TOVA WEALTH
PLANNING & INVESTMENTS

April 7, 2025

The Trump Dump

Equity markets around the world fell sharply last week after President Trump released his "Liberation Day" tariff plan – and it was much worse than expected.

China has already retaliated, announcing reciprocal tariffs on the United States. Fears have emerged not only of a U.S. economic slowdown, but also of a heightened risk of recession. There are also fears that inflation will rear its ugly head, driving prices of goods and services higher again. The Financial Times on April 5 summed up the situation quite well in our view: "The U.S. president's liberation day has triggered a big market sell-off, amid fears of a return to Depression-era tariff barriers and confusion about what exactly he is trying to achieve." Uncertainty is never the markets' friend because markets don't know how to price uncertainty.

We certainly understand investors' fears and concerns, so we want to address what the fallout from Trump's tariffs could mean. First, we must keep in mind that this is a fluid situation with many twists and turns that can still change expected outcomes. But reviewing the current data, we believe President Trump is primarily focused on China, who he believes is a considerable threat to the U.S

First: What Are The Tariffs?

The new tariff structure is complicated with moving parts that can all change on a dime. Here is an outline of the current tariff structure as we understand it; overall these actions add up to an average tariff rate of approximately 22.5%:

1. Baseline 10% tariff on all imported goods, effective on April 5.
2. Roughly 60 countries will be subject to tariffs above 10%, effective on April 9. It is believed that the rate for these countries will be additive to the 10% noted in #1.
3. Existing tariffs will remain in place on China, automobiles, and other categories, including those imposed under the International Emergency Economic Powers Act (IEEPA).
4. Mexico and Canada are not subject to the new tariffs, but the existing 25% tariff remains in place on goods not compliant with the United States–Mexico–Canada Agreement (USMCA).
5. There is a tariff exemption for goods loaded before April 5th. Products loaded after April 5th but before April 9th will be subject to 10% tariff (not higher rate).
6. Products related to commodity and sectoral tariffs are exempt, such as steel, aluminum, lumber, copper, pharma, automobiles, etc.
7. China faces a 54% tariff rate, and it could move to be 100% if new tariffs on countries purchasing Venezuela oil is enacted. Trump has hinted at some tariff relief for China if there is a deal that keeps TikTok operating in the U.S.

These tariffs, along with those already in place, are projected to generate $620 billion in revenue, which the U.S. government could use to extend existing tax cuts, introduce new ones, and reduce the deficit.

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Keep in mind that more tariffs are expected to be coming on Pharmaceuticals, Semiconductors, Commodities, and Venezuela.

So far, the only country to retaliate has been China, which announced a matching reciprocal tariff on the U.S. of 34%.

Below are two charts from Strategas, a Baird Company, from April 4th, which organize the data by the new Reciprocal Tariff rates and the expected impact of revenue and revenue as a percent of GDP. The estimated overall revenue from these tariffs is $620 billion.

Country	US Imports from Trading Partner, 2024 ($Bn)	US Reciprocal Tariff Rate	Tariff Revenue Impact ($Bn)	2024 Nominal GDP ($Bn)	Tariff Revenue Impact, as % of GDP
Vietnam	$136.60	46%	$62.82	468.485	13.40%
Cambodia	$12.70	49%	$6.20	47.147	13.20%
Taiwan	$116.30	32%	$37.20	775.017	4.80%
Switzerland	$63.40	31%	$19.66	942.265	2.10%
S. Korea	$131.50	25%	$32.89	1869.916	1.80%
Jordan	$3.40	20%	$0.67	53.305	1.30%
Bahamas	$1.80	10%	$0.18	14.825	1.20%
Japan	$148.20	24%	$35.57	4070.094	0.90%
China	$438.90	34%	$149.24	18273.36	0.80%
Singapore	$43.20	10%	$4.32	530.708	0.80%
Israel	$22.20	17%	$3.78	528.067	0.70%
Indonesia	$28.10	32%	$8.99	1402.59	0.60%
EU	$605.80	20%	$121.15	19403.16	0.60%
India	$87.40	26%	$22.73	3889.13	0.60%
Brazil	$42.30	10%	$4.23	2188.419	0.20%
United Kingdom	$68.10	10%	$6.81	3587.545	0.20%

The reciprocal tariff on China is in addition to the 20% tariffs already imposed, making the current tariff rate 54%; the Taiwan number does not exclude semis and will likely be lower when we make the calculation.

Europe	Tariffs % of GDP		Europe	Tariffs % of GDP
Ireland	1.90%		Lithuania	0.50%
Slovenia	1.70%		Czech Republic	0.50%
Slovakia	1.10%		Portugal	0.40%
Hungary	1.10%		France	0.40%
Belgium	0.80%		Poland	0.30%
Germany	0.70%		Latvia	0.30%
Austria	0.70%		Bulgaria	0.30%
Italy	0.60%		Spain	0.20%
Sweden	0.60%		Croatia	0.20%
Netherlands	0.60%		Romania	0.20%
Finland	0.50%		Malta	0.20%
Estonia	0.50%		Greece	0.20%
Denmark	0.50%		Luxembourg	0.20%
			Cyprus	0.00%

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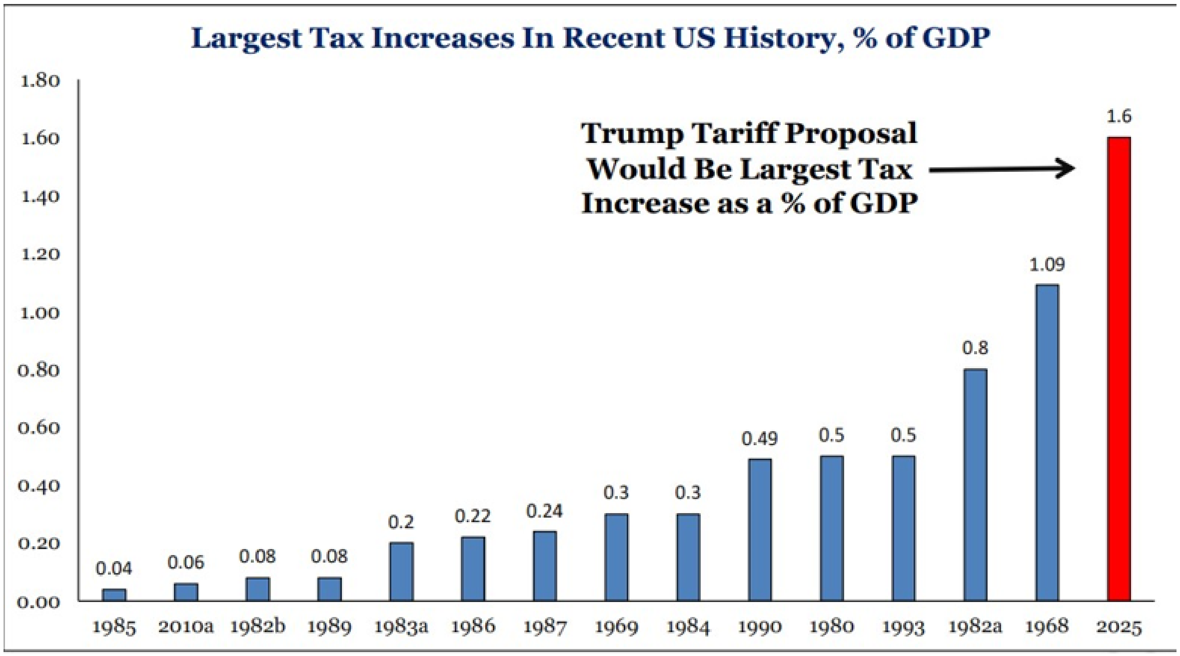
Global Reset

President Trump wants to reset what he believes is an unfair global trading system that helps other countries that enjoy a surplus of capital while the U.S. runs a trade deficit. To make the trading system fair, Trump has enacted a series of tariffs to raise capital (current estimates are $620 billion) and to bring jobs and manufacturing back to the U.S. These tariffs hurt China the most, as well as the Technology sector, since many companies manufacture their products in China and other Asian countries. Tariffs are considered a tax and if these new tariffs remain in place, the “liberation day” tariffs would represent the largest tax hike in U.S. history as a percentage of GDP.



Source: Strategas, April 4, 2025

What Does The Tariff Wrecking Ball Do To The Economy?

It’s now reasonable to forecast that the U.S. economy (which grew 2% last year and was expected to grow 1.5% this year) will slow to zero growth – or worse. Whether the U.S. enters a recession will largely depend on how the Trump Administration tariff policy unfolds. We expect the Federal Reserve (Fed) to be able to cut interest rates as economic data shows a slowdown. With a 90% probability, the market is now expecting two rate cuts of 25 basis points each in June and July. We would not disagree with this view. If the equity market has issues clearing due to margin calls and extreme volatility, the Fed could step in and cut rates and provide liquidity. We believe it is realistic to anticipate that corporations will plan for a slowing of demand, which would negatively impact earnings. This would likely lead to layoffs and the unemployment rate rising. The labor market is on solid footing, as shown by the strength of the March employment report. The current unemployment rate is 4.2%, which is very low. *The Fed is concerned about inflation, but the bond market is not pricing in inflation – it’s pricing in a slowdown in economic growth as well as deflation with interest rate collapsing*. Slower growth and stable inflation would also allow the Fed to cut interest rates. The Fed has significantly slowed down quantitative tightening (QT), and we anticipate them stopping altogether. This is a form of monetary easing. Also, money supply as measured by M2 has been rising which is also providing liquidity that could cushion the negative impacts of the tariff to the economy.

As there is much investor concern about the specter of the 1930s Great Depression, we want to point out that the interest rate environment during that period was very different – interest rates rose sharply then. And that interest rate environment contributed to many banks failing. Today, our banking system is stable, with strong balance sheets – thanks to the Dodd-Frank reforms enacted after the Great Financial Crisis of 2008–2009.

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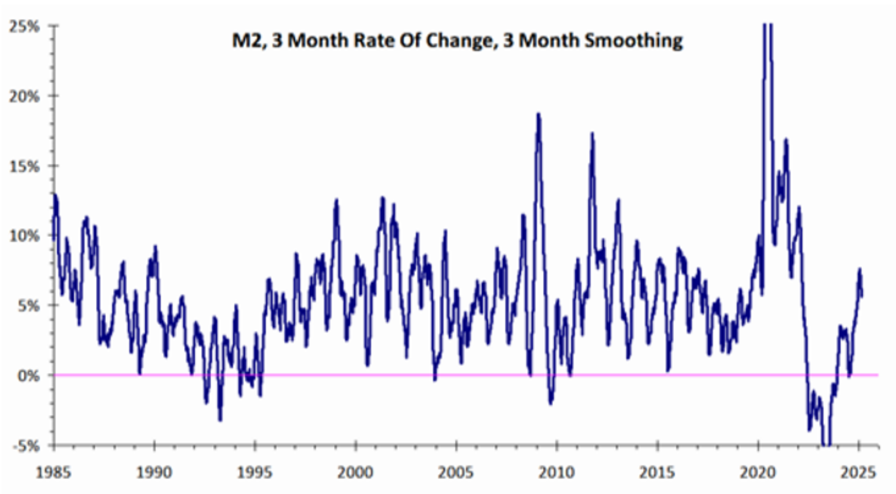
M2 Money Supply Is Growing: Stimulative For The Economy



Source: Bloomberg, Sanctuary Wealth, April 6, 2025

Yields Collapsing, Pricing In Slower Growth Not Inflation

The front end of the yield curve is collapsing, pricing in slower economic growth and moving before the Fed cuts rates. The 2-year Treasury rate technically is trending toward 3.0%-2.5%. The 10-Year Treasury is also trending down. Support is near 3.6% where yields are held. A break of this level would be very significant, pointing to a further drop to 3.0%-2.5%.

2-Year Treasury Yields Falling Sharply And Trending Down

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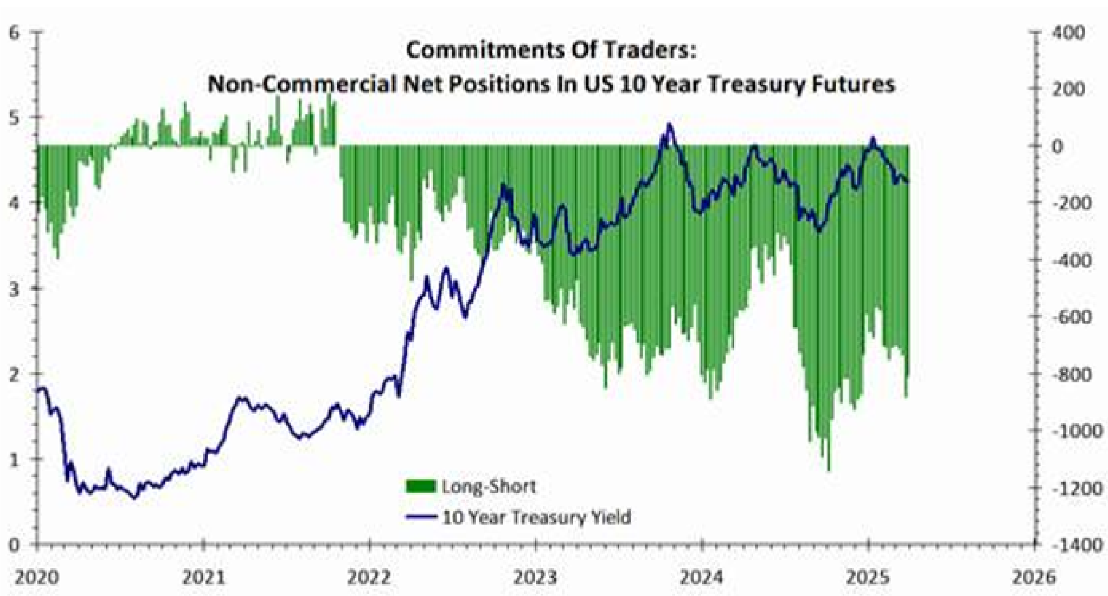
10-Year Treasury Yield Falling: A Break Of 3.6% Signals Lower Levels

Fast Money Remains Short 10-Year Treasuries: Will They Buy, Causing Rates To Fall?



Source: Bloomberg, CFTC, Sanctuary Wealth, April 1, 2025

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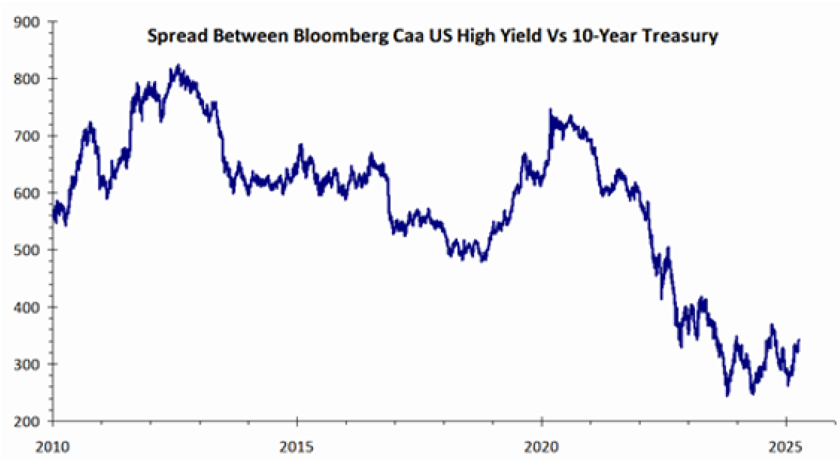
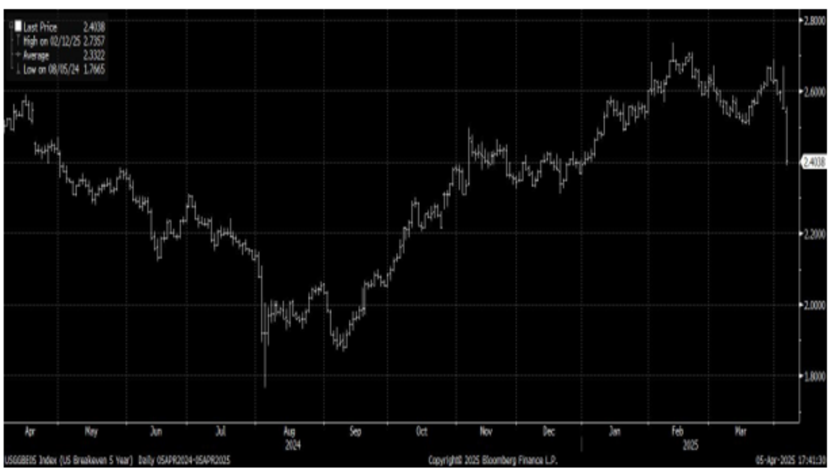
High Yield Spreads Not Yet Pricing In A Recession... Yet



Source: Bloomberg, Sanctuary Wealth, April 6, 2025

Inflation Expectations Falling on 5-Year Breakevens With Yields Collapsing



Cruel Spring

One of Taylor Swift's longest charting, number one hit songs was "Cruel Summer." Well, last week felt like a Cruel Spring, and maybe the pain's not ready to subside. Equity markets had their sharpest sell-off since Covid hit in 2020. The S&P 500 has fallen 17.5% from the highs this year and Nasdaq is down 22.7% from its high last December. The median stock within the S&P 500 is down 38% off the highs. The equity market has quickly priced in a sharp economic slowdown, causing stock returns on average to fall into bear market territory quickly. A recession is not priced in, which we believe would be a 30% decline from the highs in the S&P 500. Recessions typically occur every four years, as determined by the National Bureau of Economic Research (NBER). The last recession occurred during the Covid outbreak in 2020. So, arguably, we are overdue for one – but if we have a recession today, it's worth noting that it would be triggered by government policy, not underlying economic weakness in the U.S.

> **There's an old adage that Wall Street has discounted 9 of the last 4 recessions. In other words, the stock market often sells off even when a recession doesn't follow. It's a discounting mechanism that's reasonably good at pricing risk, but not very good at pricing uncertainty. And when fear sets in, the market tends to react sharply.**

With tariffs still a fluid situation, we expect market volatility to continue until June. A market bottom is not in place yet. Prior to the "liberation day" announcement, we believed the market was nearing a bottoming process, but this has been upended by the Trump's new tariffs. So, we begin again to try to find a market bottom. The good news is that the equity market is extremely oversold with volatility reaching highs – this is where stocks try to bottom and rally. The price momentum indicators – stochastic and Relative Strength Index (RSI) – are showing their strongest readings since 2022. The number of equity new highs minus new lows has reached a record, signaling an extreme move; meanwhile the percentage of stocks trading above their 200-day moving average is also approaching a buy signal.

We should be nearing a stock rally, and the rally will be key to whether there is a market bottom, or another leg of the down move will occur.

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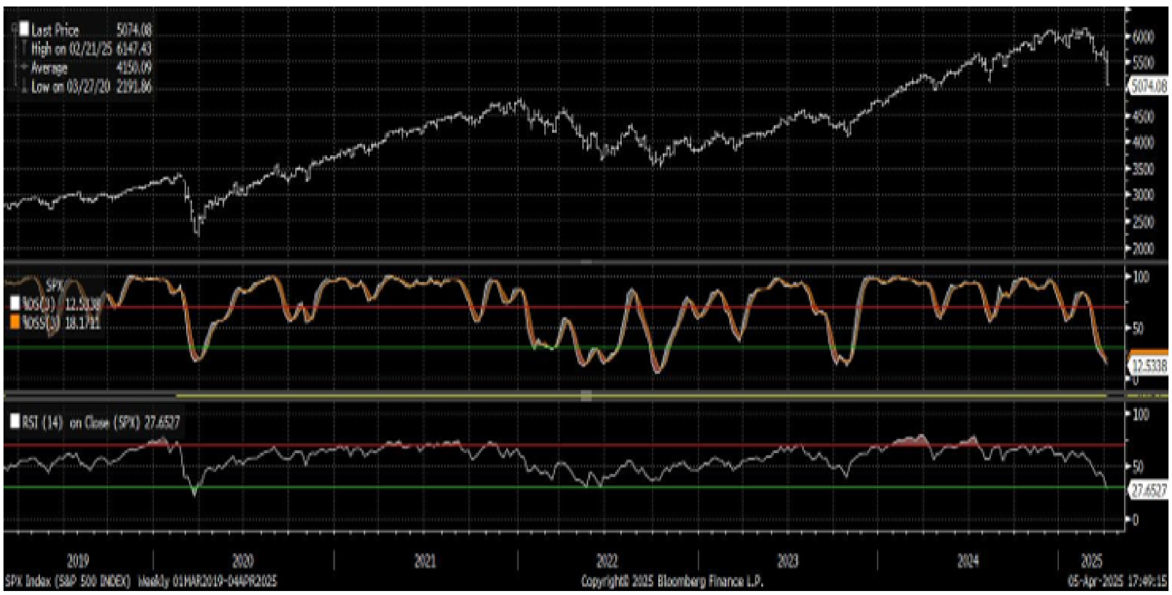
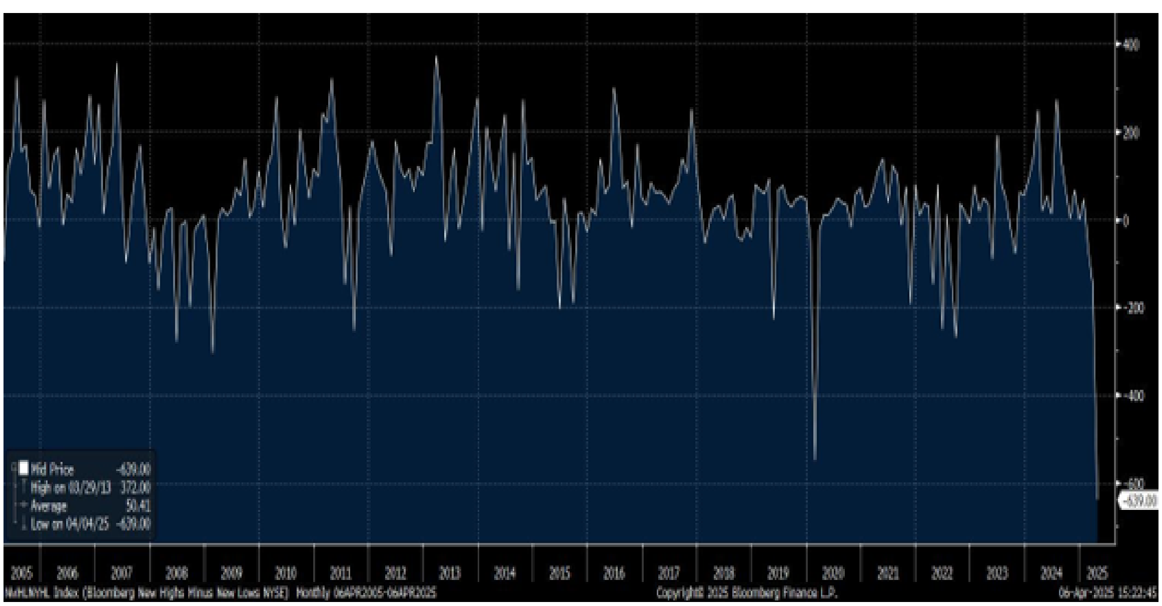
Lowering S&P 500 Target To 5500

We were very optimistic about the economy and equity market this year. We expected artificial intelligence (AI) to help drive productivity enhancement, improving not only earnings but profit margins. Tariffs for now “trump” this outlook and we will look to revise our full year outlook. We have developed a profit model that has earnings peaking in 2Q25 and falling the rest of the year. Markets discount 6 months ahead, so much of the lower earnings are priced into the equity market already. If stocks can hold support at 4800 for the S&P 500, which is being tested today, we believe stocks can rally over time, and head back to 5500 or a 6.5% correction this year. If stocks price for a recession, the risk is the S&P 500 falls to a 4400 level, in which case, we believe stocks could close the year near 5275, or down 10%. We may need to revise our targets in the coming weeks or months, but this is the outlook we see using the data we have today.

S&P 500 With 14-Week Stochastic & RSI: Best Oversold Readings Since 2022



A Big Wash-Out With Record Difference On New Highs To New Lows



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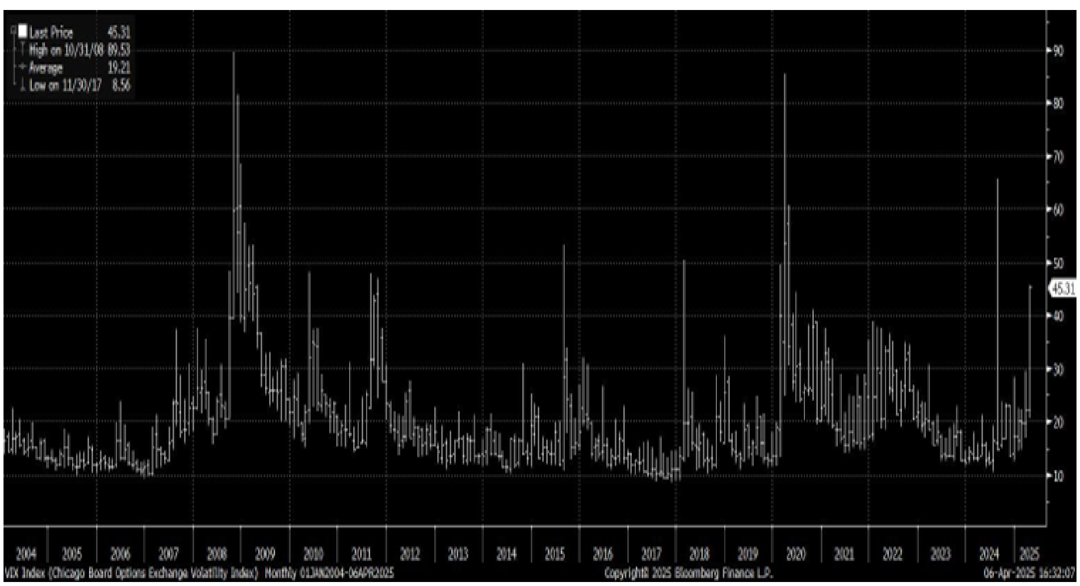
Stocks Below Their 200-Day Moving Average Near 20 A Buy Signal

VIX Volatility Index Surges: Historically A Good Reading For Being Close To A Bottom



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So, What To Do Now?

Given the extreme uncertainty of Trump's new tariff policy, it would be prudent to reduce risk in a portfolio. Cash and fixed income would be preferred over stocks in the near term. ***Long-term, we still believe the equity market is in a secular bull market, but, with the increased volatility in markets, a reduction in risk should be beneficial.***

Within the equity market, we prefer yield, like Utilities, which benefits from lower yields, as well as Consumer Staples, a defensive sector not greatly impacted by tariffs and one that historically does well in slower economies. This is a good time to review portfolios to determine any beneficial rebalancing.

Warren Buffett has shared a lot of timeless advice over the years. One quote that feels especially relevant in today's market is: "The stock market is the only market where things go on sale and all the customers run out of the store."

U.S. Dollar In Trading Range Since 2023 & Stronger Than 2015

The U.S. Dollar To Be Stable To Strong

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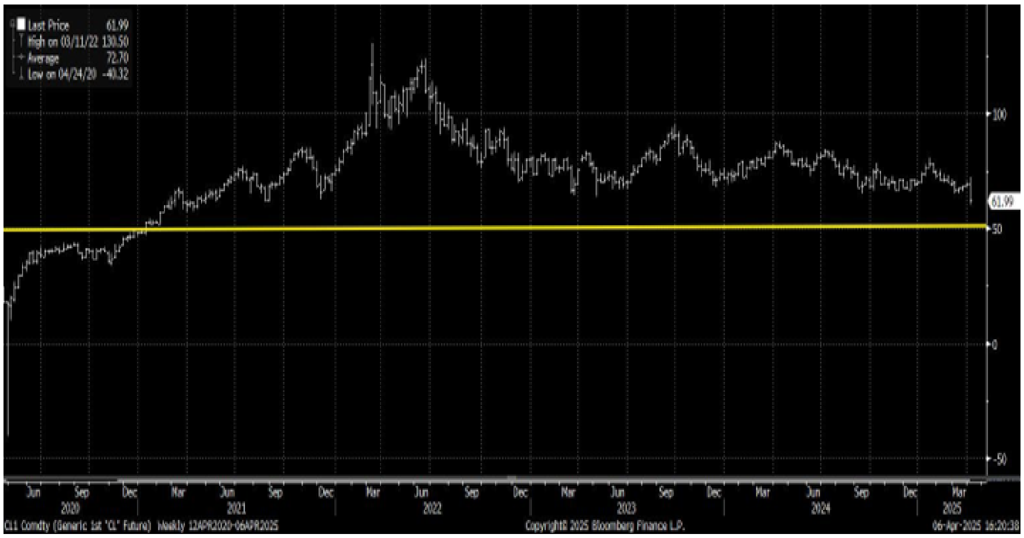
Commodities Fall Sharply & This Helps The Inflation Outlook

Bloomberg Commodity Index Collapses

WTI Crude Oil Falls Sharply Targeting $50: A Tax Cut



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Gold Is Extended Short Term, Expect A Pullback: Long-Term Target $4000

What Could Improve The Outlook?

1. Compromises on the tariffs, if significant, would be welcomed by markets. Vietnam has already reached out to the Trump Administration for a dialogue. According to the administration, over 50 countries have called, seeking negotiations.
2. The Trump Administration is looking to not only extend tax cuts but to implement new tax cuts.
3. Deregulation would be welcomed, and the Basel III Endgame is not expected to be as restrictive for banks as initially feared.
4. Artificial Intelligence is adopted faster as companies look for efficiencies in a slower global economic backdrop.
5. Lower interest rates are likely to lower mortgage rates eventually, positively impacting the housing market.
6. Lower crude oil prices provide a tax cut to consumers.

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Market Performance

	Last 4/4/2025	Month End 3/31/2025	Month to Date	Quarter End 3/31/2025	Quarter to Date	Year End 12/31/2024	Year to Date	Year Ago 4/4/2024	Year To Year
S&P 500	5074.08	5611.85	-9.6%	5611.85	-9.6%	5881.63	-13.7%	5147.21	-1.4%
NASDAQ Composite	15587.79	17299.29	-9.9%	17299.29	-9.9%	19310.79	-19.3%	16049.08	-2.9%
NASDAQ 100	422.67	468.92	-9.9%	468.92	-9.9%	511.23	-17.3%	435.34	-2.9%
Russell 2000	1827.03	2011.91	-9.2%	2011.91	-9.2%	2230.16	-18.1%	2053.83	-11.0%
S&P Consumer Discretionary Sector	1452.25	1575.40	-7.8%	1575.40	-7.8%	1831.16	-20.7%	1443.89	0.6%
S&P Consumer Staples Sector	858.85	892.71	-3.8%	892.71	-3.8%	853.65	0.6%	790.75	8.6%
S&P Energy Sector	608.32	715.75	-15.0%	715.75	-15.0%	654.85	-7.1%	741.34	-17.9%
S&P Financial Sector	734.99	829.46	-11.4%	829.46	-11.4%	804.44	-8.6%	685.17	7.3%
S&P Health Care Sector	1577.84	1702.26	-7.3%	1702.26	-7.3%	1604.75	-1.7%	1655.96	-4.7%
S&P Industrials Sector	998.87	1109.72	-10.0%	1109.72	-10.0%	1115.65	-10.5%	1049.14	-4.8%
S&P Information Technology Sector	3560.38	4019.98	-11.4%	4019.98	-11.4%	4609.52	-22.8%	3731.27	-4.6%
S&P Materials Sector	492.02	541.98	-9.2%	541.98	-9.2%	529.77	-7.1%	579.01	-15.0%
S&P Real Estate Sector	244.64	262.90	-6.9%	262.90	-6.9%	255.92	-4.4%	239.30	2.2%
S&P Communications Sector	292.16	319.75	-8.6%	319.75	-8.6%	341.66	-14.5%	286.68	1.9%
S&P Utilities Sector	378.94	400.81	-5.5%	400.81	-5.5%	384.95	-1.6%	329.86	14.9%
S&P 500 Total Return	11178.48	12360.21	-9.6%	12360.21	-9.6%	12911.82	-13.4%	11187.49	-0.1%
3 month Treasury Bill Price	98.94	98.93	0.0%	98.93	0.0%	98.92	0.0%	98.66	0.3%
3 month Treasury Bill Total Return	259.84	259.66	0.1%	259.66	0.1%	256.97	1.1%	247.36	5.0%
10 Year Treasury Bond Future	113.05	111.22	1.6%	111.22	1.6%	108.75	4.0%	110.13	2.7%
10 Year Treasury Note Total Return	308.87	303.73	1.7%	303.73	1.7%	293.94	5.1%	289.62	6.6%
iShares 20+ Year Treasury Bond ETF	92.85	91.03	2.0%	91.03	2.0%	87.33	6.3%	92.68	0.2%
S&P Municipal Bond Total Return	280.87	277.48	1.2%	277.48	1.2%	278.14	1.0%	270.92	3.7%
iShares S&P National Municipal Bond NAV	106.20	105.21	0.9%	105.21	0.9%	106.40	-0.2%	106.56	-0.3%
S&P 500 Investment Grade Corporate Bond Total Return	477.03	475.67	0.3%	475.67	0.3%	465.24	2.5%	451.26	5.7%
S&P Investment Grade Corporate Bond	91.50	91.30	0.2%	91.30	0.2%	90.28	1.4%	90.18	1.5%
S&P Investment Grade Corporate Bond Total Return	508.47	507.15	0.3%	507.15	0.3%	495.89	2.5%	479.58	6.0%
SPDR Bloomberg High Yield Bond ETF	92.45	95.30	-3.0%	95.30	-3.0%	95.47	-3.2%	93.96	-1.6%
iShares iBoxx High Yield Corporate Bond ETF	76.76	78.89	-2.7%	78.89	-2.7%	78.65	-2.4%	76.89	-0.2%
Gold	3038.24	3123.57	-2.7%	3123.57	-2.7%	2624.50	15.8%	2290.94	32.6%
Bitcoin	84129.73	82421.29	2.1%	82421.29	2.1%	93714.04	-10.2%	67948.37	23.8%

Source: Bloomberg, Sanctuary Wealth, April 5, 2025

Will Data Calm Market Concerns?

This week everyone will be focused on the tariffs… and any retaliation or compromises.

Investors will monitor closely the responses of America's trading partners to the disruption in global trade caused by President Trump. Some, like India, have said they will do nothing; others, like the E.U., have promised to respond aggressively.

We will also get to see the minutes of the March meeting the FOMC (Federal Open Market Committee). Investors will search for indications of how the Fed is likely to respond to the tariffs, as well as to changes in the labor market, especially unemployment, and inflation. Adding to the market's focus this week, the Consumer Price Index (CPI) will be released on Thursday, followed by the Producer Price Index (PPI) on Friday. In addition, consumer credit data is due today, and the U.S. federal budget report will be released on Thursday. Importantly, earnings season kicks off in earnest on Friday with the Banks beginning to report; outweighing their actual earnings might be their comments about the tariffs and consumer behavior.

Calendar

Mon.

10:30 am Fed Governor Adriana Kugler speaks
3:00 pm Consumer credit
Earnings: Dave & Buster's*

Tue.

6:00 am NFIB optimism index
8:00 am San Francisco Fed President Mary Daly speaks
Earnings: WD-40

Wed.

10:00 am Wholesale inventories
11:00 am Richmond Fed President Tom Barkin speaks
2:00 pm Minutes of Fed's March FOMC meeting
Earnings: Delta Air Lines,Constellation Brands

Thu.

8:30 am Initial jobless claims, Core CPI
10:00 amFed Governor Michelle Bowman testifies to Senate
10:00 amKansas City Fed President Jeff Schmid speaks
12:00 pmPhiladelphia Fed President Patrick Harker speaks
12:00 pmChicago Fed President Austan Goolsbee speaks
2:00 pm Monthly U.S. federal budget
Earnings: CarMax

Fri.

8:30 am Core PPI
10:00 amConsumer sentiment (prelim),St. Louis Fed President Alberto Musalem speaks
11:00 am New York Fed President John Williams speaks
Earnings: JPMorgan Chase, BlackRock, BNY Mellon, Fastenal, Morgan Stanley, Wells Fargo

*Earnings reflect highlights

Source: CNBC, Kiplinger's, MarketWatch

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