Key **Takeaways:**

- Trump tariffs are here.
- What we know now as situation is fluid.
- Global equity volatility picks up
- Downward risks to global growth pick up.
- Volatility to remain heightened as details emerge.

Tariffs go into Effect

President Trump, on Saturday (Feb 1), announced he imposed tariffs on goods imported from Mexico, Canada and China. The tariffs are in retaliation for the immigration crisis and the flow of fentanyl across U.S. borders. The tariffs should not be a surprise as this was a campaign promise from the Trump administration. However, volatility has increased across global equity markets. While this is still a fluid situation, in this weekly insights, we outline what we know at this time and what it may mean for equity markets and the global economy.

- **What we know now.** President Trump imposed tariffs of 25% on goods from Mexico and Canada with Canadian energy receiving a smaller tariff (i.e. 10%). In addition, he imposed a 10% tariff on imports from China. These are on top of any tariffs already in place. Canada has responded with a 25% tariff imposed on goods from the U.S. Mexico has vowed to hold retaliatory tariffs for a month and increase border protection. China filed a complaint with the World Trade Organization and said they will take "corresponding countermeasures."[1]

- **What products may be impacted?** The biggest U.S. imports from Canada and Mexico include machinery/transportation, energy and manufactured products (e.g., autos, auto parts, electronics, furniture) and food. Energy may have a lesser impact as the tariff is 10% (vs. 25%).

- **What equity sectors may be impacted?** Some equity sectors that could be directly impacted are industrials (e.g. autos), technology (e.g. chips) and consumer discretionary (e.g., furniture, toys) and select consumer staples (e.g. food prices could rise and pressure grocery margins).

- **What does it mean for the global economy?** The estimates we have seen for the impact on global GDP have been extremely wide. We agree that tariffs put downward pressure on GDP. However, tariffs can affect economies differently and those that rely on exporting products will be impacted more than those that don't rely on trade. We believe it is too early to be able to realistically forecast what the tariffs will do as the situation remains highly fluid.

The Bottom Line:

It is important to understand the impact of tariffs is highly uncertain. For example, we are already seeing the tariffs on Mexico delayed. The ultimate impact on growth and inflation depend on the retaliatory measures, if it is a one time tariff, if it is permanent and how much companies pass on to consumers? We know we cannot use Trump's first term as a comparison. From an economic perspective, U.S. GDP has little room for error especially in the consumer sector. We are in a highly different inflation climate than in 2017/2018. Therefore, the Fed can not be as flexible to aid in a downturn. However, in our portfolios we have already been positioned to withstand volatility as we are well diversified in equities (regionally and globally) and defensive in fixed income. The volatility only highlights the risk that sector valuations that price in perfection (e.g. high PE sectors) have for investors. We have extra cash ready to deploy if the sell off worsens and valuations look compelling. We will continue to weigh valuations with the forecast for growth and earnings.

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Key Takeaways:

- Consumer confidence fades on inflation fears.
- Fed keeps rates unchanged as expected.
- Inflation comes in as expected.
- U.S. equities underperform international counterparts.
- No inflation surprise was good for bonds.
- Commodities weighing Trump tariffs.

Weekly Economic Recap –

Consumer Sentiment Declines as Year-Ahead Outlook Becomes Cloudy

Building permits, a leading indicator for housing construction, fell for the third time in the past four months. The weakness was driven by the West.

In contrast to building permits, new home sales jumped in December. On a year over year basis, new home sales are growing at the strongest pace since January 2024.

The preliminary read on December durable goods orders showed orders declined for the second consecutive month. The decline was driven by a sharp decline in non defense aircraft. If you exclude transportation, orders rose in December.

Consumer confidence declined in January in both confidence categories, the present situation and expectations for the future. The weakness was led by uncertainty surrounding inflation due to potential tariffs.

The Fed met and, as expected, kept interest rates unchanged at 4.25-4.50%. They noted that they “don’t need to be in hurry to adjust policy stance,” and inflation “has eased, but remains elevated compared to their goal.”

The first reading on 4Q24 U.S. GDP showed that the economy grew 2.3%, slightly less than expected. Growth was driven by the consumer which was much stronger than had been expected (+4.2% vs. 3.2%) while the weakness was led by spending on equipment due to the Boeing strike.

Inflation as measured by PCE Core, came in as expected, showing inflation grew 0.2% (MoM) and is growing 2.8% on an annual basis.

Weekly Market Recap –

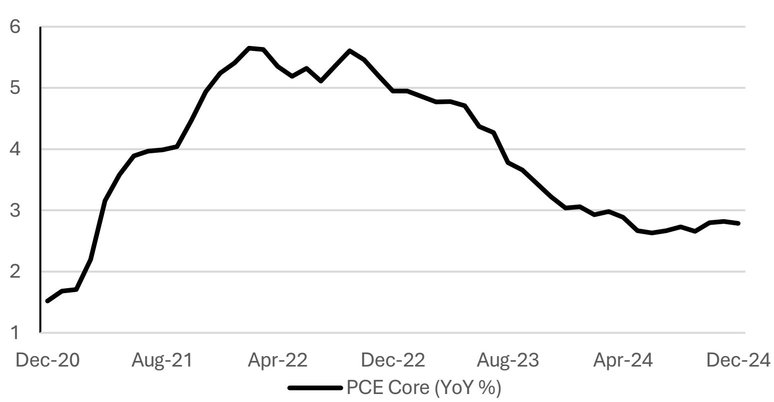
U.S. Equities Lead Losses; Underperform International Equities.

Equities: The MSCI AC World Index declined for the third time in the first five weeks of the year. However, the decline was primarily concentrated in the U.S. In fact, the MSCI EAFE Index outperformed the S&P 500 by nearly 2% and the MSCI Emerging Markets Index outperformed by 1.3%. U.S. equities were negatively impacted by tariff concerns and uncertainty around the Fed’s ability to cut interest rates. Within the U.S., the worst area of the equity market was large cap growth.

Fixed Income: The Bloomberg Aggregate Index rose last week as bond investors cheered the data that showed inflation came in as expected and volatility in equities drove investors to bonds. Municipal bonds led the gains for fixed income followed by emerging market bonds and Treasury inflation protected securities.

Commodities/FX: The Bloomberg Commodity Index declined for the second consecutive week led by a drop in energy and industrial metals. However, volatility in commodities and the dollar was high as investors tried to gauge the impact of Trump’s tariffs.

Progress on Inflation Potentially Stalling



Footnotes: Data is as of December 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Global Equities Fall Led by the U.S.

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	44,545	0.3%	4.8%	7.1%	18.9%	4.8%
S&P 500	6,041	-1.0%	2.8%	6.2%	26.3%	2.8%
Russell 1000 Growth	4,121	-1.5%	2.0%	9.5%	32.7%	2.0%
Russell 1000 Value	1,906	-0.1%	4.6%	3.7%	19.5%	4.6%
Russell Midcap	3,682	-0.6%	4.3%	5.5%	22.0%	4.3%
Russell 2000	2,288	-0.9%	2.6%	4.5%	19.1%	2.6%
Nasdaq	19,627	-1.6%	1.7%	8.7%	30.4%	1.7%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	869	-0.4%	3.4%	4.7%	20.7%	3.4%
MSCI EAFE (USD)	2,380	0.8%	5.3%	2.3%	8.7%	5.3%
MSCI Europe ex UK (USD)	2,644	0.4%	7.4%	2.2%	7.3%	7.4%
MSCI Japan (USD)	3,992	1.7%	1.6%	1.9%	5.1%	1.6%
MSCI UK (USD)	1,280	1.5%	5.2%	3.7%	14.7%	5.2%
MSCI EM (USD)	1,093	0.3%	1.8%	-2.0%	14.8%	1.8%
MSCI Asia ex Japan (USD)	708	0.2%	0.7%	-2.4%	19.3%	0.7%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.9%	0.4%	0.5%	-0.1%	2.1%	0.5%
U.S. Govt/Credit	4.7%	0.4%	0.5%	-0.2%	2.0%	0.5%
U.S. 10 Year Treasury	4.5%	0.7%	0.6%	-1.0%	-0.8%	0.6%
U.S. TIPS (1-10YR)	4.5%	0.5%	1.2%	0.8%	4.0%	1.2%
U.S. High Yield	7.2%	0.2%	1.4%	2.1%	9.7%	1.4%
EM Bonds (USD)	6.6%	0.5%	1.1%	1.0%	8.3%	1.1%
Municipal Bonds	3.7%	0.6%	0.5%	0.7%	2.1%	0.5%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	248	-1.0%	4.0%	5.4%	9.1%	4.0%
Crude Oil (USD/bbl)	$72.8	-0.6%	-1.2%	3.3%	0.5%	1.0%
Gold ($/oz)	$2,798.4	2.8%	6.7%	3.0%	38.1%	7.3%
Copper	$427.9	1.7%	5.6%	-1.6%	12.6%	6.9%
Wheat	$559.5	6.1%	7.3%	-3.4%	-12.8%	3.0%
U.S. Dollar	108	1.6%	0.1%	4.5%	4.9%	0.5%
VIX Index	16.4	10.6%	-5.3%	-29.1%	14.5%	-5.3%

Footnotes: Data is as of January 31, 2025.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1] *https://www.politico.eu/article/china-vows-retaliation-after-donald-trump-likely-trade-war-tariffs-chinese-imports/*

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