

# Tariffs & Tenacity for the long-term



Donald Trump's so-called "Liberation Day" has liberated markets of their gains year to date, and the USA of much of its reputation and power. The day itself, as has been widely reported, represented a staggering change in global trade relations, with the US slamming allies and enemies alike with trade tariffs, in effect massively increasing the cost for American consumers of importing goods from abroad. This is on top of the already-in-place 25% tariff on autos, and the tariffs already in effect on Mexican and Canadian goods as well as metal imports.

Markets took a sharp dive on Wednesday and Thursday following the unveiling of the new tariff package, but the full extent of the damage is still unfolding. The real pain began in earnest after China returned fire, imposing a steep and reciprocal 34% tariff on American goods, a move that sent shockwaves through global markets as it marked another major step towards all-out trade war. The situation worsened over the weekend when President Trump, diplomatic as ever, in response to plummeting markets, suggested that "sometimes, you have to take your medicine", and insinuated a harsh response to China.

The impact on the U.S. stock market has been particularly severe, with the major index taking a significant hit. The US index has already dropped by more than 12% from its peak in the year. This sharp decline has only intensified investor fears that Trump's trade war is unravelling the foundations of the U.S. economy.

Globally, markets have been in freefall, with losses spreading far beyond U.S. borders. From Europe to Asia, major markets are grappling with fears of a severe global economic slowdown. Investors are bracing for more pain, with almost no asset class left untouched by the panic. Equities, commodities, and even safe-haven assets like gold have been under pressure as market sentiment turns increasingly dour. The widespread panic has led to a dramatic flight to quality, as investors seek refuge in U.S. Treasuries and other low-risk assets.

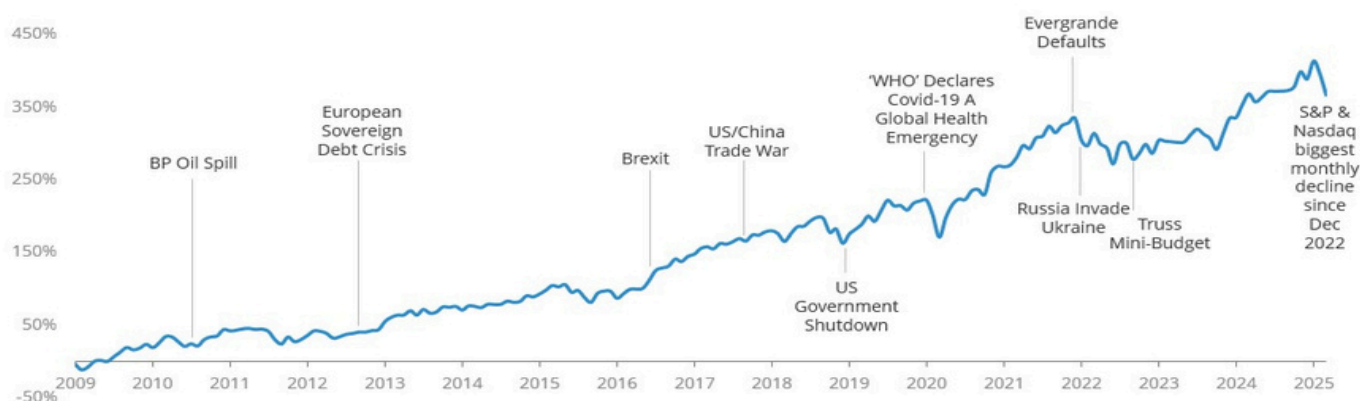
Bond markets are also reflecting this shift in sentiment, with yields on government debt plummeting. The U.S. 10-year Treasury yield dropped from 4.4% to 3.9% in a matter of days, signalling that investors are betting on interest rate cuts to stave off an impending recession.

Our decision at the beginning of the year to lower US exposure in favour of bonds has proved prescient, as has our significant underweight to the US relative to global markets. Nevertheless, it has been extremely uncomfortable in the year-to-date, and we are cognisant that this feeling is felt doubly by investors, who are seeing their hard-earnings savings fall in value.

## How should we respond?

In moments like these, when markets are experiencing significant volatility, it's understandable to feel panicked. The instinct to pull back, to take a defensive position, and weather the storm can be strong. However, this is exactly when the importance of staying calm, focussed, and committed to your long-term investment strategy cannot be overstated.

The reality is that markets have faced turmoil before—and each time, they have rebounded. The Global Financial Crisis of 2008, for example, saw global markets plunge, but those who remained invested in a well-diversified portfolio saw recovery and growth over the following years. Similarly, during the early months of the COVID-19 pandemic, markets experienced an almost unprecedented sell-off, but by mid-2020, they had fully recovered—and then some. Indeed, the chart below shows us just how small those events look given the fullness of time. These events remind us that, while downturns are painful in the short term, they are not permanent, and the recovery often follows once fear subsides.



Source: Square Mile and LSEG Lipper (all rights reserved). Data as at: 31 March 2025, in GBP. Global market performance is represented by the IA Global Sector. Past performance should not be seen as an indication of future performance.

We are monitoring market conditions closely and keeping a sharp eye on the evolving situation. Whilst our long-term strategy remains unchanged, there may be adjustments we make to ensure that your portfolio continues to align with your goals. If necessary, we'll make tactical shifts in response to the market environment, always with your best interests in mind. However, the essence of the strategy—staying invested, sticking to a disciplined approach, and not reacting to short-term noise—remains unchanged.

Markets are cyclical. They go up, they go down, but over time, history has shown that they trend upward. Staying focused on your long-term goals and avoiding emotional reactions during periods of volatility is one of the best ways to position yourself for success. We've been through tough times before, and every time, markets have found a way to recover and grow. There is no reason to believe this time will be any different.

Mark, Chris, Dan, Matt, Scott and Florrie  
**Square Mile Investment Management Team**

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Source of data: Square Mile, unless otherwise stated. Date of data: 07 April 2025.