Weekly Global Market Commentary

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Tariff Tantrums

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VIX. Vega. Volatility. All these various measures of changeability have been spiking over the last fortnight. We have yet to see the full impact, or potentially even the full suite of tariffs from President Trump but it has already been enough for the market. Both the S&P 500 and NASDAQ have breached correction levels, the certainty of uncertainty is not the markets friend. The situation currently appears that even if all tariffs were lifted the damage has been done, you can't unopen Pandora's box. European leaders have had to step up their defense commitments, but also conversations have been had about Germany collaborating with France and the UK on nuclear deterrents – a groundbreaking step. Under President Eisenhower, protectionism that the US should control nuclear technology was the mantra, Charles de Gaulle forced an independent French deterrent at the unease of the US. Over 80 years of soft reliance on the support of the US, militarily or financially, now must ultimately be questioned, the shrinking of the globalization bubble. Tariff wars are tit for tat, but the speed at which policy announcements are coming out of 1600 Pennsylvania Avenue is causing more unease than purely the adoption of a tariff led agenda. There were only a few hours between an announcement of 50% tariffs on Canadian steel and aluminum and it being reduced to 25%. A matter of a week between intelligence sharing with Ukraine being stopped and restarted. At the annual Chinese Two Sessions last week there were conversations about the state of China through 2049, a Communist system can plan long term but the divergence between the two governance styles is stark. As history tells us there are many ways to run a country, none of them perfect, some balance between the extremes is no doubt preferable. Soundbites that reassure investors of the benefit medium and long term to US consumer and economy would be a step in underpinning the market collapse, investors need to see the proverbial carrot.

When looking at recent economic data the numbers are gently reassuring. Nonfarm payrolls showed 151,000 new jobs in the economy through February, a figure which included the 10,000 terminations with government departments. Inflation printed slightly below expectations, representing some support to encourage market buying. The concerns economically are forward looking, more economists have increased the chance of the US entering some form of recession through 2025. The fear agenda surrounding this outcome is multiplied, it potentially coincides with the inflationary impact that the tariff strategy will place on the economy. Chairman Powell could be confronted with rising inflation at the same time as the economy softens, Stagflation. This is not the predicted outcome of the market currently but the typically resistant sectors to this environment are all up over 4% through 2025, being Utilities, Defense and Healthcare. Fundamentally there has been a rotation in the markets, the equal weight S&P 500 index has outperformed its market weighted sibling by over 3% since the start of the year, it lagged by over 22% for the previous two years. The benefits of diversification through 2025 will likely be more apparent than it has been for the last few years.

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In such uncertain markets the best behavior is to avoid the noise, eventually markets will return to fundamentals. The pain, based on history, is temporary as actors consider the economic impacts just with an added volatility offset. Only once the noise has settled down is it possible to fully assess the damage that has been created. Every investor wishes they had perfect hindsight, it removes all the uncertainty, but without that it remains imperative to assess business models. When buying stock, you are investing in the earnings and cash generation of that company, the volatility of its price on a market is not representative of the underlying change in your actual investment. Elementary considerations about the time frame can create dislocations in the efficiency of market pricing. For a hedge fund the short-term daily price move can stipulate a sale, conversely investing with an outlook of over three years makes the same price an attractive entry point. Consequently, when looking to build a portfolio that layers up attractive business models, ultimate investment is in attributes that the noise will barely impact. Almost every listed business in the world will see some knock-on impact from US tariffs, but the high-quality operations will be able to absorb these and because of brand or reputation be able to retain customers and drive earnings.

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