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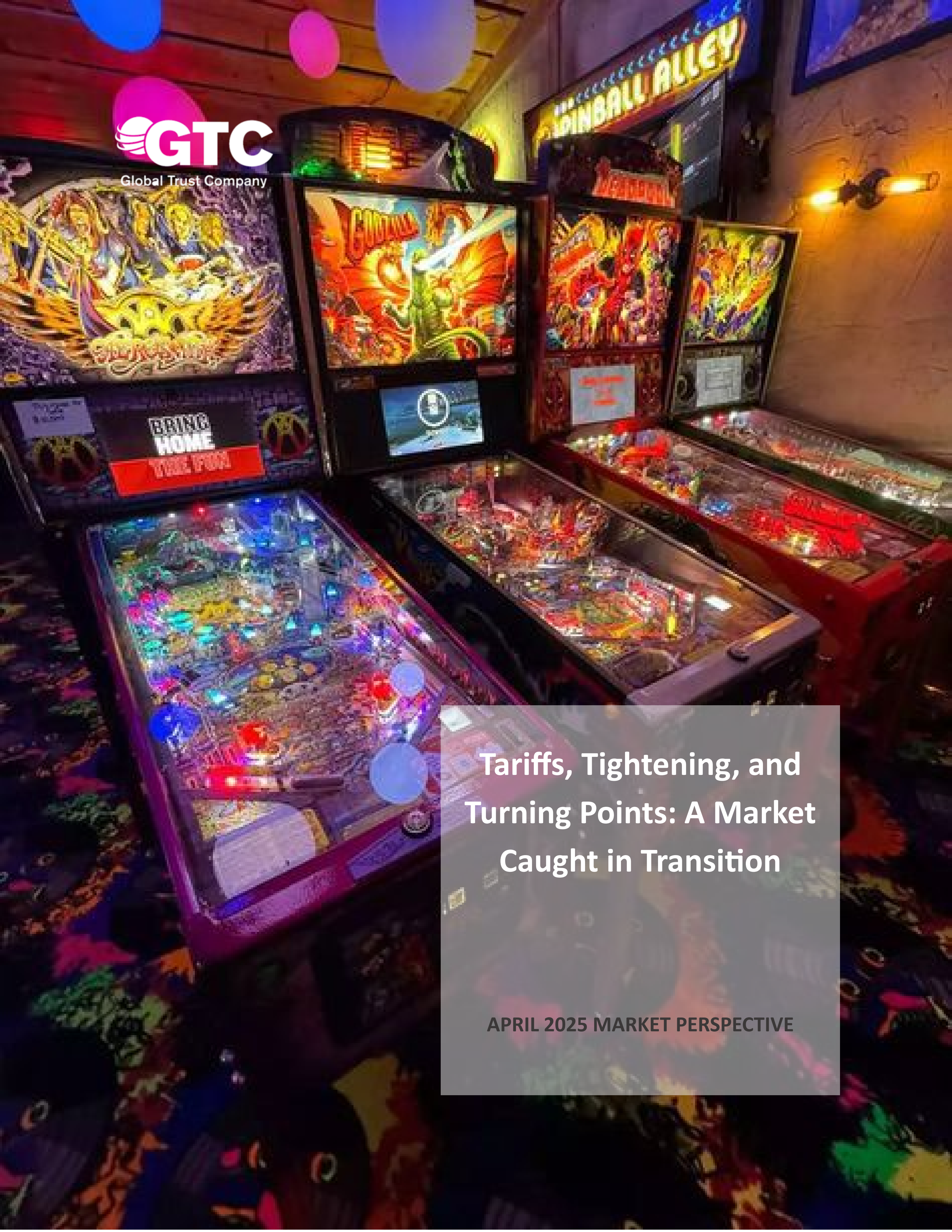

Tariffs, Tightening, and Turning Points: A Market Caught in Transition

APRIL 2025 MARKET PERSPECTIVE

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Trade and Policy Realignment: The New Center of Gravity

Let's be honest: the market isn't just reacting to tariffs anymore—it's trying to keep up with a complete rewrite of how policy is made. The April 2nd tariff package looked like the start of a broad, aggressive protectionist shift. Since then? We've seen over $80 billion in exemptions quietly introduced, largely walking back the initial proposal. That's a big signal that policymakers are testing the waters—throwing out bold ideas, then adjusting in real time based on the pushback.

This back-and-forth has created a foggy environment for business leaders and investors alike. Companies are left wondering which policies are here to stay and which are just headlines. And while negotiations offer hope that there's a framework for resolving these tensions, we're still dealing with a world where U.S. trade policy changes week-to-week. That doesn't make it easy to plan capex or build a pricing model.

You can see the impact in the market. Domestic-facing companies tend to outperform when trade tensions flare up. The second headlines emerge about exemptions or cooling tensions, it's global names that take the lead. Meanwhile, freight leaders like FedEx are flashing warning signs that global trade flows are already taking a hit. In short, sentiment is bouncing around like a pinball between hope and fear.

And just to make things more complex, the legal structure behind this evolving trade doctrine is shifting too. The White House may have used IEEPA to launch its tariffs, but it's got Section 338 of the 1930 Tariff Act in its back pocket. It's like having a second rulebook ready to go in case the courts challenge the first one. That kind of uncertainty raises the cost of capital and makes the investing landscape feel even more fragile.

Corporate Earnings and Investment at a Crossroads

Earnings season is finally underway, and so far, 2025 EPS estimates haven't moved much. But that calm might be misleading. If history is a guide, we should expect earnings estimates to come down as Q1 results roll in. In a recent report, Strategas sees the potential for a 7% downward revision, which would put consensus closer to $250 rather than the current $270.

No sector has escaped untouched. Materials, industrials, and communication services have taken the biggest hits, while healthcare has held up relatively well—but even there, cost pressures are mounting. What's missing entirely from this picture? Upward revisions. That tells us companies are facing real constraints, not just market jitters.

More telling, though, is what's happening to capex. In January, just 12% of surveyed CEOs said they'd cut investment. Now that number has spiked to 41%. That's a massive shift. And it's not happening in a vacuum. Executives in sectors like chemicals, aerospace, and tech are all pointing to policy volatility—especially around trade—as a reason to hold back.

Capex matters. It drives productivity, hiring, and durable growth. And right now, the data is saying that companies are pulling back at the exact moment the economy needs support. Without a policy offset—say, a tax package or regulatory clarity—we're looking at a real risk that investment stalls out. That would have knock-on effects not just for growth, but for corporate margins and hiring.

Macro Underpinnings: Fragile Growth, Rising Risk

Just a few weeks ago, things looked as if we had pulled off the soft landing. The economy was growing, inflation was moderating, and the labor market was hanging in there. Fast forward to mid-April, and that narrative is crumbling. Strategas now sees a 45% chance of a recession this year. The GDP outlook for Q2 is flat, and Q3 might actually contract.

The mood among consumers isn't helping. Sentiment has taken a hit, with surveys from the University of Michigan and the Conference Board both showing steep declines. Shoppers are starting to feel the pinch from higher prices, especially on imported goods. At the same time, wage growth is slowing, and we're starting to see weakness in temporary jobs and part-time hiring—both of which are early signs of labor market softness.

Globally, it's a similar story. Export-heavy countries like South Korea, Taiwan, and Vietnam are rushing to ship goods out the door, trying to get ahead of what they fear is a coming slowdown. In Europe, we're seeing countries front-load activity in Q1, possibly masking deeper weakness. Japan's economy is also showing strain, with both business confidence and household spending on the decline.

Even more telling? Treasuries aren't acting like a safe haven anymore. Despite all this uncertainty, we're not seeing the usual rush into U.S. government bonds. Instead, gold and the Swiss franc are doing the heavy lifting. That's a sign investors are starting to question whether Treasuries can still play their historical role in times of stress. It's a quiet but important shift.

Liquidity, Currency, and Bond Market Dislocations

There's another big piece of the puzzle flying under the radar: liquidity. At the start of the year, the government's drawdown of its Treasury General Account (TGA) pumped $500 billion into the system, quietly supporting markets. But now that tax season is here, the TGA is being refilled—and that means the liquidity tide is going out.

There are estimates that $350 billion will be pulled from the financial system in just a few weeks. That's not small. And history shows that when liquidity dries up, the dollar tends to strengthen. In fact, there is almost a perfect correlation between the TGA balance and the DXY. So, if we see the dollar rally hard over the next month, this could be the reason why.

But what if the dollar doesn't bounce? That could be a sign of something more serious—like capital quietly leaving the U.S. or foreign investors losing confidence. That would flip the whole script and raise major questions about what's really going on behind the scenes.

Meanwhile, bond markets are getting hit. The 30-Year Treasury yield crossed the 4.6% level on April 7th, even as stocks remained volatile. Normally, you'd expect bonds to rally when stocks are down—but not this time. That tells us investors are more worried about inflation and debt supply than about slowing growth. And that shift is forcing everyone to rethink asset allocation.

The 60/40 portfolio, long a staple of balanced investing, is under real pressure. When both stocks and bonds sell off, diversification doesn't help. Real yields are rising, valuations are compressing, and there's nowhere to hide. Investors are being forced to make tougher choices.

Conclusion: Toward a More Volatile Equilibrium

Here's the bottom line: the old playbook doesn't work anymore. Globalization is messier. U.S. policy is less predictable. Central banks have less room to maneuver. And markets are being driven more by politics and policy than by earnings and economic data.

That doesn't mean we're headed for disaster—but it does mean we're in a different world. One where volatility is the norm, not the exception. Where flexibility beats conviction. And where investors need to pay closer attention to liquidity flows, fiscal policy shifts, and global capital movement.

If there's good news, it's that there's still room for tactical opportunity. There could be potential in domestically focused names, in sectors with pricing power, and in short-duration credit. But making those calls requires agility and real-time awareness. The days of "set it and forget it" are over.

What comes next? Watch Japan. A trade deal could calm nerves. Monitor capex—if investment keeps falling, we may be in for a longer slowdown. And listen to the Fed: any change in tone could signal a shift in the policy mix. Until then, buckle up. Volatility isn't a bump in the road—it's the road itself.

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