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OF THE SOUTH

Market Update - April 4, 2025

We thought it might be helpful to provide a brief update on financial market conditions in the wake of the administration's tariff announcement yesterday.

Yesterday's announcement that the U.S. would enact a 10% universal tariff on all imports was bad news for global trade, but the 10% level of tariffs had at least been discussed and was not a complete shock. On the other hand, the "reciprocal" tariffs of various levels, (20% for the EU, an additional 34% for China, 46% for Vietnam) were far, far higher than expected and have caused a dramatic re-pricing in financial markets.

So what has happened?

- The S&P 500 fell by nearly 5% yesterday.
- International stocks were also lower, but better than the U.S., down 2%.
- Bond prices rose (and yields fell) as investors sought safety.
- Volatility spiked to levels not seen since 2020.
- Markets are poised for further declines today.

There is no scenario in which tariffs of these levels do not damage the global economy, and that is before factoring in retaliatory tariffs from other countries, which are sure to follow. China has already announced this morning its own 34% duty on American imports. We have been writing about tariffs and their potential for harm for months, but these levels are far higher than anticipated.

What matters, of course, is how to proceed from here. This is a particularly vexing situation because it is completely manufactured and can be reversed on a whim—and might be. It is perhaps more likely that these new tariffs, especially the "reciprocal tariffs" will be renegotiated. Low levels of tariffs will not be conducive to global growth, but they would just be problems on the margin; a 54% tariff on China (34% in addition to the 20% that was already in place) is practically an act of war.

It beggars belief that such an egregious economic blunder can long endure. That's one reason why we would generally avoid broad repositioning in portfolios. This situation is highly fluid and highly volatile, which is normally a terrible time to sell stocks. Another is that our portfolios are generally already globally diversified, with significant allocations to non-U.S. markets. Lastly, because we tilt portfolios toward lower-priced value stocks, we already have some embedded margin of safety vs. a broad market sell-off.

Markets will continue to efficiently process new information as the tariff situation unfolds and we will continue to monitor the markets. There's no reason why equity markets couldn't go lower from here for a period given the rising geopolitical uncertainty. However, it's also historically true that expected forward returns rise as prices fall, and when these snapbacks occur, it's important for long-term success not to miss them.

Please do not hesitate to reach out with any questions.

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