

# Investment Views: Tariff Update

APRIL 2025



- On April 2, President Trump signed an executive order imposing reciprocal tariffs on specific trading partners, ranging from 10% to 49%.
- The tariffs sent shockwaves through financial markets, and investor uncertainty is ongoing.
- Our asset management team is here to help navigate the markets and we are closely monitoring the situation.

Trump's "Liberation Day" tariffs were significantly higher than expected and, if implemented in full, will reduce trade, slow economic growth, and contribute to higher prices (inflation). How countries respond to the imposed tariffs will be key to determining the outcome.

China quickly retaliated with a comprehensive set of countermeasures, including a 34% tariff increase on all US exports. This prompted President Trump to threaten further tariff hikes. The UK has indicated that it will not retaliate, but the European Union, led by Germany and France, is likely to respond. Japan, South Korea, and Vietnam on the other hand, have signalled openness to negotiation.

Historically, although turbulent periods are uncomfortable, they have provided opportunities. US equities typically fall around 35% from peak to trough during a recession, and the market has already priced in nearly two-thirds of that decline, even though recession could still be avoided if tariffs are removed. We are closely monitoring the situation, with tariff policy playing a key role in our decision-making and our approach as long-term investors remains centred on building resilient portfolios.

## Understanding the potential impact of tariffs on investor portfolios

We came into the year with a number of defensive tilts in portfolios. We hold a "modest underweight" position in equities, which in practice translates to equity exposure being approximately 2-3% below strategic asset allocation targets. Given recent market movements, we are now closer to a 5% underweight. The equity sell-off has been sharp, with some investors, such as hedge funds, being forced to reduce their exposure.

Portfolios are "equal weight" fixed income, and "modest overweight" alternatives. In recent years we have spent a lot of time thinking about which assets offer the best diversification. Recession risk generally benefits bonds, but their hedging properties have been weaker in the post-recession period, so we are closely managing risk here and will continue to do so.

## Equities

Global equity markets have been particularly hard-hit by the recent developments. US equities had strong returns over the last two years, with gains of more than 20% consecutively, but the recent sell-off has been painful and sharp. The S&P 500 has dropped by 20% from its February peak, reversing much of its 2024 gains. International equity

markets, which lagged US equities significantly over the past two years, initially held up better in March but have since suffered following the tariff announcement.

As of April 7, US equities have returned -14.0% year-to-date, while global equities (excluding the US) have returned -4.7%. Geographical diversification has provided some helpful protection in portfolios.

Within sectors, defensive sectors have outperformed, while technology and cyclicals have underperformed. We are "overweight" in defensive sectors like Health Care and Utilities and "underweight" in Consumer Discretionary, so our sector allocation has been a positive contributor relative to benchmarks.

## Fixed Income

Fixed Income markets have faced challenges over the past three years, but so far this year, yields on sovereign bonds such as US Treasuries have declined. Short-dated bond yields have fallen more sharply than long-dated yields, resulting in modest positive returns. Bonds have benefited from their safe-haven status and expectations of further interest rate cuts later this year.

Credit spreads (the premium corporates pay to borrow over government bonds) have widened, meaning that corporate bonds have underperformed sovereign bonds. High-quality (investment-grade) corporate bonds have still generated low single-digit positive returns this year, while high-yield (non-investment grade) bonds have posted losses in April, pushing their year-to-date returns into negative territory.

We have been managing risk in fixed income allocations very closely, and hold relatively little credit risk, so these allocations have provided some stability amid recent volatility.

## Alternatives

Within alternatives, gold has performed particularly well this year, returning around 12%. However, the recent market sell-off has caused gold prices to decline. The overall market weakness has led to investors reducing risk, with reports indicating that gold has, in some cases, been sold to raise cash or meet margin calls in other assets. Commodities had generally been going sideways in the first three months of the year, but have fallen in April. Lower economic growth forecasts and an increase in supply from Saudi Arabia have seen oil prices fall. These market moves have been a challenging backdrop for Long/Short Equity hedge funds, but we are hopeful that other strategies can show resilience.

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