NOTTINGHAM ADVISORS
ASSET MANAGEMENT

A View From the TOP

Tariff Turmoil

April 2025

What Happened Last Week

Last week President Trump announced sweeping tariffs on most imports into the United States that went into effect on April 5. This included a baseline 10% tariff plus additional tariffs for countries with large trade deficits with the U.S. Taken together, these measures were well above expectations, causing global equity markets to decline meaningfully during Thursday and Friday's trading sessions. "Liberation Day" caused a flight to quality, with Treasury yields declining across the yield curve. The S&P 500 sold off sharply, losing -9.1% on the week, bringing the index down nearly -17% from its peak. The Tech heavy NASDAQ has fallen even further, with its largest constituents (the "Magnificent 7") shedding nearly -$1.8 trillion in market value Thursday and Friday alone.

Tariffs Exceed Expectations

Trade policy as we once knew it was upended entirely, with the weighted average U.S. tariff set to rise from 2.3% in 2024 to something closer to 20% or more. That would mark the highest level in more than a century and represent one of the largest tax hikes since the 1960s, according to JPMorgan. Additional reciprocal tariffs are scheduled to be announced on April 9, with the potential for "deals" to be made with impacted countries. Treasury Secretary Scott Bessent noted on Sunday that over 50 countries have already reached out to the U.S. to try to lower their tariffs.

It should be noted that the International Emergency Economic Powers Act (IEEPA), which has been invoked to implement tariffs, has never been used for this purpose before and grants the President the power to act against threats to national security. Section 232 of the Trade Expansion Act gives the President the ability to manage specific imports through the use of tariffs if too many imports were causing a threat to national security. Taken together, IEEPA and Section 232 are largely the playbook behind current levies.

Specific Country Implications

Notable absences from Wednesday night's announcement were Canada and Mexico. Both countries have already been mired in their own negotiations amidst a stop-and-start campaign, largely driven by secure borders and fentanyl, but escaped relatively unscathed from this round. It remains to be seen what will come of the U.S.-Mexico-Canada Agreement (USMCA), which President Trump negotiated in his first term, and which is set to come under review in 2026; however, that agreement remains in place, meaning goods subject to and compliant with the USMCA are not subject to any tariffs.

Levies on China have escalated tensions between the world's two largest economies as China retaliated and announced a reciprocal 34% tariff against U.S. imports. That brings total levies against Chinese goods to 54%, and in some cases even higher rates. Additionally, tariffs of 20% or more on allies including the European Union, Japan, Taiwan, and South Korea risk unintended consequences on the Western front. Tariffs of 46% on Vietnam, and similar levies on other Southeast Asian economies, pose significant threats to their local economies and threaten to undo post-Covid supply chains that have seen significant production of goods leave China.

Economic Implications

The global economy has been thrust into a world of uncertainty. Tariffs are likely to weigh on global growth and may spur a renewed bout of inflation depending on how quickly and severely the economy slows. The odds of a recession appear to be “higher” today than they were last week, with the likes of JP Morgan raising their odds from 40% to 60%, and Goldman Sachs from 20% to 45%. Still far from certain, but a higher probability.

Earnings estimates on the S&P 500 have already fallen from +12% in 2025 to 7% and are likely to be revised lower. Companies may pull their guidance for the year as uncertainty takes hold. Investors will get their first opportunity to parse earnings this week as the large money center banks are set to report first quarter results.

Economic volatility and uncertainty likely put the Federal Reserve in a bind, as incoming data is lagged and will take a while to catch up to reality. Sentiment and survey data (collectively “soft data”) remains weak, while “hard” data remains decent. Stagflationary concerns (slowing growth and rising inflation) have contributed to market uncertainty in the near term and may become more widespread later this year. According to *Barron’s*, Fed Chair Jerome Powell remarked on Friday, “You have inflation that’s going to be moving up, and growth is going to be slowing. It’s not clear at this time what the appropriate path of monetary policy will be,” underscoring the tough road ahead for the Fed. With Fed Funds futures markets now pricing four or more rate cuts this year (ahead of the two that the Fed penciled in just a few weeks ago), investors already feel the Fed is yet again behind the curve.

What’s Next?

The President campaigned largely on a three-pronged platform focused on trade policy, tax cuts, and deregulation. The first is now in the works, setting Congress up to negotiate an extension of the Tax Cuts and Jobs Act (TCJA), and potentially modify existing policy and cut taxes further. Tariff revenue should give Congress runway to cut taxes and help offset the tariff bite. Deregulation may come to fruition along the way or later on. In the meantime, all eyes should turn to Congress and their efforts to move tax cuts to the front burner.

Nottingham’s Investment Strategies

Nottingham’s portfolio construction philosophy has always emphasized a global worldview, focused on diversification, and positioned both strategically and tactically to navigate financial markets. Diversification is benefitting portfolio strategies, with International equities largely outperforming their U.S. counterparts, bond yields falling (prices rising), and alternatives such as Gold providing stability.

Coming into 2025, Nottingham’s equity strategies were largely neutral on U.S. Large-Caps, with a tilt towards Small- and Mid-Caps, and away from the largest names in the market. Portfolios maintain a tactical bias towards Utilities and income generating strategies, in addition to relatively cheaper assets globally. Diversification through International Developed and Emerging Markets has benefitted from a weaker Dollar, and may continue to do so if the Dollar declines further. Alternatives such as Gold and Global Infrastructure have been safe havens.

Fixed Income exposure has emphasized high quality and higher yielding investment grade securities such as Mortgage Backed Securities (MBS), Asset Backed Securities (ABS), and Collateralized Loan Obligations (CLOs), in addition to core staples such as Treasuries and Corporate Bonds. A healthy exposure to cash and cash equivalents may also serve as dry powder to deploy in the future.

Conclusion

With uncertainty abounding, there's no better time to check in and revisit your investment strategy and financial plan with one of our portfolio managers. For portfolio specific questions, or potential tax planning opportunities, please give us a call. We're here to help navigate market volatility together and make sure your risk tolerance and asset allocation are aligned.

Stay tuned for additional updates from our Investment Policy Committee (IPC).

Sincerely,

Matthew J. Krajna, CFA
Co-Chief Investment Officer
April 6, 2025