Market Update – April 3rd, 2025

U.S. Tariff Announcement – A Brexit Moment

Overview

The Trump administration announced yesterday, April 2nd, a wide range of tariffs that were widely telegraphed but without specifics. The tariffs will affect most of our significant trading partners. Here are a few notable tariffs announced:

- 10% baseline tariff on all imports
- 34% tariff on imports from China (on top of existing 20% tariffs)
- 20% on European Union
- 25% on Mexico and Canada

Global equity markets reacted negatively to the announcement, expecting retaliation from other countries, a corresponding weight on economic growth, and rising consumer prices. All proposed tariffs would be enacted by April 9th. Nonetheless, these specifics did not align with the consensus view beforehand. In fact, the Dow Jones Industrial Average Futures were up 1.7% before the afternoon announcement at the White House. Within half an hour they would deteriorate sharply as the details were released and are poised to erase trillions of market capitalization off global stocks.

The Precedent

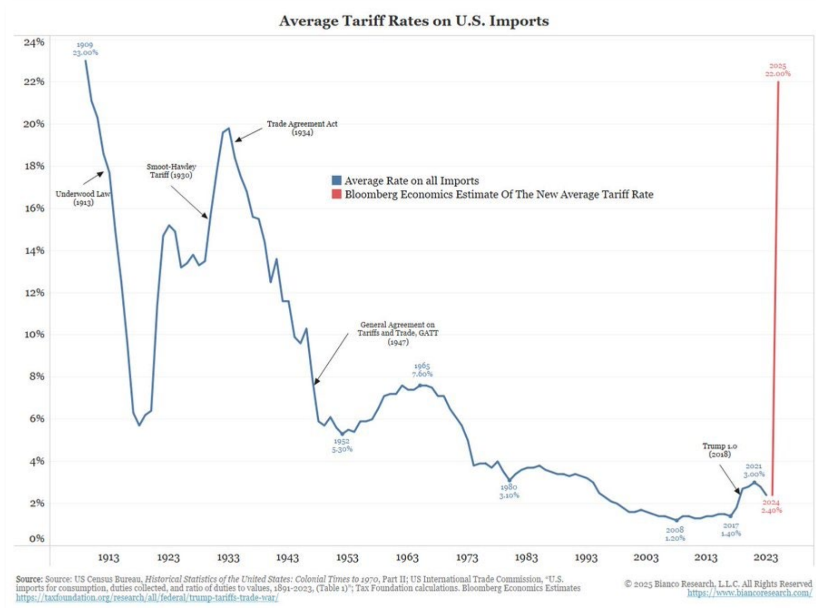
An apt comparison is Brexit, the jarring election outcome in 2016 when the United Kingdom decided to economically divorce itself from the European Union. Global markets went into a precipitous decline in response. Our approach relies on precedent and finding anchor points amidst any point of market frenzy. The U.S. now, like Britain then, is perceived to be embracing a more isolationist policy. That was the headline, but not the whole story.

An unheralded, but important, chapter of the Brexit story took place weeks later in July 2016. ARM Holdings, a leading microchip designer and based in England, finalized a sale for $32 billion in an all-cash deal to SoftBank Group. This transaction could have easily been called off due to Brexit concerns. The parties had to look past the geopolitical tumult, which would subside over time, and at a more assured digitized future. That was the correct take. As of March 2025, ARM Holdings had a market capitalization greater than $100 billion[i]. This reinforces that while markets can easily sell off because of what is not known, we need to make decisions on what we do know.

What We Do Know

There are an immense number of geopolitical variables to consider with these tariffs, and this complexity is not helping investor sentiment. President Trump's rationale for these measures is that many trading partners have unfairly been taking advantage of the United States with their own tariffs and trading barriers. His expectation is that these measures will even the playing field and encourage domestic capital investment both by domestic and international companies, which will be good for the United States manufacturers long term (and create jobs). No domestically made goods are subject to this tariff policy.

What we do know is that the U.S. administration is trying to leverage its consumer market, and the approximate $20 trillion in global annual spend. Many countries could retaliate and increase tariffs on American-made goods and services, but it is likely not all countries will react the same. It is an evolving situation.



What Is Next

The administration has offered various negotiating options. Countries can 1) eliminate tariffs on U.S. products, 2) refrain from manipulating their currency, 3) open their markets to U.S. products, and 4) foreign companies can manufacture in the U.S. This would set the stage for a more balanced trading environment with global trade conducted more on a meritocratic basis.

From an economic perspective, while it is too early to foresee outcomes with these tariffs, the consensus view is that this will lead to slowing U.S. growth and rising prices (inflation). The immediate take is a reduction in U.S. GDP growth with global economic activity also scathed. Further, the latest estimate from the Atlanta Fed was a -3.7% contraction in the first quarter[ii]. A fundamental issue is U.S. consumers forced to spend more on regular goods and services.

But that notion is a conundrum. Inflation could rise, but the bond market is telling a different story right now. The bellwether U.S. 10 Year Treasury yield is falling in response to this news and now sits at 4.0% (from 4.2% on March 31st). There is also now a 32% chance that the Federal Reserve cuts short-term rates by 1% by year end[iii]. Lower yields connote lower inflation. This underscores that predicting what is next with these tariff negotiations with any surgical precision is challenging.

Our Take

Just like Brexit, surprise geopolitical events can have far-reaching financial market consequences. Yesterday's tariff announcement is no exception. One pillar of our approach is to not let emotions override our decision-making, and markets right now are moving more off guess work and speculation. Further, our advocacy of diversification should show its merits today, particularly for those with bond allocations benefitting from lower yields. We also routinely use these moments to tax loss harvest and will do so again during this turbulence. These are our investing constants.

We also know that certain forces will not stop based off the news today. Innovating will go on and demographics are unaltered. Further, the valuations of many risk assets have improved. Like the ARM acquisition previously noted, there are opportunities that invariably surface and should be pursued during times of upheaval. This time around should be no different.

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[i] Morningstar, valuation as of April 2nd, 2025
[ii] Federal Reserve Bank of Atlanta, GDPNow reading on April 1st, 2025
[iii] CME Group, FedWatch Tool, reading as of April 3rd, 2025