

U.S. Tariff Announcements

There's a well-known maxim in the markets: sell the rumor, buy the fact—a belief that market expectations can often be worse than reality. However, in the case of today's US tariff announcement, the outcome was, unfortunately, more significant than anticipated, leading to increased volatility across global markets. Equities took a hit, and bond yields fluctuated. This is a strong reminder of the importance of diversification and maintaining a margin of safety in your investment strategy. While the new tariffs will undeniably have significant implications for global trade, economic growth, and inflation, it's important to note that volatility can create attractive entry points for quality assets, especially for investors with a medium- to long-term time horizon.

What We Know About the Tariffs

Today, the US announced a set of "reciprocal tariffs" on a range of countries, based on what it believes to be the effective tariff rates that these nations impose on US goods, including factors like local sales taxes and alleged "currency manipulation." In Australia, with which the US maintains a trade surplus, we will face a 10% tariff (the minimum rate). Goods manufactured in the US are exempt from these tariffs. There are also some temporary exemptions, including: steel and aluminum; automobiles and auto parts already affected by Section 232 tariffs; copper, pharmaceuticals, semiconductors, and lumber; and bullion, energy, and minerals not readily available in the US.

What We Don't Know

While President Trump did not provide a definitive timeline for the duration of these tariffs, he implied that they could remain in place indefinitely. This remains to be seen, and could be impacted by potential legal challenges and the outcome of upcoming elections.

Another uncertainty is how the affected countries will respond. Potential scenarios include retaliating by raising tariffs on US goods, prompting further US tariff increases. Another could see countries seeking to lower tariffs on US exports in exchange for concessions on their goods. At this point, the situation remains fluid and subject to change.

Initial Market Reactions

In after-hours trading, US stocks experienced a sharp sell-off. Unsurprisingly, companies reliant on imported goods were among the hardest hit, including Apple (-7%), Nike (-6%), Amazon (-6%), and Gap Stores (-12%). Foreign companies with significant exposure to the US market, particularly those based in China, also took a hit, such as Alibaba Group (-6.5%) and JD.com (-5.5%). US broad market indices followed suit, with the S&P 500 dropping over 3% and the NASDAQ falling by more than 4%.

However, the most significant consequence of today's announcement might be its impact on future US Federal Reserve policy. The tariff news could potentially shift the Fed's focus from inflation concerns to economic weakness. If this occurs, the Fed may decide to resume interest rate cuts sooner than previously anticipated.

Potential Ramifications

As a result of these changes, consumers in the US will face higher prices, leading to inflationary pressures. Further, global GDP growth could be stifled as profit margins come under pressure from increased costs.

That said, economics is rarely so straightforward. There are factors that could offset these challenges. For example, the US might respond with fiscal stimulus measures, such as additional tax cuts, to support the economy.

Furthermore, the tariffs could accelerate the "reshoring" of manufacturing, which has been one of President Trump's key goals.

What Should You Do?

Market volatility, particularly in reaction to policy shifts like tariff announcements, is a timely reminder of the crucial role portfolio diversification plays in mitigating risk. While short-term fluctuations are inevitable, a diversified portfolio can help smooth out the bumps and provide stability during periods of uncertainty. Like any other case of market volatility, we encourage a long-term view, understanding that market turbulence is a feature, not a bug, of investing.

Conclusion

The US tariff announcement has added to market volatility and uncertainty. While short-term disruptions are inevitable, it's important to recognise the importance of diversification and company fundamentals. It's also important to remember that this situation will continue to evolve, and we'll ensure to keep you informed of any future changes.

If you have any questions at all about your portfolio, please feel free to reach out for a chat. I'm happy to support in any way I can.

Best,

Michael

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