



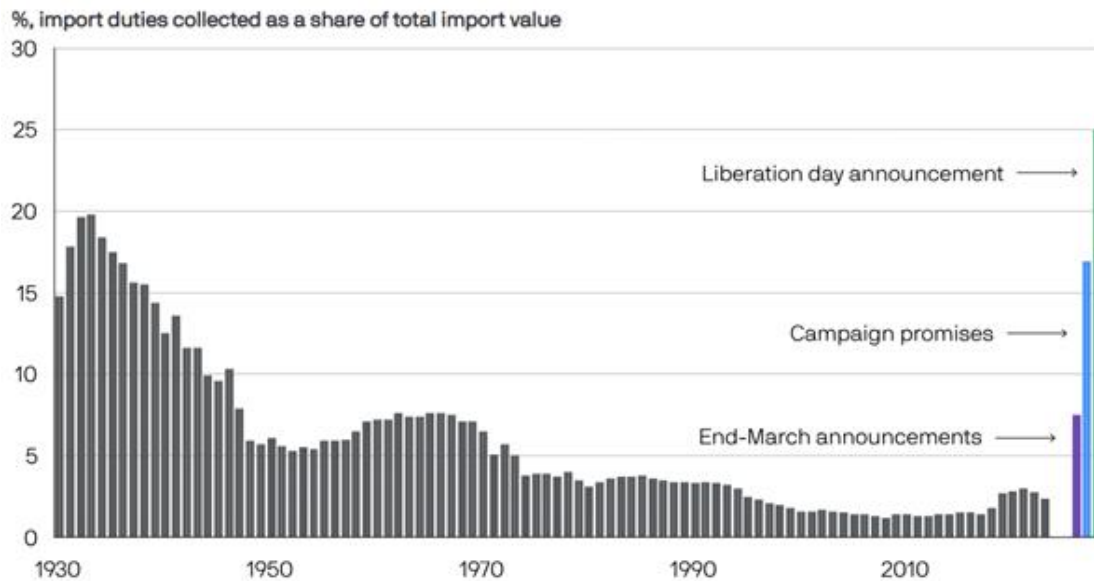
Market Update

Liberation Day: The Fall Out, A Long-Term Perspective & PMX Response

Liberation Day Tariff Announcements

Liberation Day Tariffs were announced last week Wednesday, with a universal tariff rate of 10% on all imports and further tariffs of 10-50% on specific countries. The universal rate came into effect yesterday (April 7th), and the specific country rates are due to begin on April 9th. The proposed tariffs will take the US effective tariff rate to its highest level since the 1930s, and crucially, are higher than what Trump promised during his presidential campaign.

US effective tariff rate

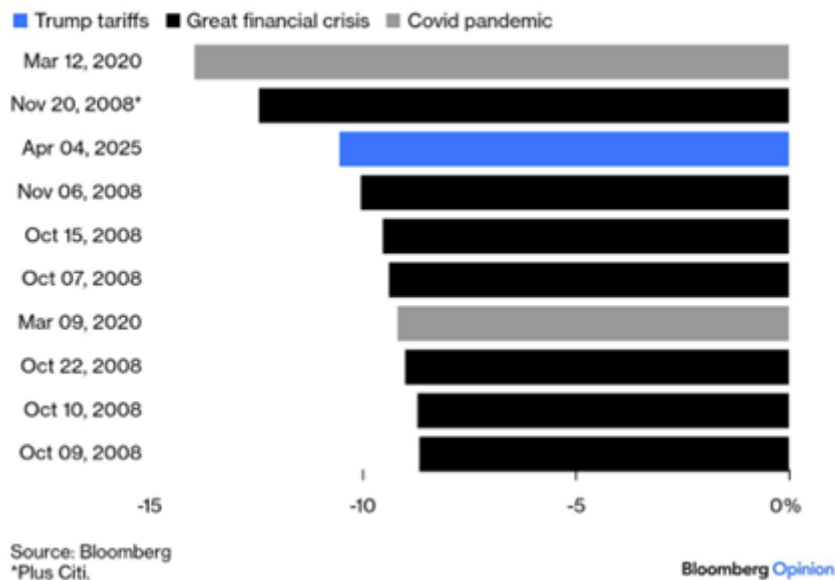


Source: Cato Institute, U.S. Department of Commerce, J.P. Morgan Asset Management. Estimates are by J.P. Morgan Asset Management. Campaign promises include a 20% universal tariff excluding free trade agreements, and a 60% tariff on China. End-March announcements include (1) a 25% tariff on Mexican and Canadian goods not covered by free trade agreements, other than Canadian energy goods, which are subject to a 10% tariff; (2) an additional 20% tariff on Chinese goods; and (3) a 25% tariff on steel, aluminium and autos. Liberation day announcement includes all March announcements plus a minimum 10% tariff on all countries; with selected countries facing higher 'reciprocal' tariffs. Data as of 3 April 2025.

Why the Market Fall Out?

Global Equity markets have fallen sharply in response to the announcements. As the below chart from Bloomberg shows, markets have only experienced greater falls over a two-day period twice, once during the Global Financial Crisis and the other occurring during the onset of the COVID-19 pandemic.

The 'Liberation Day' Selloff Takes Its Place in History



It was no secret that Donald Trump intended to impose wide ranging tariffs on trading partners, so what has caused markets to respond in the way they have?

Markets were expecting tariffs to be imposed by President Trump. However, they were caught off-guard by the size and scale of the actual tariffs that were announced. In response, markets have had to completely recalibrate their expectations of future earnings growth, inflation and unemployment, all of which has had a negative impact on asset prices.

Markets are now awaiting how countries respond to these announcements. China has already unveiled retaliatory tariffs, and the EU is expected to respond in the coming weeks. This raises the possibility of a full-scale trade war between the world's largest economies, and has created a lot of uncertainty across markets.

A Long-Term Perspective

Investing, as we well know, is a marathon, not a sprint. And at times like these, it is important to focus on the long-term.

Looking backwards helps provide some perspective. A classic, 60/40 portfolio is still comfortably ahead of the lows of 2020, and equities are still a long way ahead of bonds since the pandemic crash in 2020 (shown by the SPY/TLT ratio below, which displays the relative performance of US Equities over US Government Bonds) – as the below charts show.

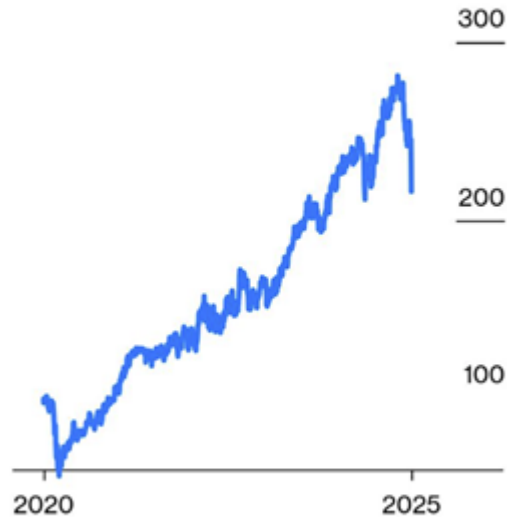
More Correction Than Crash, Still

A dramatic risk-off shift leaves decade's gains intact

Bloomberg Global 60:40 Index



SPY/TLT Ratio



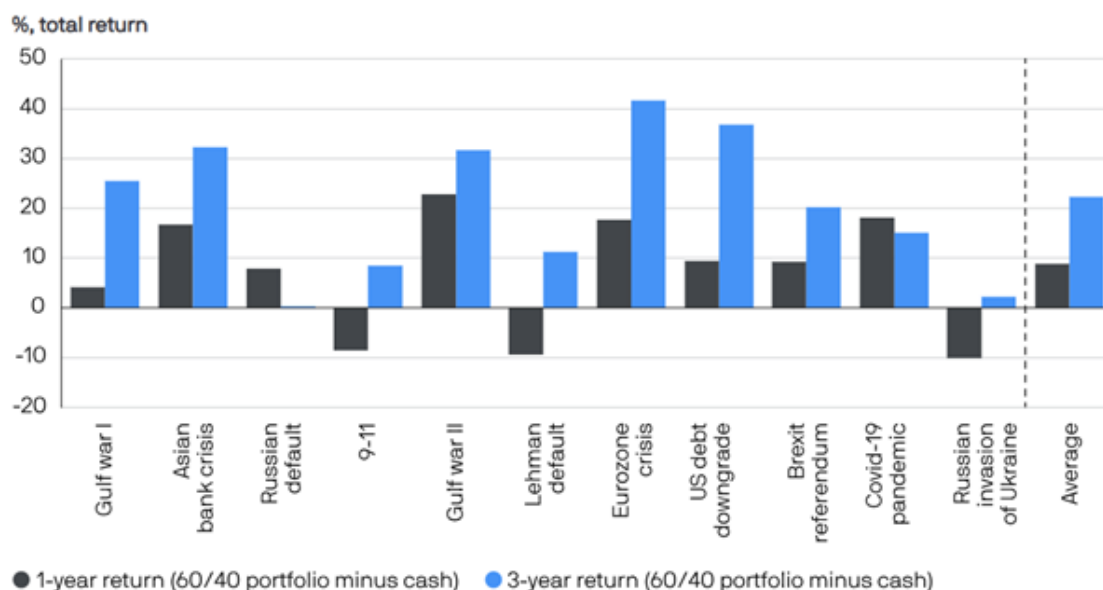
Source: Bloomberg

Data is normalized with factor 100 as of January 2, 2020.

Bloomberg Opinion

Looking forward, the below chart illustrates why it's crucial to look through the short-term noise and avoid making knee-jerk reactions in your portfolio at times of market stress. Using the same 60/40 portfolio, despite numerous, large scale external shocks such as wars, pandemics and political events, on average, a 60/40 portfolio has risen almost 10% in the subsequent 1 year, and over 20% in the subsequent 3 years following a market shock. Thus, highlighting the importance of remaining invested and staying focused on the long-term.

Subsequent 1-year and 3-year returns over cash after shocks



Source: Bloomberg, S&P Global, J.P. Morgan Asset Management. 60/40 portfolio is constructed using S&P 500 Index and S&P 10-year US Treasury Note Futures Index. Cash: ICE USD LIBOR (3M). Return calculation begins at the end of the month prior to the shock. Data as of 3 April 2025.

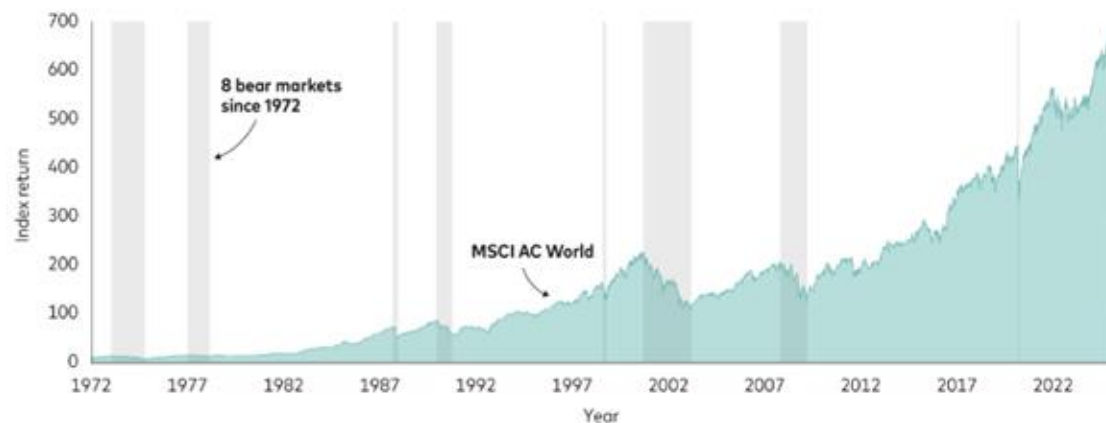
PortfolioMetrix Response

Periods such as these are exactly the reason diversification in portfolios is so important. All asset classes respond differently to macro-related shocks, and while equity markets have made headlines given the size of the falls, Government Bonds have risen over the same period showing their value as a defensive asset class during times of stress. Equivalently, equity markets that are less exposed to global trade risks have fallen less.

So, instead of trying to time markets, and shift portfolios in response to macro events, we remain focused on understanding the risks in portfolios, ensuring portfolios are not overexposed to single risk factors, and seeking to diversify away exposures that we do not believe are rewarded over the long-term.

Remember, stay diversified, stay invested and avoid making impulsive decisions based on short-term noise. As the below chart shows, over the very long-term, despite several market drawdowns, equities continue to deliver competitive compelling returns for investors.

Downturns aren't rare events



Past performance is not a reliable indicator of future results.

Notes: The chart shows the MSCI World Price Index from 1 January 1972 to 31 December 1987 and the MSCI AC World Price Index thereafter. The grey shaded areas represent bear markets, defined as price decreases of more than 20% from the most recent high.

Source: Vanguard calculations in GBP, based on data from Refinitiv, as at 17 January 2025.

Kind regards,

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