Commentary

Tariffs Bring Uncertainty, Risks, and Opportunities

- Market fluctuations have been extreme as investors react to ever-changing tariff news.
- With the recent market pullback, equity valuations have improved from elevated levels.
- Handling the emotions in investing is hard, but staying focused on one's objectives can provide clarity.

President Trump announced sweeping tariffs after market close on April 2, which he coined "Liberation Day." The tariffs were larger than expected causing, a tremendous amount of market volatility as investors tried to understand the implications. Complicating matters more, the tariffs are evolving as countries negotiate and retaliate. We have seen large swings in both stock and bond markets. The day after Liberation Day, the S&P 500 fell approximately 6%, and then a few trading days later, after many of the tariffs were postponed for 90 days, the S&P 500 climbed nearly 10% in one day. Seven trading days since the announcement, the S&P 500 was down slightly over 5%. The Bloomberg U.S. Aggregate Bond Index, which generally tracks the bond market, was down 2%.

This situation is very fluid, and we expect large swings to continue. The impact of the tariffs is hard to quantify and likely won't be known until after they are implemented. After they are implemented, exceptions will be made, and negotiations to end tariffs may even occur. This creates uncertainty around corporate earnings, economic growth, inflation, and Fed rate cuts. The Federal Reserve is watching how this will play out, just like investors are watching.

Ultimately, the question investors want answered is what they should do with their portfolios. The answer to this question may not be as hard as you think. We can look to see what the largest money managers around the world are doing as an example. When asked what changes they are making during this period of uncertainty, the overwhelming answer is not much. This is because they are focused on their own return and risk objectives and they don't feel comfortable making large shifts to their portfolios when they don't have a clear picture of what is happening.

As individual investors, we can do the same. We can ask ourselves, what has changed? Did something in my life change to warrant an altercation to my portfolio? For instance, did you decide to retire earlier or later? Or did a child change their mind about college? These sorts of changes could warrant changes in your investment objectives.

The other change you may ask yourself is regarding risk tolerance. Perhaps this type of volatility is unpalatable, and you can't sleep at night. If that is the case, you can speak to your financial professional about possibly lowering your risk tolerance and making the corresponding changes to your portfolio.

While there is a lot of uncertainty right now, there are silver linings that are less talked about. Going into the year, valuations were stretched, especially in large cap growth due to the optimism around artificial intelligence. Now, valuations on the S&P 500 are near their long-term averages and could prove to be a better entry point for long-term investors. While these tariffs are much higher than 2018-2019, economic growth, inflation and the unemployment rate were largely not impacted by the tariffs then. Also, don't forget, negotiations could happen, and tariffs could eventually fall below the levels we started with before the trade war. The Fed is also now in a rate-cutting cycle and can step in to support the economy and labor force if we do see deterioration in economic data.

With international markets outperforming U.S. markets this year and value stocks outperforming growth stocks, being diversified is finally being rewarded. We believe it's prudent to be well diversified to mitigate risk. Investors need to stay focused on their long-term objectives and not try to time market movements. Handling the emotions of investing is so important. A financial professional can help you stay focused on what you can control and be that north star in this time of uncertainty. Please consult your financial professional for guidance during these times.

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Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The S&P 500 is an index of roughly 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of large cap universe.

The **Bloomberg US Aggregate Bond Index** is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Eligible bonds must have at least one year until final maturity, but the index holdings have a fluctuating average life of around 8.25 years. This total return index is unhedged and rebalances monthly.