



Tariffs & Turmoil

Certy Partners Investment Office

April 8, 2025

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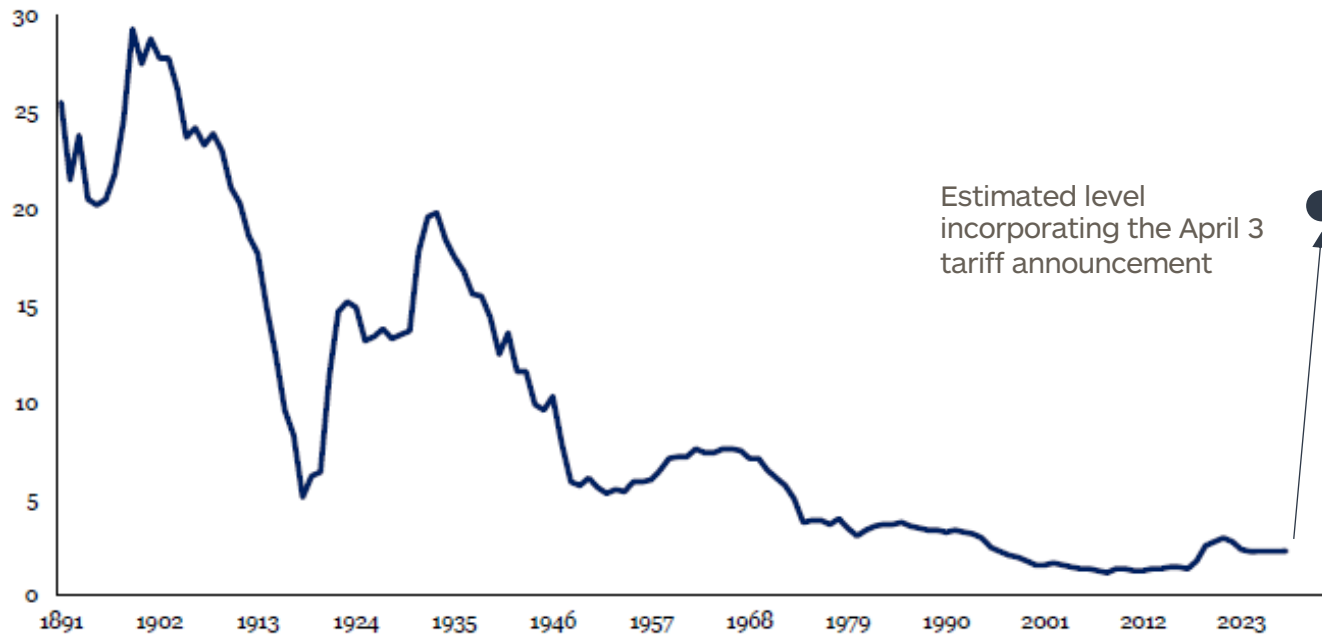
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What We Know

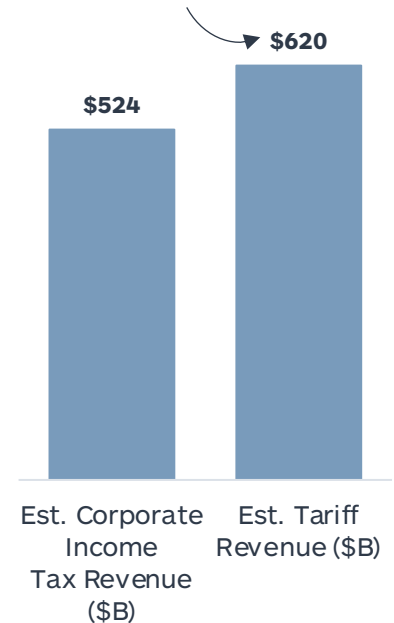
The scale of the tariff announcement shocked the market.

THE TARIFF PROPOSAL IN PERSPECTIVE

Effective US Import Tariff Rate Since 1891



All else equal, proposed tariff revenue could surpass \$600 billion, more than the country's entire annual corporate tax revenue.



Source: Strategas based on analysis of the 4/3/25 tariff announcement.

What We Know

The tariff calculation is more about trade deficits than tariff rates.

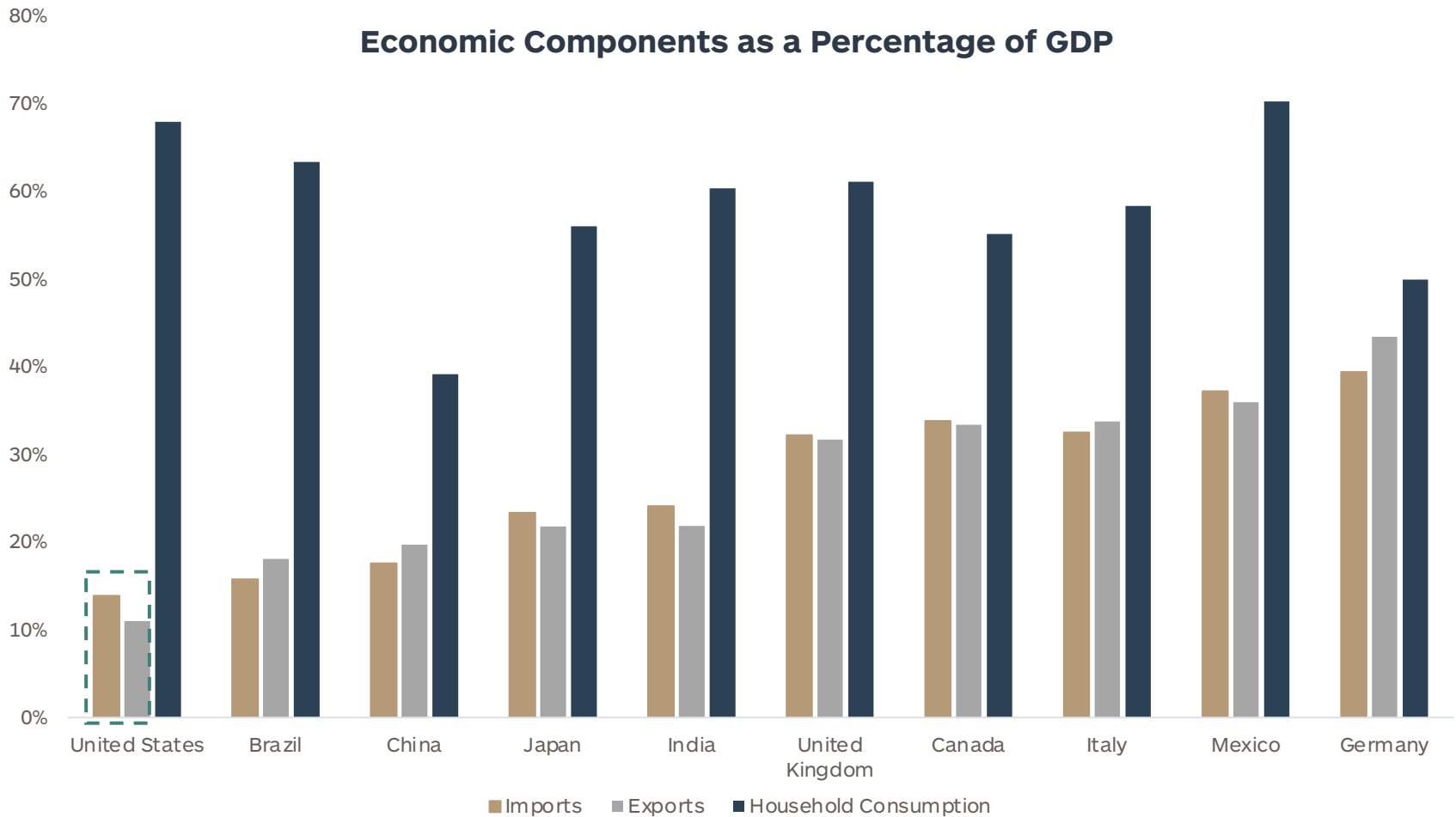
$$\text{Tariff Rate} = \frac{(\text{Exports to U.S.} - \text{Imports from U.S.})}{\text{Exports to U.S.}} \times 0.5$$

Trading Partner	New Tariff	Share of U.S. Imports	Goods Trade Balance (bn)
E.U.	+20%	18.5%	-\$241
China	+34%	13.4%	-\$292
Japan	+24%	4.5%	-\$69
Vietnam	+46%	4.2%	-\$123
South Korea	+26%	4.0%	-\$66
Taiwan	+32%	3.6%	-\$74
India	+27%	2.7%	-\$46
Switzerland	+32%	1.9%	-\$39
Thailand	+37%	1.9%	-\$46
Malaysia	+24%	1.6%	-\$25

Source: The New York Times as of 4/4/25.

Framing the Backdrop

The U.S. economy is more about consumption and less about trade.

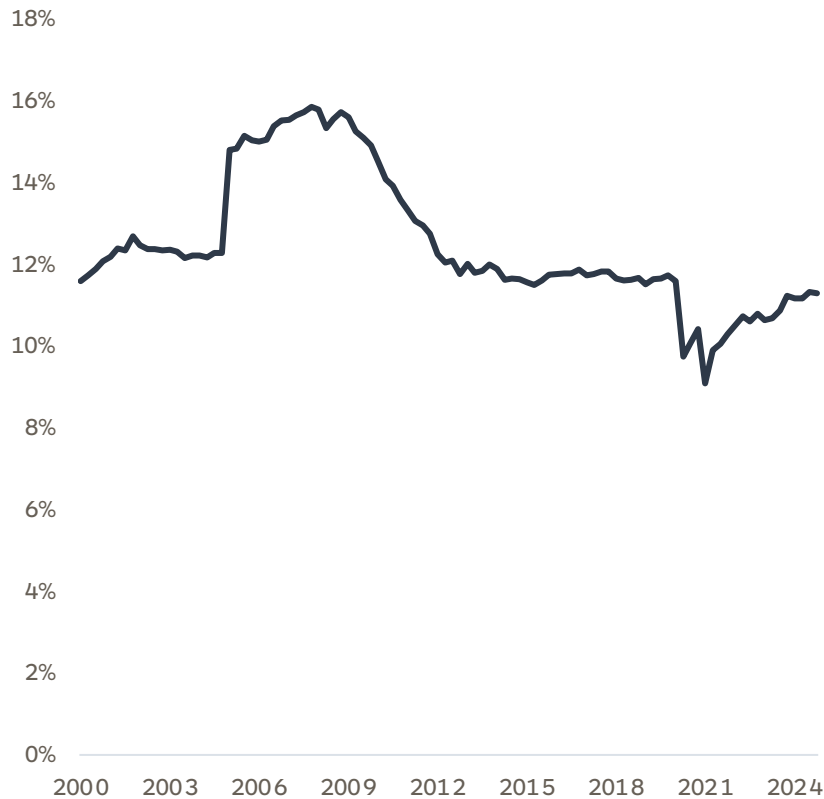


Source: OECD, Cerity Partners. Totals are for 2024 except for Japanese household consumption, where the most recent data was for 2023.

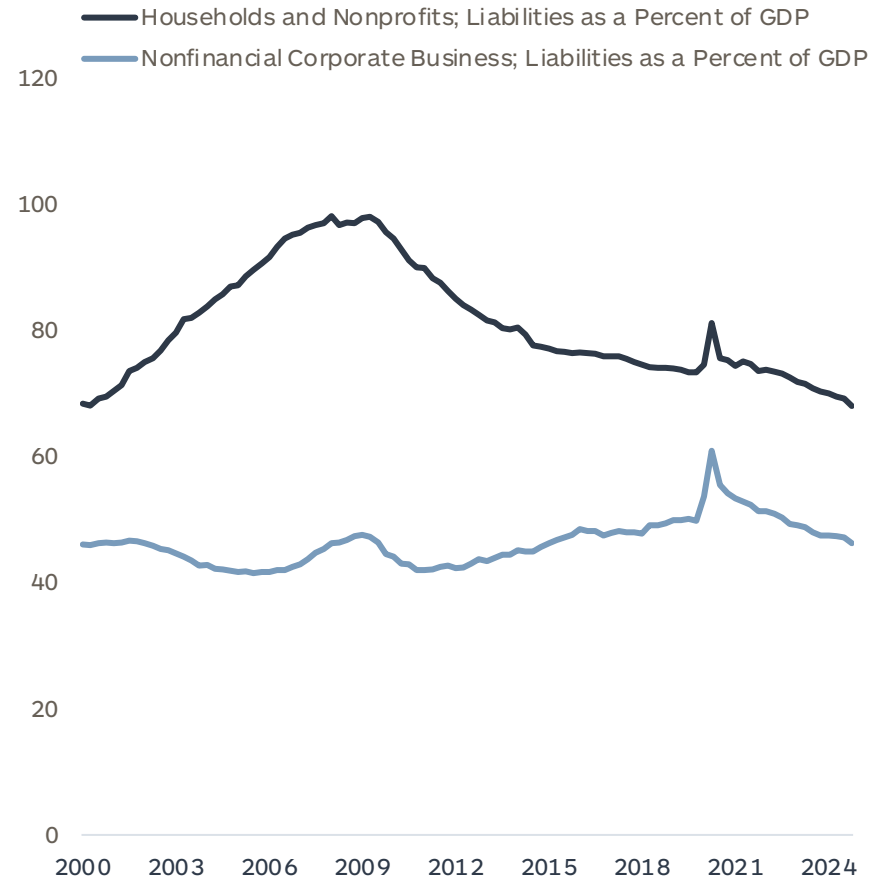
Framing the Backdrop

Most American consumers (and corporations) are still in good shape with manageable debt loads.

Household Debt Service Payments as a Percent of Disposable Personal Income



Household and Corporate Debt Loads

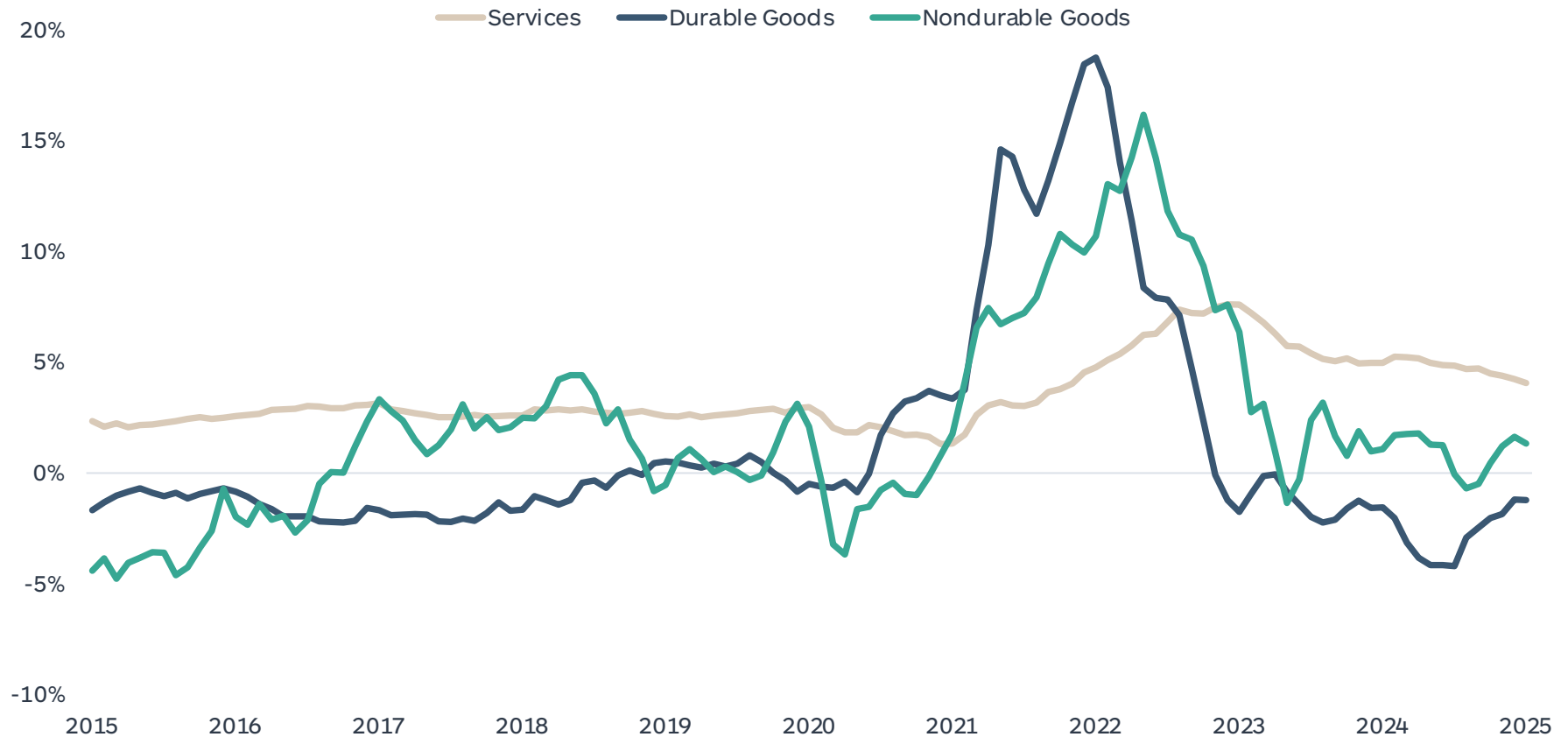


Source: FRED, Cerity Partners, 4/7/2025

Framing the Backdrop

While attention turns to goods prices, shelter and services inflation are trending down.

Components of Consumer Price Index (YoY%)



Source: FRED, Cerity Partners, 4/7/2025.

What We Don't Know

A massive cloud of uncertainty continues to loom large.

› **How/if other countries will negotiate or retaliate**

- News flow since Liberation Day has been mixed (reports of negotiation from Vietnam and Japan, retaliation from Europe and China)

› **What the upcoming tax package will look like**

- Tax cuts may also surprise to the upside, and Congress's timeline has now been compressed

› **Whether the Federal Reserve will prioritize growth or inflation pressures**

- They are still “restrictive” and have room to cut, but Powell noted the risks to persistent inflation on Friday

› **How other central banks and fiscal authorities will respond**

- China has been discussing accelerating stimulus to counter tariff impacts

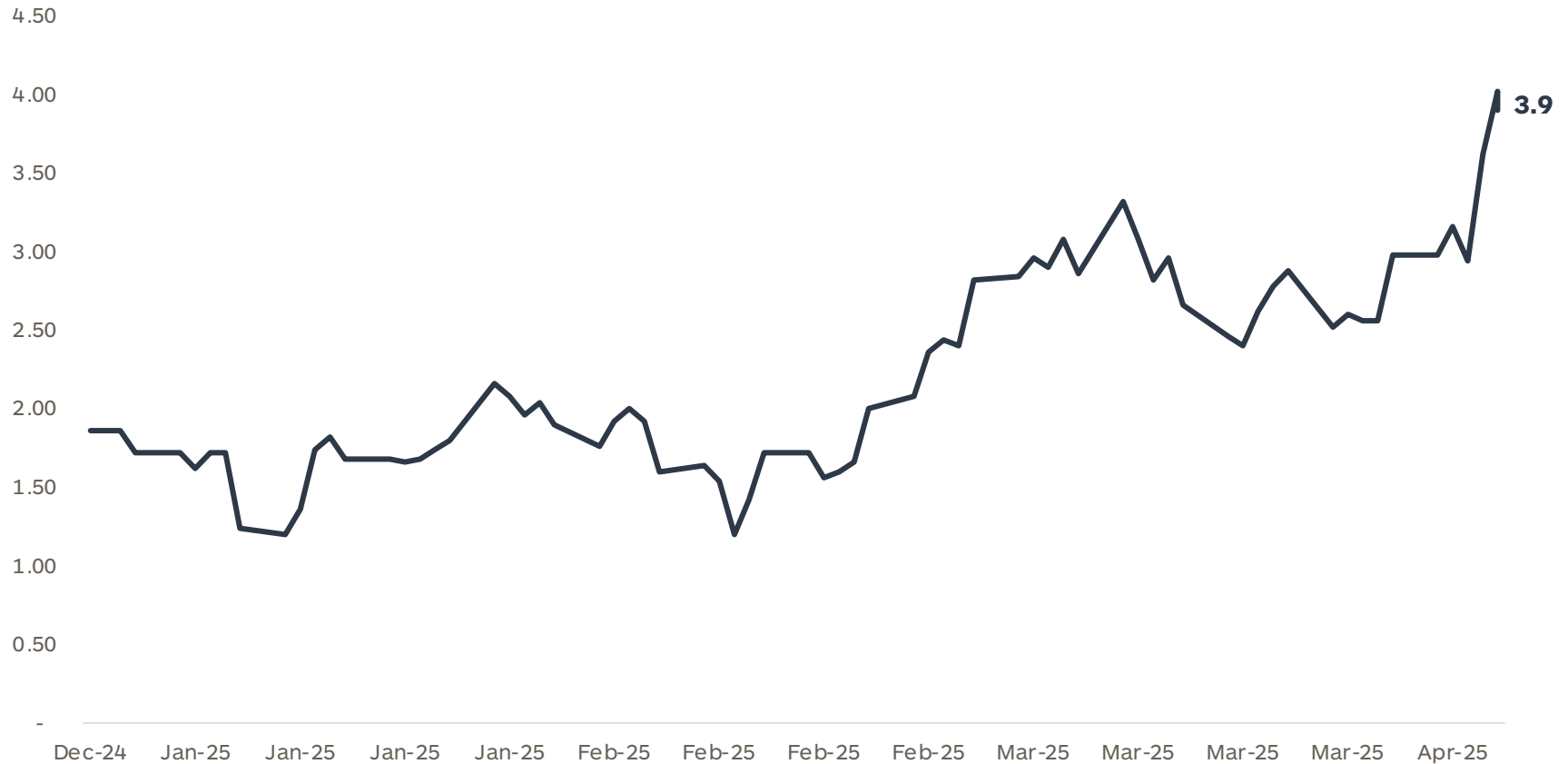
› **Whether the GOP can remain unified as discontent among their electoral base grows**

- Several Republican lawmakers have expressed support for bipartisan legislation aimed at modifying executive authority over tariffs. However, these efforts face significant legislative hurdles.
- Support among some of Trump's wealthy supporters appears to be waning (Ackman, Langone....even Musk)

Markets Think the Fed Will Act

The Federal Reserve has room to ease, and traders are starting to bet they will.

Market-Implied Number of Rate Cuts in 2025



Source: 30 Day Fed Funds Futures contract, December 2025 expiry. Number of cuts calculated from the midpoint of the current target range. FactSet, Cerity Partners, 4/7/2025.

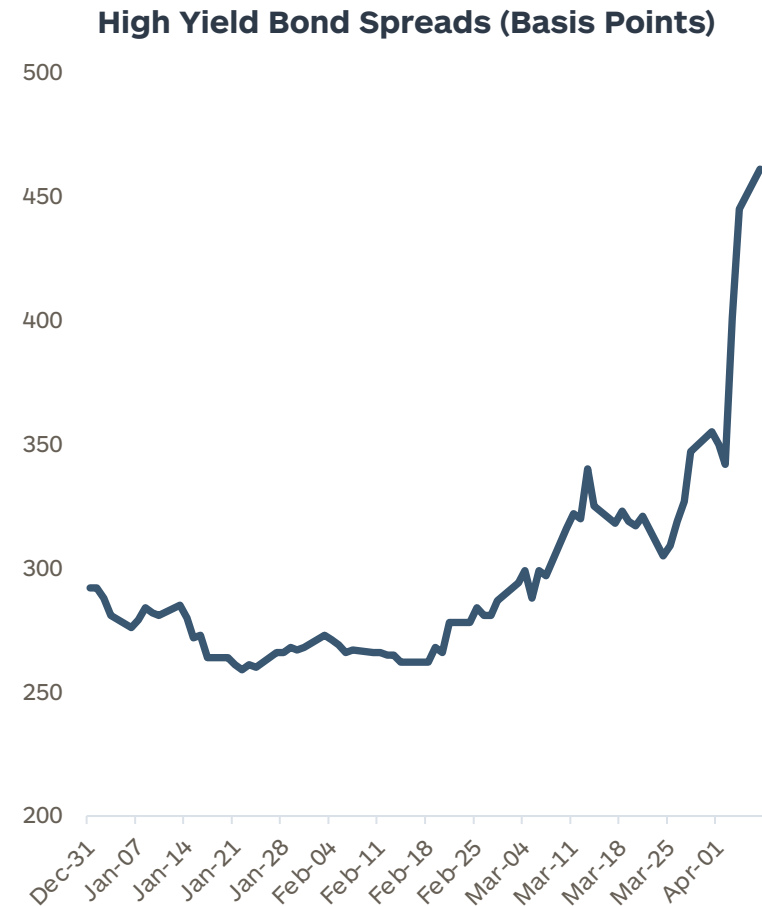
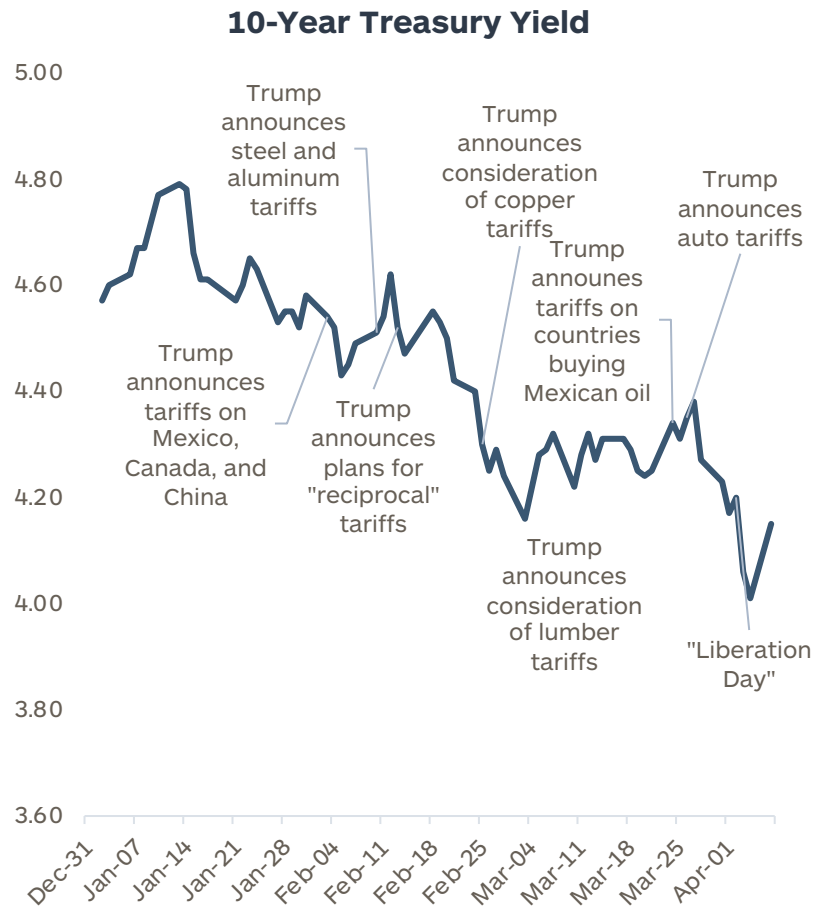
Possible Paths Forward

While the odds of a recession have increased, it is still not our base case.

Scenario	Real GDP Growth	Description
Bear	-3 to 0%	Shallow to moderate recession <ul style="list-style-type: none">• Tariffs meaningfully damage consumer and business sentiment• Revenues fall and profit margins compress• Widespread layoffs and rising unemployment
Base	0-2%	Sluggish, but positive growth <ul style="list-style-type: none">• Temporary bump in goods inflation partially passed on to consumers• Tax package patches up weak consumer and business sentiment• Constrained wage inflation limits price shocks to goods sectors• Layoffs not as widespread• Fed eases moderately with inflation expectations remaining constrained
Bull	2%+	Trend-like growth or better <ul style="list-style-type: none">• Tariffs are quickly scaled back• Resilient households and corporations weather another wave of price hikes• Fed easing and fiscal package overwhelm impact of tariffs

Bonds Are Acting as a Safe Haven

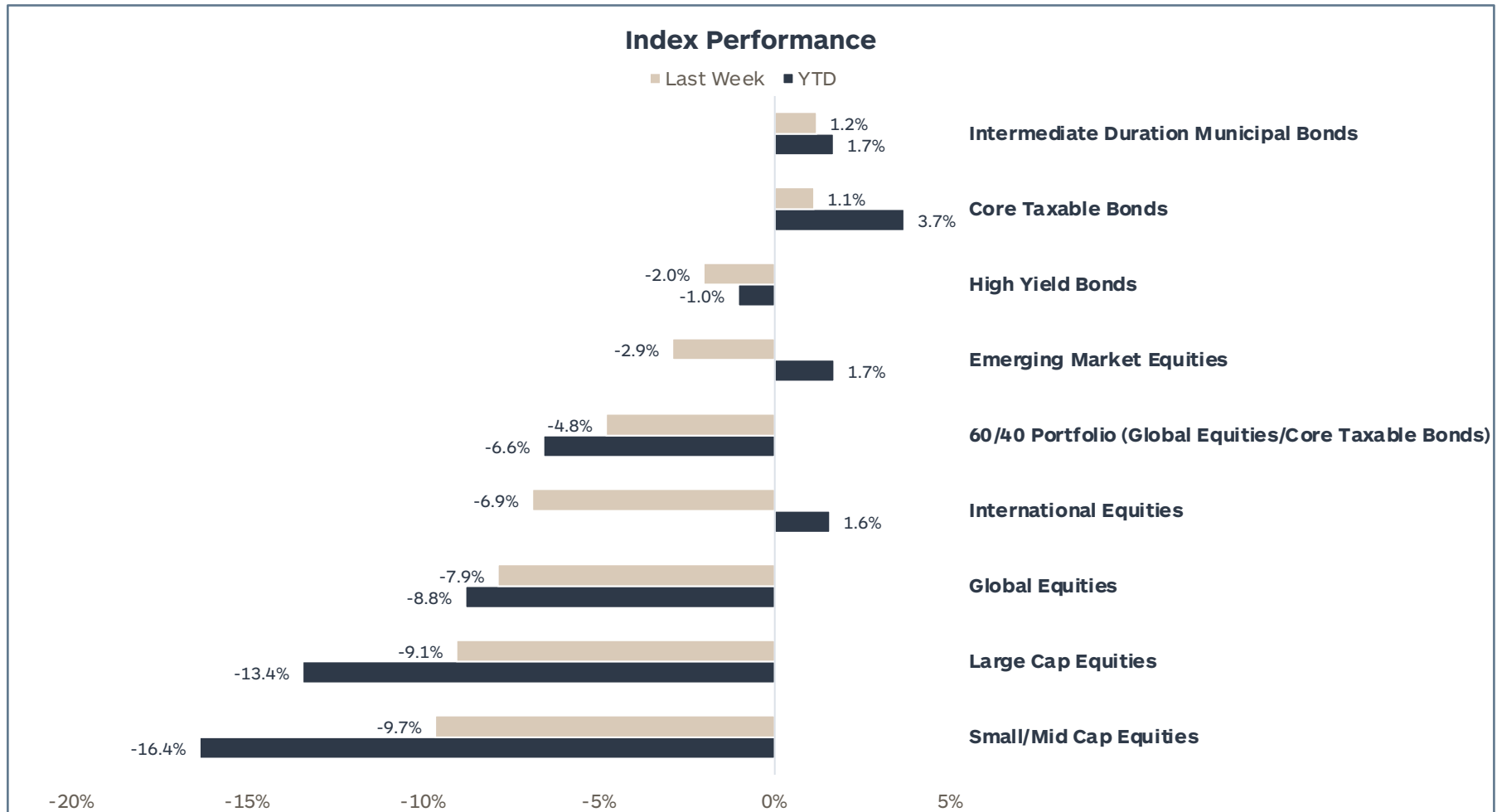
Bond markets view the announcements more as a growth problem than an inflation problem.



Source: Left chart is 10-Year Constant Maturity Treasury Index, right chart is ICE BofA US High Yield index, 4/7/2025, FactSet, Cerity Partners

The Benefit of Diversification

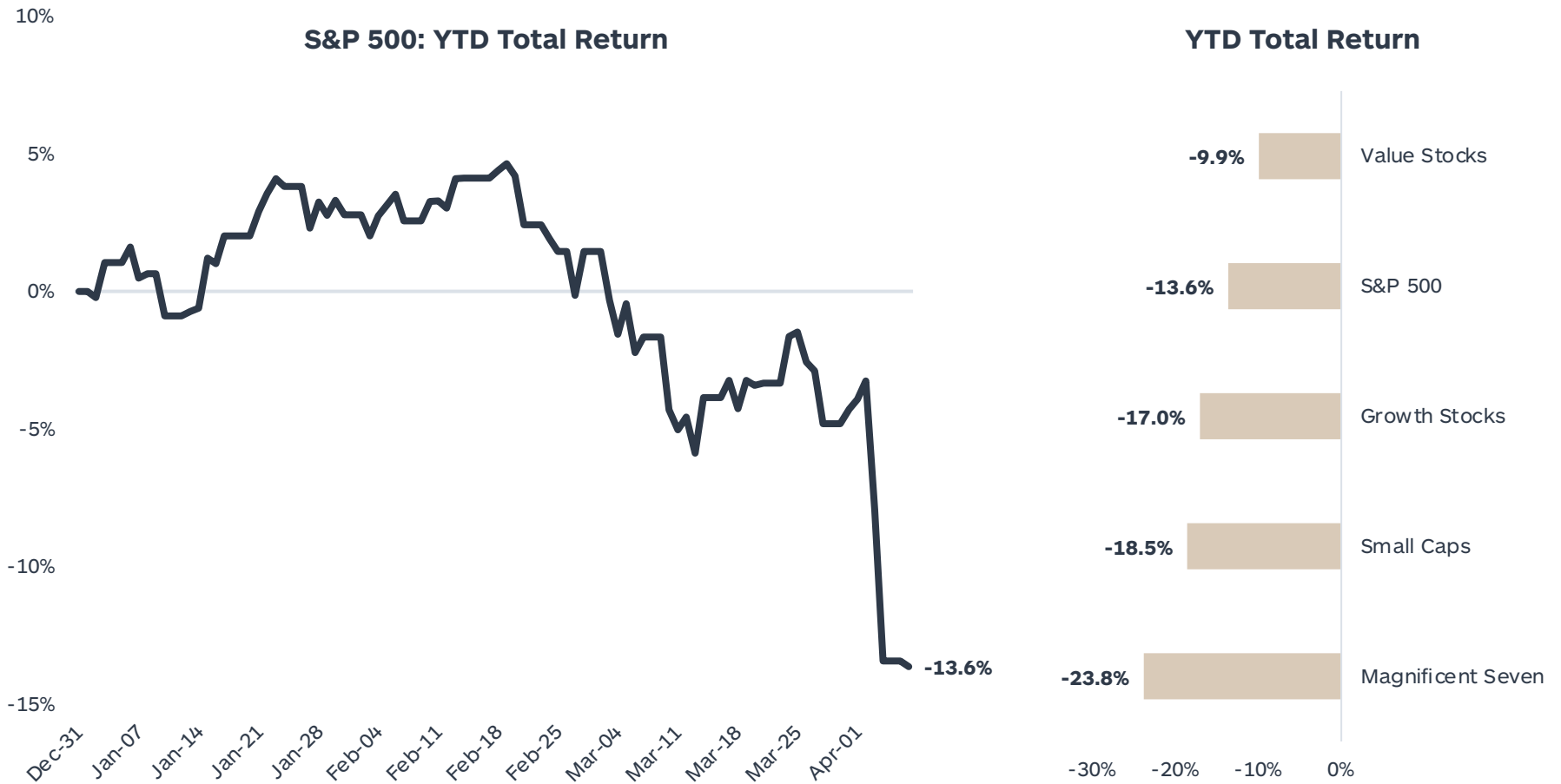
Despite the rout in stocks, other asset classes have been providing a ballast to portfolios.



Source: Morningstar Direct, Cerity Partners, 4/4/2025

Taking Stock of the Correction

Last year's leaders are this year's laggards, so far.



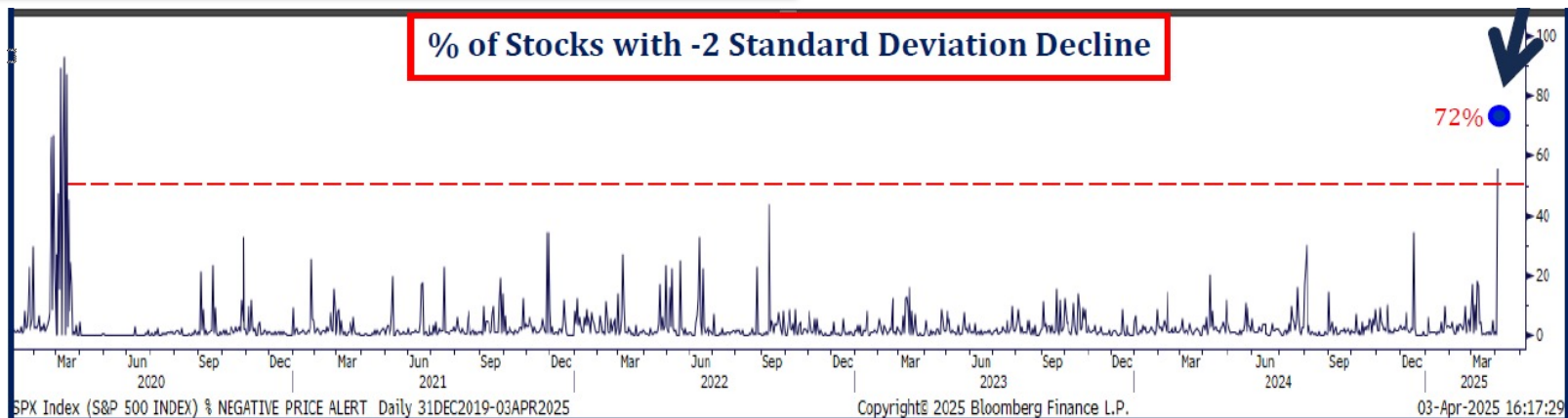
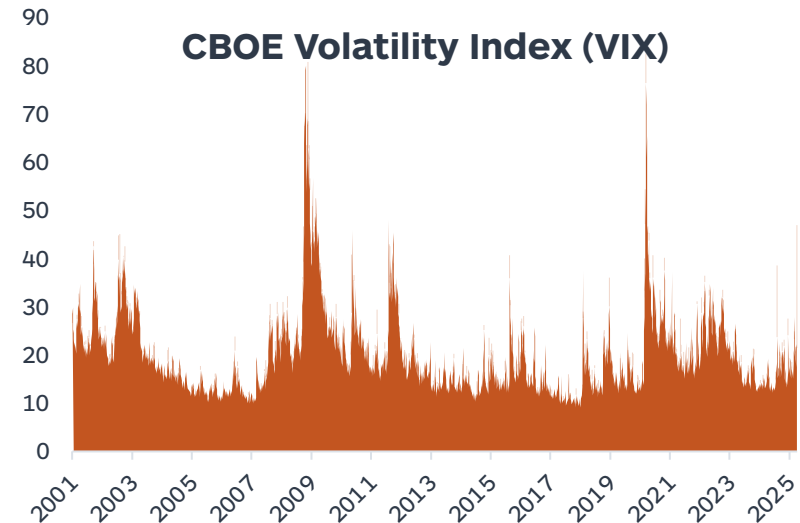
Source: Morningstar Direct, Cerity Partners, 4/7/2025. Asset classes on the right are represented by the S&P 500 Growth, S&P 500 Value, Russell 2000, and S&P 500 Indexes. The Magnificent Seven are represented by the Roundhill Magnificent Seven ETF (MAGS)

Market Technicals Are Getting Extreme

Historically, readings of these levels have meant a bottom is near.

Checklist of Extremes

- ✓ Percentage of stocks at 20-day lows
- ✓ Percentage of stocks at 50 and 200-day moving averages
- ✓ Spiking put/call ratio
- ✓ Percentage of stocks with 2 standard deviation moves
- ✓ Substantial VIX spike
- ✓ VIX curve in backwardation
- ✓ Investor sentiment at extremes



Source: Bottom chart: Strategas. VIX chart: FRED, Cerity Partners, 4/8/2025

Headwinds and Tailwinds

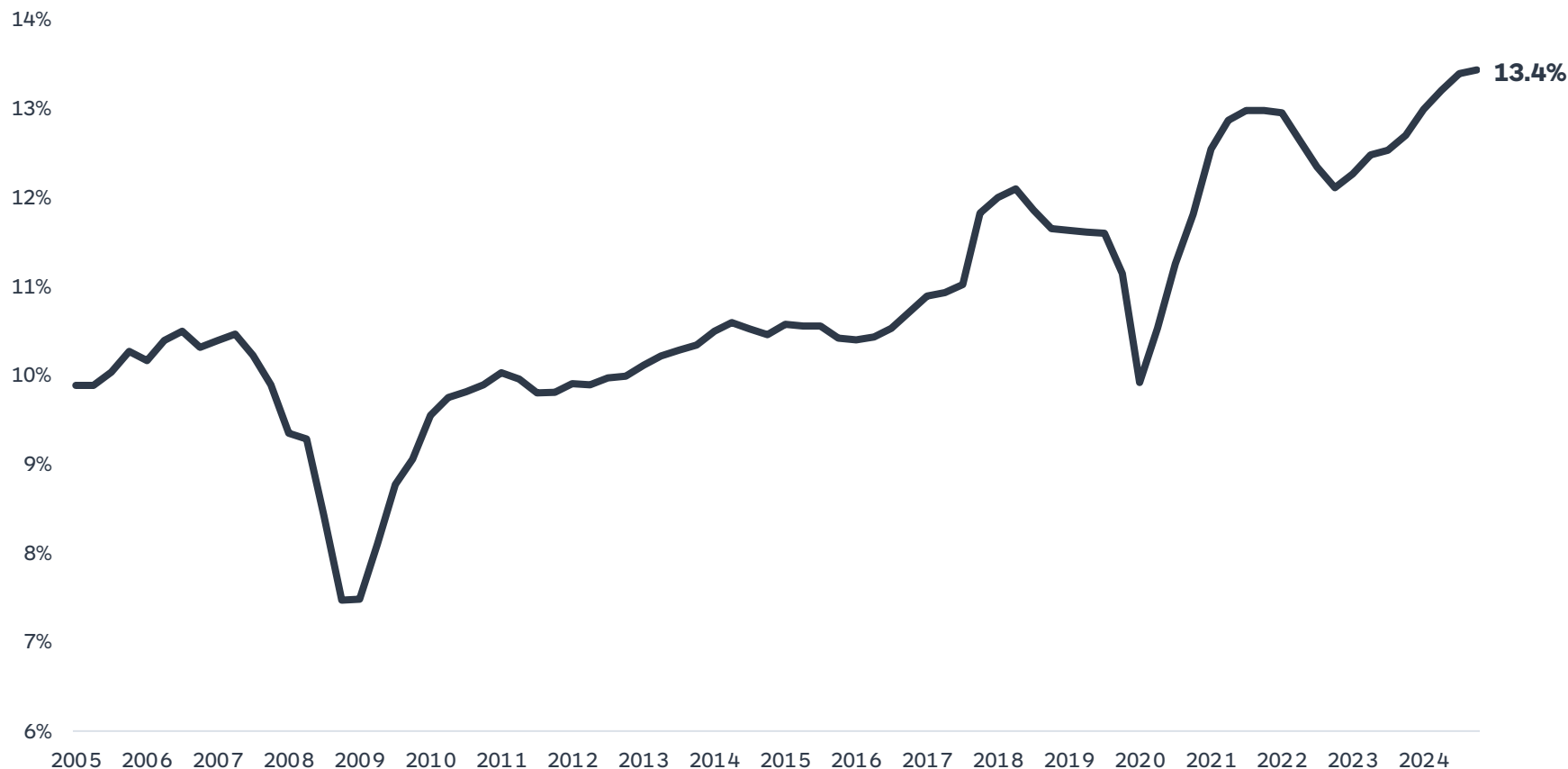
Liberation Day brought a series of new risks, but there are positives to be weighed against.

The Biggest Questions	Tailwinds to Consider
How high can inflation get?	Shelter (36% of CPI) is in a strongly disinflationary trend. Loosening labor markets could keep a lid on wage inflation, which would limit inflation in services ex-shelter (28% of CPI) and help offset some of the spike in goods prices. Falling energy prices are also an offset.
What is the impact to consumption?	Household finances are still very healthy, particularly among upper-income cohorts that account for an outsized portion of spending. Consumers also displayed surprising resilience through the inflation spike of 2021-2022.
What is the impact to corporate profit margins?	Starting points are solid, many companies saw good pricing power through the 2022 inflation spike, and potential offsets could be on the way (corporate tax cuts, lower interest rates, and reduced regulatory burdens).
What does the Fed do?	The fed funds rate is meaningfully above the Fed's own estimate of "neutral", leaving room to ease policy, while longer-term inflation expectations appear constrained for now.
Do countries negotiate or retaliate?	President Trump and his cabinet members have at times appeared to express an openness to negotiation. In some cases, tariff rates are simply so high that countries have no choice but to offer concessions.
What does fiscal policy look like now?	The surprising scale of tariff policy opens the door for an upside surprise in the scale of tax policy, which may now include more than simply extending existing cuts and offering small provisions like cutting taxes on tips.

Gauging the Earnings Impact

The good news: profit margins are at a good starting point.

S&P 500: 12-Month Forward Net Margins

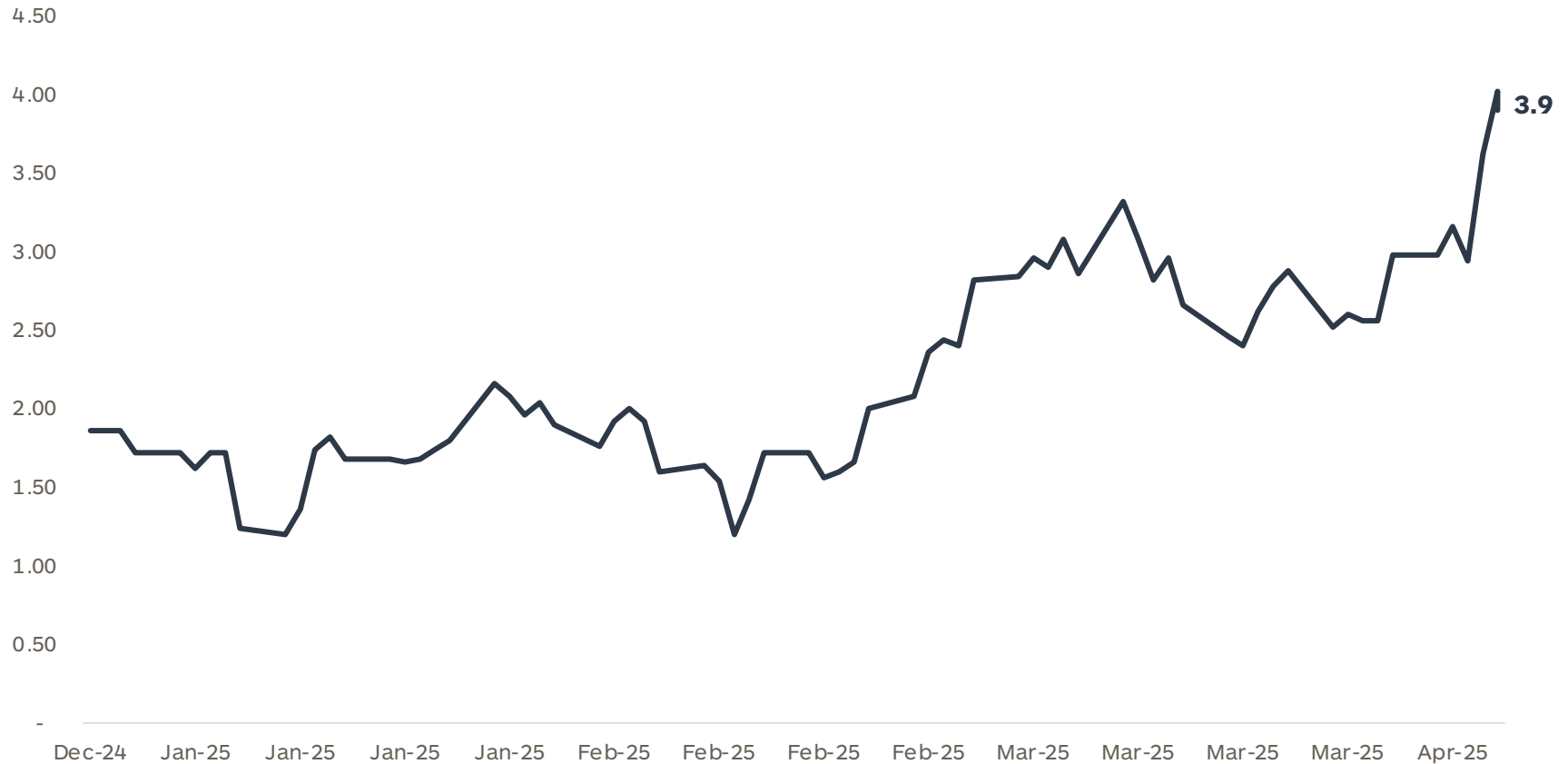


Source: FactSet, Cerity Partners, 4/7/2025.

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What if We Are Wrong?

Even dollars invested with the worst timing on record have still grown substantially over time.

\$10,000 invested in large cap stocks right before:	Experienced an Immediate drawdown of:	But would still be worth this much today:	For a cumulative total return of:	Or an annualized return of:
The Tech Bubble burst	-49%	\$60,204.08	502.0%	7.4%
September 11 th	-12%	\$77,993.54	679.9%	9.1%
The Great Financial Crisis	-57%	\$51,809.12	418.1%	9.9%
The Covid-19 Pandemic	-34%	\$20,394.13	103.9%	15.0%
The last bear market (2022)	-25%	\$12,344.76	23.4%	6.7%

Source: IA SBBI US Large Stock TR USD index from month preceding the daily peak before each event through March 31, 2025. Cerity Partners, Morningstar Direct. For illustrative purposes only. **Past performance is not a guarantee of future performance.**

Volatility Breeds Opportunity

Average returns following these levels of volatility have historically been good.

Forward Returns After the VIX Reaches 45			
Date	1 Month Later	6 Months later	12 Months Later
10/28/1997	3.9%	18.6%	17.7%
8/31/1998	6.4%	30.3%	39.8%
9/21/2001	11.3%	20.3%	-11.1%
7/23/2002	18.1%	12.3%	26.2%
9/29/2008	-15.8%	-25.1%	-1.5%
5/20/2010	4.5%	13.1%	26.9%
8/8/2011	6.2%	22.0%	28.1%
10/3/2011	14.9%	30.1%	35.0%
8/24/2015	2.2%	3.1%	17.5%
2/6/2018	1.4%	6.8%	3.4%
2/28/2020	-13.8%	19.9%	31.3%
8/5/2024	6.3%	17.7%	?
4/4/2025	?	?	?
Average	3.8%	14.1%	19.4%
% Positive	83.3%	91.7%	81.8%

Source: SentimenTrader, Morningstar Direct, Cerity Partners. Figures are total returns for the S&P 500 starting the day after each trigger and ending one, three, and 12 months later. **Past performance is not a guarantee of future performance.**

Volatile Markets Move Fast in Both Directions

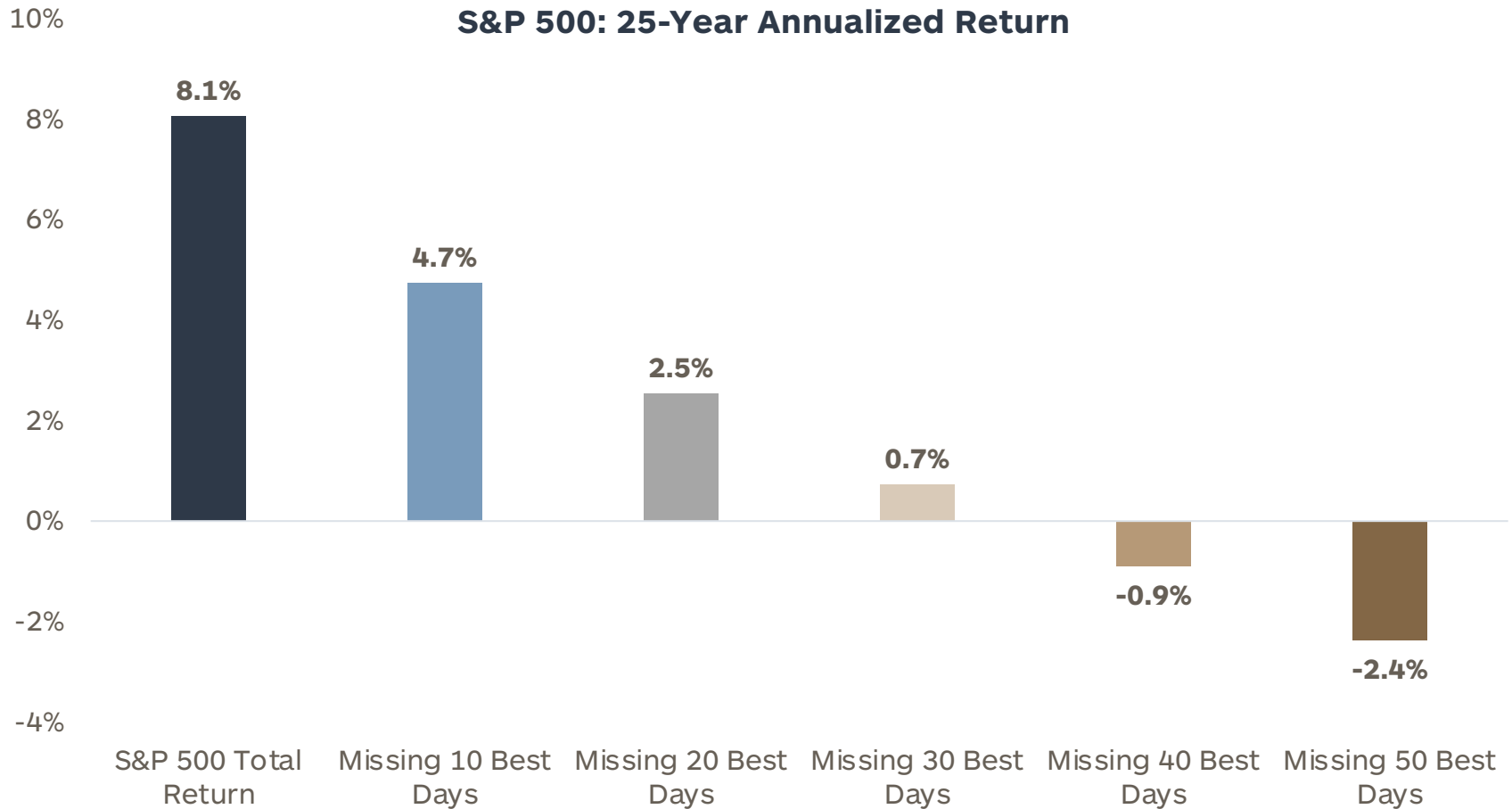
The market's best days tend to cluster around its worst, raising the stakes for market timing.



Source: FactSet, Cerity Partners, Date range is 1/1/2000 – 3/25/2025. For illustrative purposes only. **Past performance is not a guarantee of future performance.**

Timing Markets is Tempting, But Getting it Wrong Has Costs

Even missing out on just a handful of good days in markets can wreak havoc on portfolios.

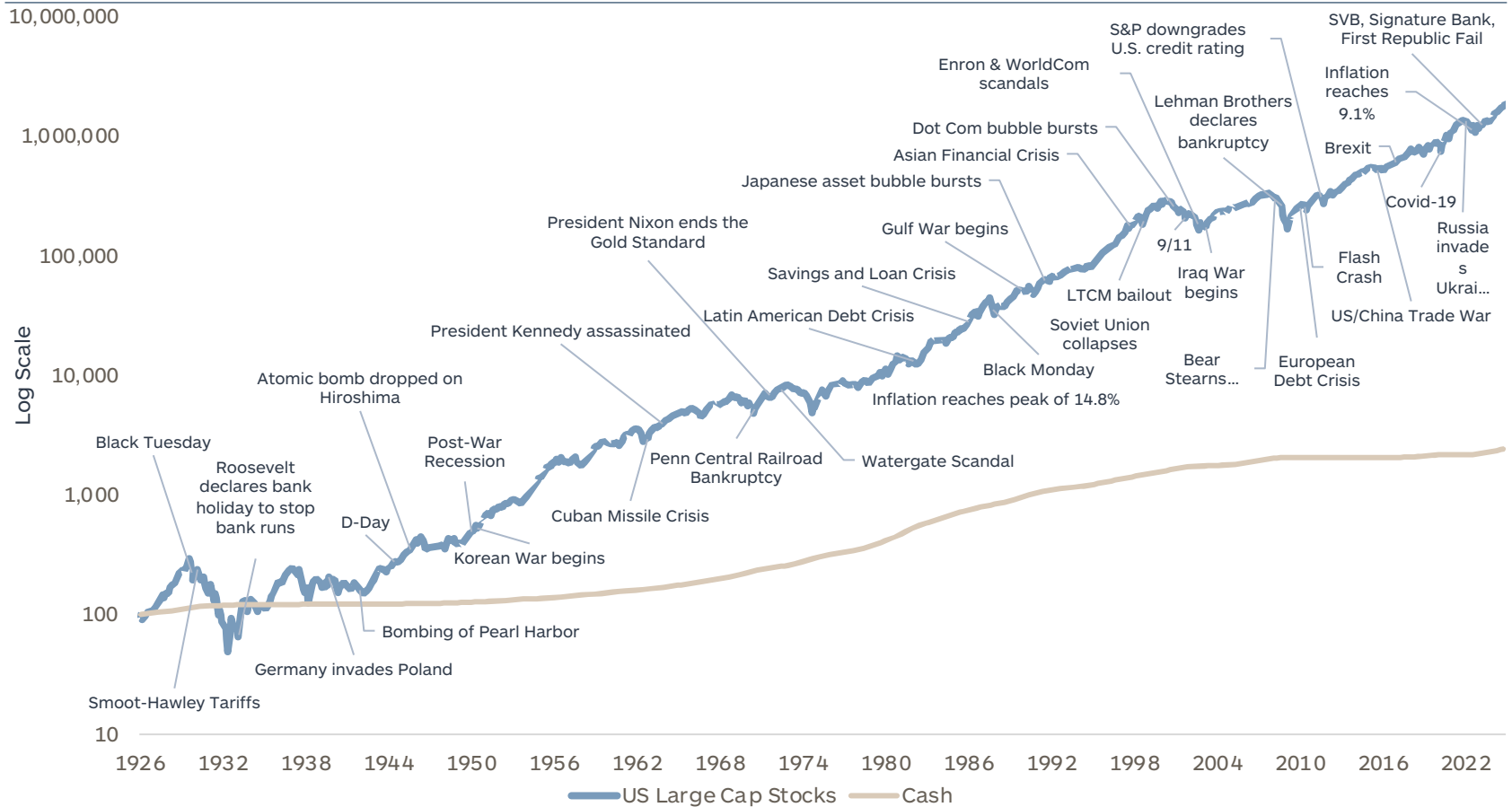


Source: Bloomberg, Cerity Partners, Date range is 3/1/2000 – 2/28/2025. For illustrative purposes only. **Past performance is not a guarantee of future performance.**

A Longer-Term Perspective

“Zooming Out” puts big market events in context.

HISTORICAL EQUITY MARKET RETURNS AND NOTABLE EVENTS (1926-2024)



Source: FactSet and Cerity Partners as of 12-31-24. Data shows the Ibbotson SBBI US Large Stock index and SBBI US 30 Day T-Bill index from 12-31-25 to 3-31-2024. For illustrative purposes only. Past performance is not indicative of future results.

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