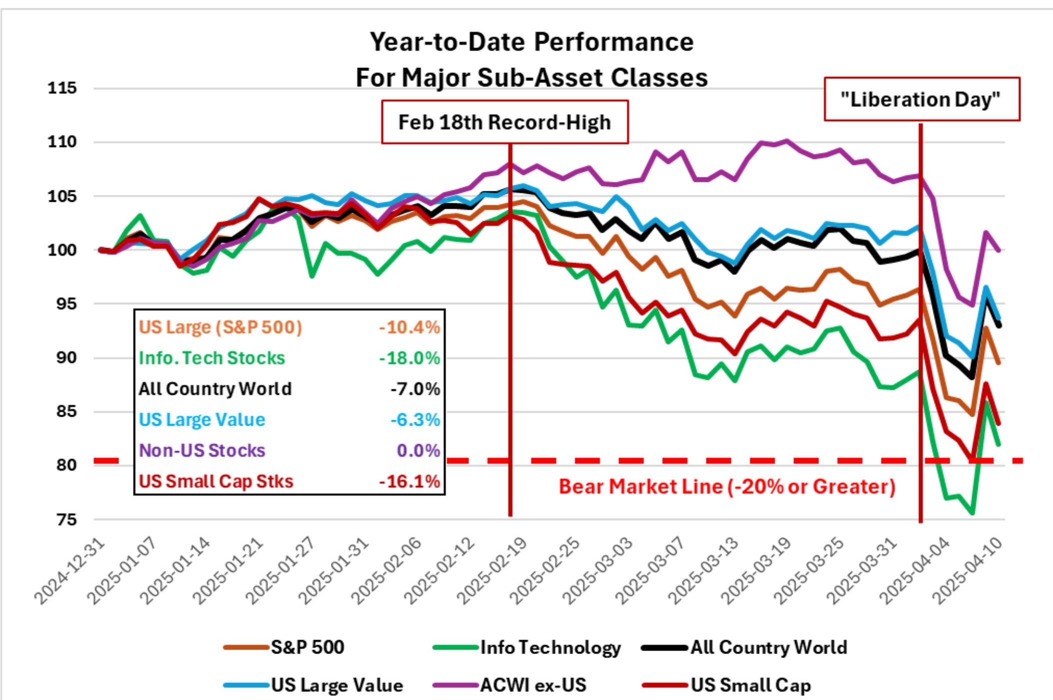
What a roller coaster several weeks it's been for the stock market beginning with the plunge on April 3rd the day after the "Liberation Day" announcement, and then a remarkable upward surge last Wednesday following the 90-day pause announcement (except for China), and then two more days of falling stock prices before the week closed on a positive note. The four lines in the graph below illustrate the extreme volatility of some of the major indices over the six trading days between April 3rd and April 10th.



The markets rallied in dramatic fashion beginning at 1:18 PM ET last Wednesday when Trump took to social media to announce a 90-day pause on all reciprocal tariffs with the exception of China (the S&P 500 surged over the subsequent few hours by 9.5% representing its third-best day since 1940). Ever since his "Liberation Day" tariff announcement on April 2nd, many influential business leaders and politicians were imploring Trump to delay or pause the reciprocal tariffs, and to reduce their severity. The pressure was mounting and perhaps the straw that broke the camel's back was last Wednesday morning's interview with Jamie Dimon (JPMorgan's CEO) on Fox Business' *Mornings with Maria* show during which Dimon warned of severe economic damage resulting from the extreme tariffs and that a recession would be the likely outcome (we know that Trump was watching the interview that morning). Dimon encourged the administration to give Treasury Secretary Bessent more time to make favorable trade deals. Another influencing voice was that of billionaire fund manager Bill Ackman, a loyal supporter of Trump, who pleaded with the president to hit the pause button on extreme tariffs. Ackman felt that a 90-day pause would allow time to negotiate more reasonable trade agreements and would prevent, in Ackman's view, "a major global economic distruption that would harm the most vulnerable companies and citizens of our country." Pushback to Trump's extreme tariff policies was also building from within the administration as well. The same day Ackman made his plea to Trump, Elon Musk referred to Peter Navarro (Trump's senior trade advisor) as "moron" and "dumber than a sack of bricks" in failing to understand the economic damage extreme tariffs would cause. Regardless of one's view of Musk, as a business person running several successful global companies, he clearly understands the potential impact of tariffs (his stated preference is that we should eliminate tariffs altogether).

Performance Review for the Year-to-Date through April 10th

The first six weeks of 2025 were positive for all of the major stock market indices, although technology stocks were beginning to show signs of weakness given growing concerns about their elevated valuations. By February 18th, most of the major stock market indices were trading at record high levels, but it was at that point when concerns about the potential tariffs began weighing on the markets. At that time, most investors assumed that Trump would utilize the threat of tariffs as a bargaining tool to negotiate better deals with our trading partners. While that still might be possible, it appears that Trump's primary reasons for his extreme reciprocal tariffs were to lower our trade imbalance, raise tax revenue from tariffs to pay for additional tax cuts, and bring more manufacturing jobs back to the U.S. Those are three worthy goals, but what caught most investors by surprise was the abruptness, breadth, and extremity of the tariffs he announced on April 2nd.



For the year-to-date through April 10th, Information Technology Stocks were down by 18% and were close to falling back into bear market territory (a bear market is defined as a decline in stock prices by 20%, or more, and is represented by the red dashed line in the graph above). US Small Cap stocks (-16.1%) were close behind. The S&P 500 was down 10.4%, followed by the All-Country World Stock Index (-7%) and US Large Value stocks (-6.3%). International stocks fared much better and have broken even so far this year. High quality, short and intermediate-term bonds have been performing well for the year-to-date (up by almost 2%) and should continue serving their purpose of reducing downside portfolio risk while also providing income and liquidity for cash flow needs. A representative 40% bond and 60% globally diversified stock portfolio is down about 4.4% for the year-to-date through April 10th.

Self-Inflicted Recession?

Coming into 2025, the consensus was that the U.S. economy would continue expanding, perhaps at a somewhat slower rate, with a near-zero chance of a recession. Economists factored in the prospect of tariffs in their forecasts, but not the extreme level of tariffs laid out on "Liberation Day." Furthermore, economists assumed that the negative economic impact of a milder set of tariffs would be more than offset by the stimulative fiscal benefits of Trump's economic plan which includes less regulation for businesses and lower taxes for individuals and corporations. Unfortunately, the announcement of extreme reciprocal tariffs sent the investment markets tumbling and significantly increased the odds of a recession.

Consumers are just beginning to feel the impact of the tariffs, but it will probably take several weeks or months for their full monetary impact to be felt. Consumer sentiment has already plummeted according to the most recent University of Michigan's Consumer Sentiment Survey which fell to the second-lowest level since 1952. A recent analysis by the Yale Budget Lab forecasts that tariffs might increase costs for the average American household by $3,800. Given that consumer spending accounts for more than two-thirds of U.S. economic activity, the potentially higher costs for households creates a major headwind for economic growth and is a primary reason many economists are sounding the recession alarm.

The End of the Beginning?

John Authers, a well-regarded financial journalist and commentator, recently posted an article on *Bloomberg* entitled, *Manic Monday Looks Like the End of the Beginning*. He commented on the extreme stock market volatility we've seen recently, which is highly unusual from a historical perspective. His premise behind the article's title is that during most major stock market downturns in the past, a sharp and sudden downward plunge in stock prices coinciding with extremely high stock market trading volume, such as we have witnessed since "Liberation Day", is often in indicator that the worst is over from a volatility standpoint. Unfortunately, that doesn't mean that stock prices won't fall any further. If history is any guide, and assuming we are heading into a recession, it may be another few months before stock prices reach their low point after which we might expect a more sustainable recovery. While we may have reached the end of the beginning from a volatility standpoint, we haven't necessarily reached the bottom. The markets will need more information on the tariff policies and their economic impact before a recovery in stock prices can begin. Bear in mind, however, that the stock market has historically been viewed as a leading indicator of the direction of the economy, and by the time that a recession is officially announced (typically after two consecutive quarters of sharply slowing and/or negative GDP growth), the stock market's recovery is well underway.

Bonds, Stock Market, and China: What's Going On?

Our Director of Investment Research, Spencer Henderson, has been following the writings of a young economist named Kyla Scanlon who has become a rising star in the world of financial commentary, especially on the human aspects of economics. Her most recent post (*Bonds,* *Stock Market, and China: What's Going On*) is packed with informative commentary and graphics regarding the current volatility of the investment markets. Below are some of Kyla's main points, as well as some of our own thoughts in brackets. (If you would like to read the full article, here is the link to her website, *Kyla's Newsletter*: https://kyla.substack.com/p/bonds-stock-market-and-china-whats.)

Headlines and the Stock Market

- The week before last, the stock market soared for a brief moment when a fake news headline reported that Trump might pause new tariffs for 90 days. The market plummeted a few moments later when the headline was proven to be false. And this past Wednesday, the market soared when the real tariff delay announcement was posted. The next day, the market gave back some of the gain. Following both the fake and real headlines, it's clear that investors were eager for any good news on tariffs.
- The Trump tariffs, if enacted as announced on "Liberation Day," would raise our tariffs to their highest level since 1909. [It's interesting to note on Kyla's tariff chart that following each significant hike in tariff rates throughout our nation's history, the tariffs have been significantly decreased to much lower levels after a few years. In our view, this is due to the fact that extreme tariffs have proven to cause more harm than good.]

What Happen in the Bond Market?

- Last week, U.S. treasury bonds, particularly longer-term bonds, were sold off which caused some investors to question the safe-haven status of U.S. Treasuries. Kyla mentioned a few possible reasons, including: (1) Perhaps China and other countries were selling their U.S. bonds out of spite or fear or (2) perhaps some hedge funds which had used U.S. Treasuries as collateral for making risky investments were forced to sell their bonds. [The good news is that the selloff appears to have abated, and demand continues to be strong for U.S. Treasuries based upon the most recent auctions.]

Could the Federal Reserve or Congress Step in to Reign Back the Tariffs?

- The Federal Reserve has no authority to intervene in tariff matters, but Congress does have the constitutional authority to do so. Several Republican senators are backing a bipartisan bill to reassert Congress' control over tariffs. [One such senator, Thom Tillis of North Carolina, asked US Trade Representative Jamieson Greer, "Whose throat do I get to choke if this turns out to be wrong?"]

What Happens to the World Order? [This is one of the most important questions]

- The U.S. has been the prime beneficiary of a stable, trust-based global system for nearly 80 years. While we have run trade deficits, this has enabled us to benefit from cheaper borrowing costs while other countries' demand for dollars and U.S. Treasuries effectively subsidized our standard of living.
- Now that the U.S. is demanding tariffs that are based upon a formula using incorrect math, perhaps other countries will avoid trading with the U.S. and will build trade deals with each other. [Of the total global trade of $33 trillion in 2024, the U.S. exported $3.2 trillion and imported $4.1 trillion (a little more than 10% of global trade). Trump's plan applies tariffs to the imports, but if other countries retaliate, we may lose a significant portion of our exports.]
- The U.S. Dollar may lose its status as the world's primary reserve currency if other countries form alternative currency blocs.

Beyond these challenging questions, Kyla's article includes an interesting overview of why attempting to bring back manufacturing to the U.S. might not produce the magnitude of benefits the Trump administration envisions. She also outlines what the U.S. could do to correct the trade imbalances other than tariffs which might have a more beneficial and enduring impact. Finally, she offers some investment advice which sounds quite familiar:

1. Check your portfolio mix: Make sure you know how much of your investments are in stocks, bonds, and other assets. Consider diversifying abroad. Holding some mix of equities, cash, different bond maturities, or even other assets (like real estate) can help balance risks.
2. Cash Reserve: If markets get rocky, having a few months of expenses in cash (or something very close to cash) is a good cushion. It keeps you from being forced to sell investments at a bad time. [Investing a substantial portion of one's portfolio in high-quality short-term bonds provides many years' worth of living expenses for that same reason.]
3. Don't panic sell: "Headlines can sound frightening, but panicked selling rarely helps. If you have a diversified, long-term portfolio, short-term volatility is often just noise. If you see alarming headlines, don't let fear dictate your moves. This uncertainty won't go away anytime soon, so stay calm, know your [investment] time horizon and adjust your portfolio's risk level to something you can live with [if you have not already done so]."

These are rapidly changing and challenging times. We believe we will get through this difficult period and that better days lie ahead. In the meantime, let us hope that the 90-day pause provides an opportunity for the administration to negotiate favorable trade deals and recalibrate the impact of its tariff policies.

Please let us know if you have any questions or would like to discuss your portfolio and/or financial plan.

Best regards,

Warner and Your Team at Aequitas

Warner Arms Henderson, ChFC®
Managing Member
Aequitas Investment Advisors, LLC
Financial Planning & Portfolio Management
175 Derby Street
Suite 24
Hingham, MA 02043
781-740-1199
Email: wah@aequitas-inv.com
Website: www.aequitas-inv.com

CELEBRATING 30 YEARS! OF TRUSTED ADVICE