GWM GREENE WEALTH MANAGEMENT

Your Journey Towards Financial Independence Begins Here

Market Update (April 2025) - Tariff Shock and Uncertainty

We wanted to take the opportunity to start the week by addressing the recent tariff announcements and resulting market fallout that began last Thursday and is anticipated to continue to kick off this week (with futures down Sunday night). These developments have understandably raised concerns among investors and the economic implications remain uncertain. Markets have reacted sharply negative to the tariff announcements, reflecting both the potential impact of new trade barriers and the broader uncertainty surrounding global economic policy. In this environment, it's natural to feel uneasy, and we share your concerns. We are closely monitoring the situation and remain committed to guiding you through this period with thoughtful, measured advice.

What Happened?

- The tariff plan President Trump introduced on "Liberation Day" was significantly more hard- hitting than economic experts and markets anticipated.
- Tariff announcements raised the effective US tariff rate by roughly 25% to an average of 27% on imports, the magnitude of the announcement was double even the most aggressive expectations that were shared by Wall Street in advance.
- The tariff increase represents the largest tariff increase in over 100 years, making it very difficult to forecast the impact as there is no precedent for a modern economy to increase trade barriers of this magnitude.

Market Response

- The bottom line is that higher tariffs pose a significant risk to the current economic outlook – and markets have aggressively priced in this risk, with US Stocks dropping 10% in just the last 2 trading days of last week.
- Markets dislike uncertainty more than anything, and this environment breeds a lot of anxiety with the range of outcomes and policy decisions ahead – The market Uncertainty Index has quickly increased to the highest levels seen since the worst of the COVID crisis. In general, the market will discount this uncertainty by driving markets lower in the short-term.
- It is important to also note that the 10-year US Government bond has now dropped below 4.0% (from 4.5% to start 2025), this is a positive response from a portfolio perspective that the US Gov't Bond Market has acted as a safe-haven and provides confidence against structural market concerns.

What's Next?...

Policy

- There remains a lot of uncertainty about the implementation and negotiation process that might take place with tariffs in the coming days/weeks.
- It is clear that the Trump administration's tariffs are not purely a negotiating tool given the breadth and depth of the policy rollout – While there is hope that negotiation leads to agreements with some countries (ie. Mexico, Canada, EU), there is a high likelihood of contentious trade wars with others (ie. China).

The Fed

- A major concern with tariff policy as currently constructed is that the anticipated policy would be expected to simultaneously slow economic growth while raising the risk of inflation growth – making the job of the Federal Reserve more difficult.

- Fed Chairman Powell at this point has been clear that the Fed is unwilling compromise the hard-fought progress that has been made in fighting inflation (by lowering rates) – and that the Fed has an obligation to keep tariff inflation in check with fiscal policy decisions.
- While growth is slowing, it is now likely the Fed will take a more measured approach to rate cuts than previously anticipated (to help protect against tariff inflation).
- When rate cuts do come, they will be well received by the market/economy, but we would not expect the Fed to come as the white knight to offset current turmoil.

The Economy

- Global investment banks have all taken the opportunity to update recessionary estimates after the recent tariff announcements – the majority of the banks have increased the odds of a recession in the next year by around 50% - putting current recession odds anywhere from 20% to 60% depending on the bank.
- These same banks have also formed a consensus to revise economic growth (GDP) lower, while also raising the risk of moderate inflationary pressure.
- Short-term effects have shown that both businesses and consumers appear to be putting some major spending decisions on hold. If the current level of uncertainty persists, a US recession is not out of the question.
- It is always important to remind investors that the markets and the economy do not move in unison with one another, often times the market leads into and out of a recession. Making it almost impossible to time any strategic reallocation to recessionary predictions.

Bringing It All Together

The scale, scope, and complexity of the tariff announcement injected a supercharged dose of uncertainty into the investment environment. It remains to be seen how much will stick following negotiations, what retaliation will look like, whether governments will provide fiscal support, and the lasting potential effects on US and global growth and inflation.

Vast uncertainty has already roiled markets and will be likely to continue to be reflected in near-term market behavior (potentially to both the downside and upside). Assessing what is priced into markets and predicting asset class reactions has become incredibly complex.

Our goal is to continue to keep clients apprised of evolutions in the current environment and to take a measured approach to any actionable activity.

Finding Security In Financial Planning

Clients are familiar at this stage with the GWM philosophy that having a long-term strategic approach offers the best path for successful client outcomes. In general, we do not tend to direct clients to materially deviate from long-term strategy – in good times or bad. This approach is not out of apathy towards markets or forecasts for the future, but rooted in preparing for market vulnerability well in advance.

Specifically, “stress-testing” is a pillar of the highly detailed and customized financial plans we use as a guidepost for all client relationships. We use stress-testing to simulate adverse (and positive) scenarios – such as a market crash, interest rate hike, or economic recession. This allows us and our clients to understand how their portfolio might behave in a negative environment, and to prepare accordingly. We talk at length with clients about how this stress-testing empowers peace-of-mind to know we have an “all-weather,” plan in place that would provide financial security in the good times and bad.

Stress-testing isn’t about predicting the future – it is about preparing for possibilities. The goal of the process is to strengthen financial plans and ensure that strategies are not just good in theory, but durable in practice. Knowing that plans have been tested against worst-case scenarios provides a platform to make informed, and resilient choices – not plagued by emotional biases that are the greatest risk to investor outcomes over the long-term.

Is There Anything Clients Can Do Today?

With a foundation built through a long-term lens, we can have thoughtful dialogue around what clients can (or can’t) reasonably do in any environment to align both long-term goals with near-term concerns. Here are a few practical things to consider as we continue to navigate the evolving policy landscape and uncertain market:

- **Strategic Liquidity** – Amidst any period of volatility, managing liquidity becomes paramount. Let us know if you have upcoming major liquidity needs outside the normal rhythms of portfolio management – we can frame a strategic approach for empowering any liquidity decisions.

- **Stay The Course** - History has consistently shown that investors who stay the course and stick to a well-structured financial plan tend to fare better over time than those who react to short-term volatility and emotion. Market ups and downs are part of the journey - over decades of data, markets have rewarded patience and discipline.

- **Traditional Risk Reduction** – The traditional mechanism in a portfolio to take risk off the table is to pivot money from stocks to bonds. Most of our clients have the margin in their long-term outlook to dial down risk, while still maintaining successful long-term outcomes. During uncertainty, accepting the potential for lower returns while thoughtfully lowering risk can be rational. With bond yields in the 4% to 5% range today, the tradeoff is very reasonable.

Our approach remains rooted in a long-term perspective and a commitment to prudent risk management. While market volatility can be unsettling, it also presents opportunities for those who remain focused on their financial goals. Our mission as your Advisor is to provide you with the confidence and clarity you need during uncertain and volatile times and to ensure your investments remain aligned with your vision for the future.

We will make every effort to stay ahead of you in this evolving environment of uncertainty – let us know how we can best partner with you in navigating the current landscape.

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Get In Touch
