Volatility from Tariffs & Liberation Day

April 2025

Summary

The swift and unprecedented tariff and trade policy has created significant uncertainty and large swings in the U.S. stock market. As noted in our January commentary, the strong returns of 2023 and 2024 increased the likelihood of a larger drawdown in stocks in 2025. However, the movement in financial markets last week was larger than expected. Since the beginning of the year, U.S. stocks are down roughly 14%.

President Trump's planned announcement of tariffs on "Liberation Day" was known in advance but the magnitude and unconventional methodology used in the calculation was not. A week ago, on April 2nd, stocks rose on the assumption that the tariffs would be modest and targeted, and that businesses and investors would then know the rules of the road going forward. Whether the tariff announcements will be long lasting or a negotiation tactic, the risks associated with such foreign policy has been destabilizing for financial markets.

On a positive note, diversification has provided some ballast for portfolios. Bonds are back to serving their intended purpose. During the last major drawdown in 2022, bonds did not act as a ballast – falling from peak to trough by 16% while stocks fell by 25%. As of Friday, the bonds were up almost 4% year-to-date. In addition, developed foreign stocks (Europe and Japan) have held up well, relatively speaking, with a flat return so far.

Rapid drawdowns in the stock market can be unnerving but can be a sign of capitulation. Last week, the S&P 500 fell by 10.5% over two trading days, which was the fifth biggest two-day decline since 1950. The other nine cases of large two-day declines occurred around significant distress (Black Monday in 1987, Lehman Brothers bankruptcy in 2008, and Covid in 2020). Each period subsequently saw positive returns over 1, 3 and 5-year periods.

S&P 500: Biggest 2-Day % Declines and Forward Total Returns (1950 - 2025)

Biggest 2-Day % Declines					Forward S&P 500 Total Returns		
Rank	End Date	Start S&P	End S&P	2-Day	1-Year	3-Year	5-Year
1	10/19/1987	298	225	-24.6%	28%	55%	119%
2	10/20/1987	283	237	-16.2%	24%	47%	108%
3	3/12/2020	2882	2481	-13.9%	62%	63%	144%
4	11/20/2008	859	752	-12.4%	49%	73%	164%
5	**4/4/2025**	**5671**	**5074**	**-10.5%**			
6	11/6/2008	1006	905	-10.0%	21%	48%	119%
7	10/15/2008	1003	908	-9.5%	24%	44%	109%
8	10/7/2008	1099	996	-9.4%	9%	24%	88%
9	3/9/2020	3024	2747	-9.2%	44%	50%	127%
10	10/22/2008	985	897	-9.0%	25%	48%	119%

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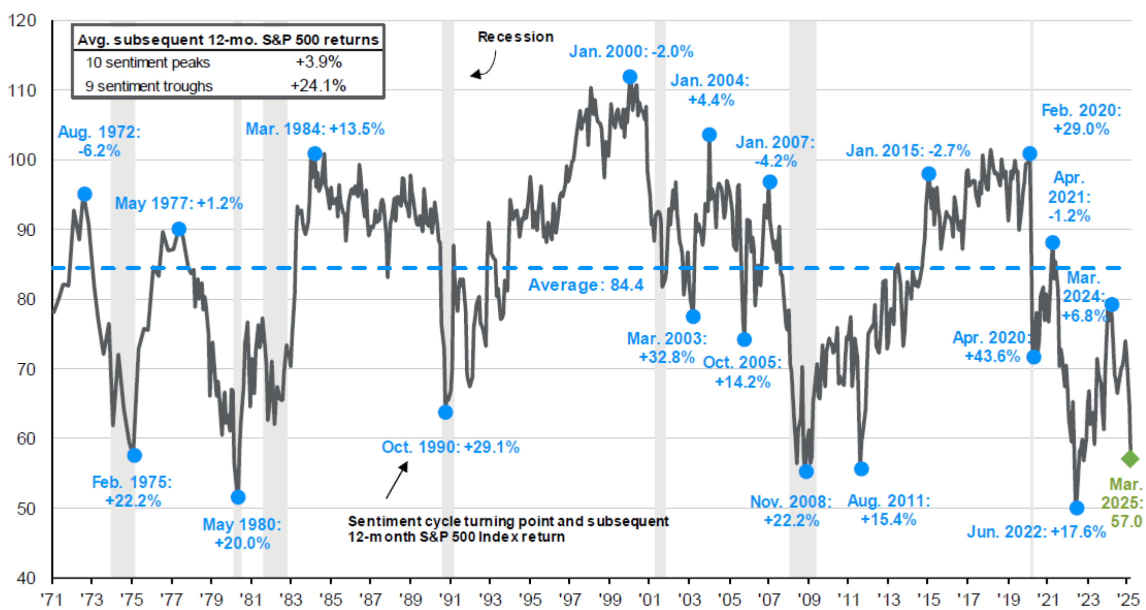
Tariff and trade policy has had a big impact on consumer sentiment, which is how consumers feel about the economy and their outlook for the future. The anxiety created by policies not utilized in over 100 years caused the University of Michigan Consumer Sentiment Index to fall dramatically in March. In addition, it would not be surprising to see the sentiment reading fall further in April since the March reading on the chart was taken before the tariff announcement and volatility last week.

Interestingly, data from JP Morgan indicates that consumer sentiment is a contrary indicator. When consumers feel great about the economy, they are often complacent (and at risk of disappointment). When consumers are negative, they are often too pessimistic, setting the stage for strong forward returns. [Note, the average forward-looking one-year return at sentiment peaks in blue is 4%, while the average at sentiment lows in blue is 24%.]

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of March 31, 2025.

We are actively monitoring indicators and discussing if/when portfolios should be changed. The potential for further short-term drops exists, but there is also room for improving news and market recovery. Significant market declines happen every few years. While it is not comfortable, it is also not uncommon. In the past periods, with a little time, the stock market has recovered from periods of turmoil.

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Evan LeRoy VP Wealth Advisor	Megan Flynn VP Wealth Advisor	Lyn Breen Wealth Advisor	Hank Peyser Wealth Advisor

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These data are for illustrative purposes only and is not indicative of any investment or strategy result. The S&P 500 is an index of 500 stocks representing major U.S. industry sectors. Investment grade and broad market bonds are represented by the Barclays Aggregate Bond Index which includes most U.S. traded investment grade bonds, including Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S. Developed Int’l is represented by MSCI EAFE Index, which is an index of major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

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