

Tariffs and the market impact

President Trump's tariff announcement on April 2, 2025, was much more significant than markets expected, resulting in sharp selloffs across most equity markets. Though the full impact of the announcement is still undetermined, we continue to believe in staying focused on core investment principles around owning high-quality businesses at reasonable valuations, a practical asset allocation based on your specific financial goals and risk tolerances, and diversification across asset classes.

Please see below for our perspective on the announcement, the market reaction, and our ideas for navigating periods of uncertainty.

- While Trump announced a 10% minimum tariff on all countries, he also announced much more severe tariff rates on some of the United States' key trading partners, including an additional 34% tariff on China (bringing China's total tariff levy to over 50%.) **According to Fitch and Reuters, the tariffs amount to an effective 26% global tariff rate, the highest since 1910.**¹
- Market pundits are pointing out the haphazard manner with which these tariffs were announced; **we view the market's reaction as reflecting concern about economic growth but NOT a crisis of confidence.** For example, Treasury Bonds are doing a good job as a market hedge, reflecting the view that US government bonds are still a safe haven during times of uncertainty.
- We expect that **yesterday's announcement was not the "end game,"** that the range of outcomes remains wide, and where we are today is likely not where we will end up in the future.
- If taken at face value, **the immediate-term impact of these tariff implementations may likely be higher prices and a slowdown in spending,** potentially resulting in economic contraction or a recession.
- **We expect that economic data will be choppy over at least the next few months** as businesses make unique timing decisions about how best to manage this uncertain tariff environment. For example, several businesses have pulled forward spending and built up inventory in recent weeks in anticipation of higher costs in the future.
- In the medium term, assuming no change to the tariff rates announced yesterday, **we expect businesses to re-examine trading partners and routes, including building domestic capacity and adjusting supply chains.** For example, China faces higher tariff rates on the

production of shoes than Brazil, so shoe manufacturers may look to move production from China to Brazil. However, these decisions are costly and won't likely be made quickly as executives weigh the risks and rewards - especially if the tariff regime changes again from here.

- While the near term is uncertain, **we caution against significantly changing your investment strategy**. Markets tend to rebound before data suggests improvement. Staying on the sidelines and missing a rebound can be very costly to your long-term returns.
- Long-term investors should already be aware that significant market drawdowns seem to occur every few years. While the causes of the significant selloffs tend to change (housing crises, pandemics, inflation, and unexpected tariffs), the patterns remain similar. **We think the key to this market environment is to focus on core investment principles around maintaining a long-term perspective, asset allocation, and diversification**. International stocks and bonds have held up relatively well in this recent environment, highlighting the benefits of asset class diversification.

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<https://www.reuters.com/markets/us/us-tariff-rate-rockets-22-highest-since-1910-fitch-economist-says-2025-04-02/>

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