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Investment Institute

Institute Alert

FIRST ANALYSIS

News or events that may affect your investments **April 4, 2025**

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The trade war begins

Key takeaways

- Global equity markets have been selling off as countries around the world begin to retaliate against the Trump administration's new tariff policy, with China imposing a 34% tariff on all U.S. imports beginning April 10 and taking targeted actions against poultry producers and weapons makers.
- The escalating trade war has investors concerned about a reacceleration of inflation as well as slower economic and earnings growth.

What it may mean for investors

- Our investment guidance accounts for rising tariffs but foresees opportunities for select cyclical equity performance, commodities, and a more selective approach to fixed income.
- We continue to focus on quality, with overweights to U.S. Large and Mid Cap Equities.

Equity markets down amid tariff retaliations

On April 2, President Trump approved new tariffs covering imports from most trading-partner countries and including some of the largest sources of U.S. imports. The new levies established a 10% minimum tariff and added additional amounts on a country-by-country basis. Since the announcement, global equity markets have been selling off as countries around the world have begun to retaliate against the Trump administration's new tariff policy.

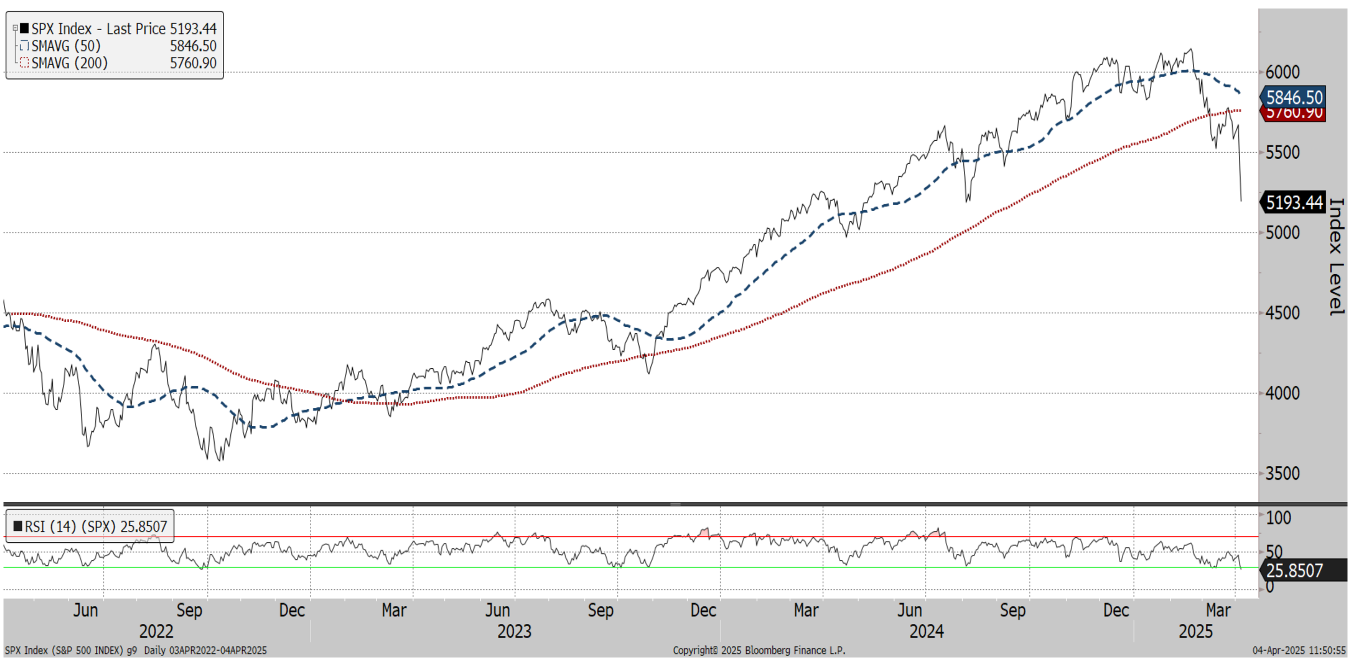
One significant retaliation has come from China — the country imposed a 34% tariff on all U.S. imports beginning April 10, and it is taking targeted actions against poultry producers and weapons makers. The escalating trade war has investors concerned about a reacceleration of inflation as well as slower economic and earnings growth. Despite recent stability in economic data such as the March jobs report, markets are looking forward to the potential impact of a trade war. This fear has been weighing on risk assets and bolstering perceived safe-haven assets, such as gold and U.S. Treasuries.

Tariff uncertainty is likely to continue, and actual tariffs will have costs, although we doubt that they will derail either the economy's moderate pace or the investment returns we continue to expect.[1] We believe recession risk has ticked higher but remains unlikely. Our investment guidance accounts for rising tariffs but foresees opportunities for select cyclical equity performance, commodities, and a more selective approach to fixed income.

Ultimately, our guidance focuses on quality. We are skeptical of the rallies in Europe and China, and we favor U.S. over international markets. In the U.S., we favor Large Cap and Mid Cap Equities. In fixed income, we favor reducing exposure to intermediate and long-term maturities (in other words, from three years and longer in maturity) while uncertainties remain high.

From a technical standpoint, the S&P 500 Index (5193) remains in an uptrend, as the 50-day moving average (5846) remains above the 200-day moving average (5761), but a trend change seems imminent. The next levels of support to watch should be August/April 2024 lows (5186, 4967). Resistance should be found at the 200-day moving average (5761).

S&P 500 Index (SPX) along with the 50-day and 200-day moving averages



Source: Bloomberg, April 4, 2025. The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

1. For a more detailed discussion on the potential impacts of tariffs, please see our Institute Alert, "Implications of a growing menu of tariffs," April 3, 2025.

Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Investments in gold and gold-related investments tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments.

Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Although Treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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