Tariffs, Trade, and Turbulence:
What You Need to Know Now

April 17, 2025 — Good afternoon, faithful FourThoughters! It's been a while since our last live webinar, and judging by the turnout, it's clear you've missed them. We're glad to be back.

This webinar centers around a topic that's been dominating headlines and impacting portfolios, tariffs. Over the years, we've weathered numerous financial crises: Black Monday in 1987, the Savings and Loan Crisis, the Tech Bubble, the Global Financial Crisis, and, more recently, COVID-19. Each time it felt different because it was. And now, tariffs are the "this time is different" concern.

SO WHAT ARE TARIFFS, AND WHY DO THEY MATTER?

A tariff is essentially a tax on imported goods. Let's say a Chinese company exports a $10 pair of jeans to a U.S. importer. With a 10% tariff, the importer pays $11, $10 to the Chinese company and $1 to the U.S. government. Who ultimately bears the cost? Typically, it's the U.S. consumer. That extra dollar gets passed along in the final price, making goods more expensive.

Sometimes, exporters lower prices to remain competitive, or importers reduce profit margins. But businesses generally favor profits. And so, in most cases, consumers pay more.

This added cost trickles into the broader economy. If companies slash margins, corporate earnings fall. If consumers stop buying, economic momentum slows. In a tariff war, there are no winners, just reduced global growth.

Looking back, the infamous Smoot-Hawley Tariff Act of the 1930s raised duties on over 20,000 imports. The result? Global trade plunged 65% and deepened the Great Depression. Most economists agree: widespread tariffs are rarely good for prosperity.

Today, many of our trading partners impose higher average tariffs than the U.S. While some disparity may be justified, developing nations may protect budding industries, the imbalance, even among developed nations, signals a need for fairer agreements.

Two types of tariffs are in the spotlight: a 10% across-the-board tariff on all imports and specific country-based tariffs. Both effectively act as taxes on consumers or hits to corporate profits, or both. While this is just the first volley, broader trade tensions include tech taxes and regulatory mismatches, especially with the European Union.

Markets responded quickly. Initially, the S&P 500 hit all-time highs, buoyed by optimism. But when the tariff announcements became real, the market corrected, hard. A 20% drop followed, including one day with a near 12% loss, then a surprising 9% rebound. Volatility spiked, interest rates soared, and Washington took notice. The surge in Treasury yields, especially on the 10-year note, was a wake-up call.

Investor sentiment has hit lows not seen even during the 2008 crisis or COVID-19. This speaks to the depth of concern, not just about tariffs, but their ripple effects on inflation, employment, and economic growth.

At FourThought, we approach such uncertainty with a framework we call "Street Signs." It's a predictive model inspired by behavioral economics and the book Superforecasting by Philip Tetlock. We start with a base case and adapt as new signs emerge.

Here's our base case: Trade negotiations will proceed. Some resolutions will happen quickly (e.g., with Canada, Mexico, the EU), while China may take longer. The U.S. likely avoids a recession, and investor sentiment improves as agreements are reached. Probability? Around 50%.

Our bad-case scenario involves a drawn-out conflict with China, eroding sentiment and tipping the economy into recession. Worst case? A new global order emerges, replacing decades of globalization with protectionism, isolation, and rising costs, a scenario we believe is unlikely but must be prepared for.

We analyze market fundamentals. Stocks are driven by profits, and more specifically, by expectations of future profits. Right now, earnings projections haven't changed much. But if tariffs persist, we could see downward revisions, further market declines, and a shift in investor psychology.

Volatility is normal. A 10% market drop typically occurs every year, and a 20% correction every 3–4 years. Since 1926, $1 invested in U.S. stocks has grown to over $16,000. That's why we stay invested, even when it's uncomfortable.

Timing the market is tough. Missing the 10 best days can dramatically lower long-term returns. Bull markets last longer and go higher than bear markets fall. Patience and perspective are critical.

WHAT SHOULD YOU DO NOW?

1. **Stick to Your Plan**
   Your FourThought plan is built for these moments. If you need cash soon, make sure it's in safe, liquid assets. If you're investing for growth, treat this as an opportunity.

2. **Align Assets to Time Horizons**
   Growth assets come with volatility. That's the price of return. But if you have short-term needs, those should be matched with bonds, CDs, or money markets.

3. **Focus on Quality**
   We're not chasing speculative trends. We're selectively buying quality companies like Nvidia, Broadcom, and Florida Power & Light, firms with solid fundamentals and predictable cash flow.

4. **Stay Diversified**
   Don't put all your eggs in one basket. Avoid overconcentration and stick to diversified strategies that balance risk and return.

5. **Don't Panic**
   Capitulation hasn't happened yet, and we don't want you to be the one who does it first. Volatility brings opportunity, not just risk.

6. **Revisit Your Income Plan**
   Whether you need income today or tomorrow, your plan should be backed by dividends, interest, and maturing bonds, not forced sales.

Tariffs are a challenge, but they're not insurmountable. The right perspective, paired with thoughtful planning, can turn disruption into opportunity. As always, your FourThought team is here to help you navigate whatever lies ahead.

Don't hesitate to reach out.

Great planning requires FourThought.