ONE CAPITAL MANAGEMENT, LLC Perspective

April 4, 2025

Tariff Tumult

On April 2nd, the Trump administration introduced the highest tariff rates in over 100 years. The global equity and fixed income markets quickly shared their sentiment.

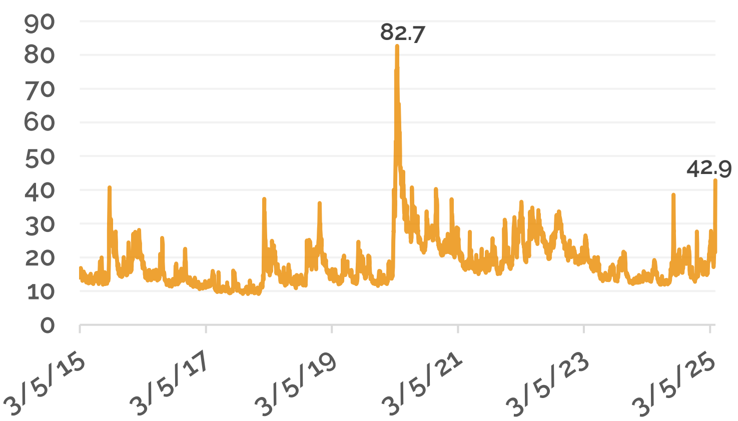
Global equity markets, in general, declined. But, there were a few bright spots amidst the noise. Let's start with an assessment of the markets' reaction and a little perspective on capital markets and tariffs in general.

U.S. equities lost (10.5%) over the last two days, another correction, and are down (8.5%) year-to-date[i]. They remain positive for the last year, up 3.6%. Global equities also fell this week, down (6.0%) the last two days, but held up better in the first quarter and are off just (0.2%) this year-to-date[ii]. Fixed income helped to counter some of the decline, gaining 0.5% over the last two days, 2.5% year-to-date, bringing the last year to a positive 6.3%[iii].

We understand how the last two days in the equity markets create concern to add to the anxiety of tariffs and the heightened chance of a prolonged global trade war. The VIX, short for (equity market) volatility index, spiked considerably this week, surpassing 40. For context, this is more than double the average reading of 18.3 over the past decade. The general knee-jerk reaction to tariffs and the uncertainty it brings pushed investors to seek safe-haven assets.

It may feel like this volatility will persist indefinitely, but historically periods of high volatility come to an end. To the right is a graph of the VIX Index, which reflects the level of volatility investors expect over the next 30 days. The VIX shows that while there have been sharp spikes in volatility, these spikes have historically subsided over time.

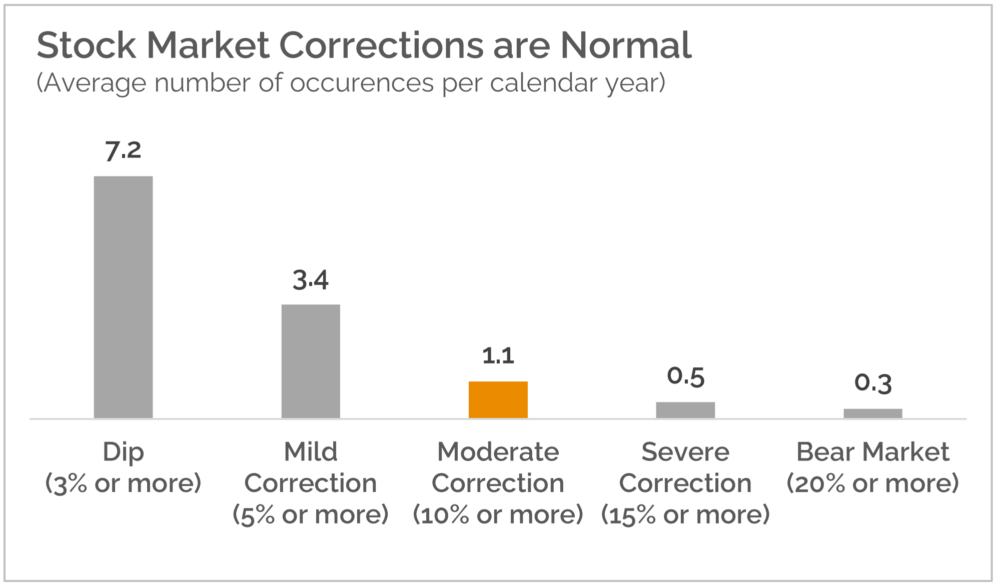
The VIX



Source: One Capital Management, LLC, Bloomberg

While this particular spike is notable, it's important to remember that capital markets' short-term returns vary quite a bit. We pay special attention to this variability and use it to take advantage of temporary mispricing of assets.

As history has taught us, corrections are quite normal, occurring about once each calendar year (see the *Stock Market Corrections are Normal* graph below). Furthermore, the 10 days the market declined one percent or more this year through April 4 is also not that unusual, although it is on pace to exceed an average year.



Source: Ned Davis Research, Inc. S&P Dow Jones Indices. Analysis based on S&P 500 index daily data, price only, from 01/03/1928 to 03/26/2025.

Given the rapid government activity in the U.S. this year, there is uncertainty about the impact of tariffs and other policy changes. One thing investors don't like is poor visibility.

So, let's now address the tariffs. First and foremost, a tariff is a tax, and a tax increases the price to the consumer, and is therefore inflationary. Tariffs typically carry many unintended consequences.

Trump has made 22 announced tariffs since taking office January 20. Of those, only four have been acted on, implemented, and held. Two were announced and immediately acted on, then immediately backed off (the March 4, 2025, Canada/Mexico 25% tariffs), and two are yet to be determined (Universal 10% Tariffs and Reciprocal Tariffs). This means 18 have been punted or not implemented.

It's also important to look beyond the headlines to take note of exceptions. One very important example is the exemption of additional tariffs on lumber from Canada. As you know, this is a vital commodity for home building and the announced headline tariffs would have been devastating if lumber were included. According to the National Association of Home Builders, Canada accounts for about 85% of all U.S. softwood lumber imports and nearly a quarter of the available supply in the U.S.

As we've always advised, constructing portfolios with many asset classes is critical for long-term success. The essence of diversification is building portfolios with things that tend to behave differently in the short run. While U.S. equities are down, your allocation to equities domiciled outside of the U.S. are performing better, and your fixed income is up.

Remember, we don't invest in just a few companies—we invest across hundreds of stocks, spanning developed and emerging markets outside the U.S., and asset classes like fixed income and private assets.

Referring back to the inclusion of fixed income in your portfolio: During times of heightened volatility, we rely on these assets to meet near-term distribution needs, which may provide time for equities to recover.

At the core of our strategy is a deep understanding of your unique needs, goals, and aspirations. This foundational knowledge drives our wealth planning process and the construction of your portfolio, specifically designed to help you through periods of volatility, like the one we are currently experiencing.

When the time comes to rebalance, there may be a lot of great companies on sale. In the meantime, be prepared for a bumpy ride.

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[i] U.S. equities represented by S&P 500
[ii] Global equities represented by S&P Developed ex-US Broad Market Index
[iii] Fixed income represented by Bloomberg US Gov/Credit 1-5 Year Bond Index