

Heels Digging In

COMMENTARY
April 8, 2025

Different than the open-down-close-lower trading of Thursday and Friday, the first two days of this week suggest investors are beginning to dig in their heels. Their footing continues to slip, however, as the president and members of his administration maintain stances in defiance to the market's obvious rejection of the tariff policies announced last Wednesday. Some thoughts on the market sessions so far this week:

- Often the case during market drawdowns, intraday volatility has soared as investors react to news, with the downturn flushing out more risk-averse investors in tranches, leaving buy-the-dip risk takers to fill the void
- And that volatility can be seen in both stock and bond markets, as the latter has suffered the push/pull between the potential inflation and growth ramifications of new tariffs
- Cracks are appearing on the side of ostensible supporters, however, with congressfolk in trade-sensitive regions and business and finance executives speaking up regarding looming tariff ills
- As Monday's 8% intraday swing suggests, the market likely will turn even on news only of a delay. A substantial shift lower in the expected aggregate weight of tariffs likely may be required, however, to establish a bottom

Headfakes...

Heading into Monday morning, we already knew what the market open would bring, as futures markets (where pre- and post-market trading reflects expected future prices) suggested stocks would gap down in early trading. That they did. That is until an errant tweet (or tweets, or headlines; the impetus seems yet to be pinned) suggested a White House adviser had said the president was considering a 90-day delay in the new tariffs. Hearsay upon hearsay aside, investors reacted to the "news" with glee, resulting in a more than 8% surge in the S&P 500. Before an hour had passed, however, the White House denied any such intentions and the market sank anew, thereafter bouncing around between down 2-ish percent and flat on the day, closing just under breakeven. Tuesday brought less drama, but more downside, after a dramatically higher open. After surging as much as 4% in the first hour of trading, stocks sank mostly through

Figure 1: Intraday Performance of the S&P 500 Index



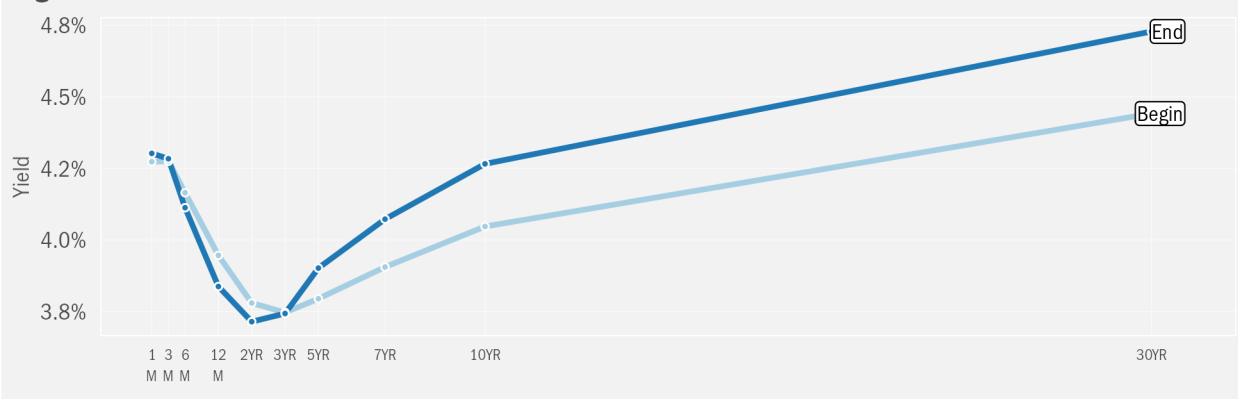
Using minute-by-minute data from 04.02.25 through 04.08.25. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. SOURCE: SRCM using data from Bloomberg

the close, to lose 1.6% on the day. Still, that -1.6% tally was much better than the near -3% decline the market touched in the final hour of trading.

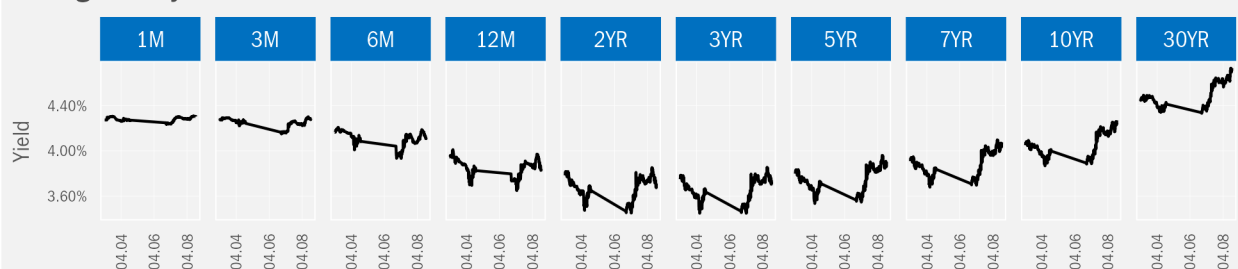
...And Headaches

Investors seem as unsure about how to price bonds, with each day arguably reflecting the stronger pull of a different concern regarding future rate shifts. On the one hand, tariffs most likely will result in increased prices at some point(s) along the lines from raw materials to end goods, potentially putting upward pressure on inflation. The question then is to what extent? The price impacts of tariffs may first be thought of as a one-time event with prices rising in approximation to the tariff level less the portion of the tariff not absorbed by the seller of goods on which the tariffs are levied and less the portion of the tariff paid by the importer that it chooses not to pass along to its customers. Higher prices may compress demand, while profits may be compressed as a result of decisions to absorb the levies. The effects may result in changes in demand all along the production chain, further influencing who absorbs how much of the tariff when. Complicating projections, the one-time lift in prices might cause a series of retaliatory tariffs, a tit-for-tat that may escalate over time (we already are seeing this happen even before the new tariffs go into effect in their entirety). And that escalation may result in a change in expectations for further increases in inflation, which may result in a distinct inflationary force. Further, tariffs may result in a shift to less-efficient production, resulting in an additional boost to prices over and above the tariff itself. To counter these pressures if they arise, the Fed may slow what had been the expected path lower for the fed funds target (the federal funds rate, which serves as a reference for the rate that banks charge each other for overnight lending, and which influences lending rates economywide), may retain its current target for interest rate target longer, or may even have to raise the target were inflation to reignite. In that order, each of those scenarios represents the potential for an increasingly growth-negative set of circumstances. On the other hand, investors fear that tariffs will dampen growth. Those pressures may come from the tariffs themselves, as higher costs decrease the amount of money available for consumption, thereby reducing aggregate demand. And growing uncertainty re: all of the above—and all of the myriad other ways that our current geopolitical cum macroeconomic

Figure 2: U.S. Yield Curve Shift



Change in Key Rates Over the Period



From 04.03.25 through 04.08.25. SOURCE: SRCM using data from Bloomberg

cycle is complicating decisions regarding capital and financial investments—may suppress growth as well. Where a slowdown in growth becomes the more pressing concern, the Fed find itself wanting to implement a more rapid series of reductions in its interest rate target to counteract increasing macroeconomic weakness. It’s impossible to know at this point which of these forces will prevail over the others, but we can be reasonably sure that all are now potentially in motion. It’s no surprise, then, that the word stagflation—meaning slower growth and rising inflation—is reentering regular discussion. What we can be sure of is that all the forces mentioned so far will begin to influence the broader economy starting tomorrow.

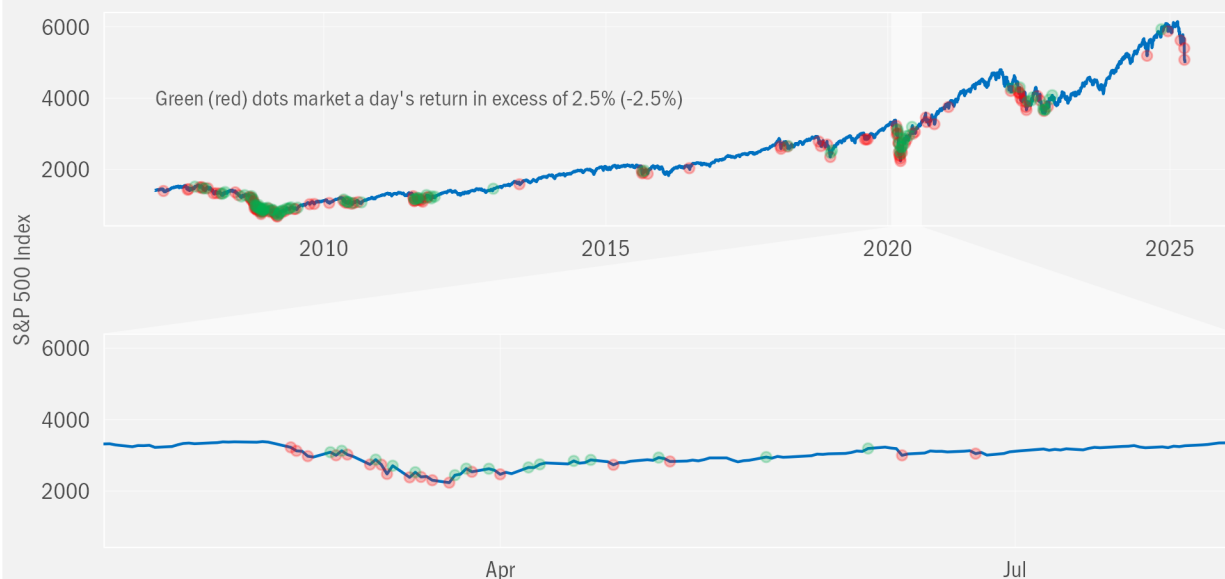
It’s also, again, not surprising that markets remain rather manic as investors parse incoming commentary and data. Of particular interest will be executive commentaries during the upcoming first-quarter earnings season. And investor ears will be tuned to any progress in negotiations regarding trade deficits and tariffs. Many will continue to wonder whether it makes sense to exit now before the market worsens. For context, we will note that, as the S&P 500 presently sits 18.9% below the all-time peak set on February 19 of this year, investors already seem to have priced in some manner of reasonably substantial slowdown that may impact earnings over the medium term. As hinted by Monday’s market gyrations, it might not take much in terms of a positive shift in sentiment to pull investors back into the market. Notably, such heightened tumult is inherent to times as unsure as these, with volatility—in both directions—tending to cluster. Quick decisions to cut and run, then, may mean a missed opportunity to capture some interim upside. Either way, we think it important to remain braced for more volatility and potential downside as the range of costs of these tariff policies are realized.

We Are Here for Your Calls

Our stating that we believe it important to remain focused on longer-term financial plans may only offer light comfort to those worried about their invested monies. Please know that we welcome your calls to discuss recent portfolio positioning and performance and help you place that performance in the fuller context of your financial plans.

Figure 3: S&P 500 Index and Big Up/Down Days

Big up and down days tend to occur near each other. Already well into the drawdown, we generally find it best to stay true to longer-term investment plans, as timing reentry into the market can prove the more challenging decision



From 01.03.07 to 04.08.25. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

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