CHIEF INVESTMENT OFFICE

Investment Insights

Eyes Wide Open

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All data, projections and opinions are as of April 3, 2025 and subject to change.

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Our thoughts below are purely an investors frame of reference of keeping your eyes wide open. But we recognize that both the consumer and corporate sectors have potentially wider ranging implications at least at first glance.

Although asset markets have been preparing for quite some time, the April 2 tariff "Liberation Day" announcement was much more aggressive than the general consensus expected. Global markets are down over 2%, on average, and the U.S. Equity futures are indicating a drop of around 3% to begin Thursday's trade. While we had expected a higher level of uncertainty to last through the tariff news, yesterday's announcement creates even more questions. These questions that can only be answered over time as we learn more. The "high ceiling" tariffs are now bringing back the stagflationary concerns from mid March. Market volatility is here to stay until we better understand how all of this plays out.

What should we do?

In our view, we should play defense and offense at the same time. Given the current high level of uncertainty and the significant potential for change based on new deals, negotiations, and/or targeted adjustments, it is important to let the volatility settle down, and at the same time, prepare a plan to act on as the dark gray clouds fade away. In the coming weeks we favor a defensive approach that advocates allowing cashflow to build and to increasing positions where appropriate in more insulated sectors such as Utilities and low volatility, high-quality exposure overall. During this time, we expect to better understand the implications on overall trade, any potential secondary shocks to the services sector, and possible monetary policy effects.

There is likely to be a consistent "flight to safety" in high-quality bonds, including Treasurys, Gold, and defensive Equity sectors. What is noteworthy so far is that the U.S. dollar did not rally on this latest risk off episode. Additionally, we expect the derivatives markets to be used as a hedge by professional investors on current positioning which could also keep some pressure on the Equity indexes while uncertainty is high. However, we also expect that as time passes and discussions are gathering momentum, the potential for less arduous economic and market implications could become more visible. At this point, we believe the asset markets, namely Equities, are likely to begin to discount an outlook overall that do not include the worst-case scenarios.

We still believe despite the significant uncertainty that:

- The U.S. Economy is able to stave off a recession in the near future and corporate earnings should still remain positive although this will depend on how long the high tariff rates last.
- The consumer remains resilient as the job market withstands the growth pressures.
- The credit markets and cyclical impulses (non-U.S. markets activity, copper prices, etc.) are likely to be the first responders if growth begins to meaningfully deteriorate.

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- Employment market data is what the Federal Reserve will use as the key determinant to its next move and when (watch claims and job openings data closely).
- The equity market rotation continues as higher-quality areas with low earnings variability should outperform. Emphasize low volatility index exposure.
- Portfolio diversification including the use of Alternative asset classes, for qualified investors where appropriate, is even more important during the highest level of uncertainty.

We are experiencing significant fog and volatility without a clear understanding or timing of the ultimate end game. We have dealt with such stark volatility many times in the recent past (Emerging Market currency defaults, the Global Financial Crisis, European Debt Crisis, the Pandemic, etc.). These events called into question the health of the global banking system. That is not the case this time around. The largest concern now is the potential risk for a growth shock. We believe this gets sorted out in the coming weeks and months.

During this time of assessment, it is important to play both defense and offense. Build a plan on how to reposition and rebalance your portfolio to take advantage of the improved prices that this uncertainty has created. Stay calm. Consider increasing diversification, rebalancing if the asset allocation framework drifts too far and be prepared for the significant uncertainty to fade.

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