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EP 183 | When Tariff Waves Crash: Maintaining Course in Volatile Markets

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Andrew Johnson: Hi everyone. This is Andrew Johnson and thanks for tuning in. We're recording this shortly after markets closed on April 3rd, 2025. This comes on the heels of the announcement yesterday from the President of the United States, unveiling widespread tariffs that touched nearly every country trading with the US, and markets didn't take it lightly.

Andrew Johnson: We saw a sharp and broad-based sell-off throughout the day. So we thought it was a good moment to check in with Jeff Mo, lead portfolio manager of our US midcap strategy, to get his take on what's happening and how he's thinking about it. Thanks for making the time, Jeff.

Jeff Mo: Thanks for having me.

Andrew Johnson: Let's start with what happened. Jeff, walk us through today's market selloff and how the so-called "liberation day tariffs" factored into the reaction from investors.

Jeff Mo: Sure, Andrew. What happened last night after markets closed was the announcement from the Trump administration. As you highlighted, widespread tariffs with very bespoke rates per country. A minimum 10% on any country except Canada and Mexico, and then some countries with tariff rates into the 40% range. This was done based on a calculation of how large a trade imbalance is on a relative basis between the US and that nation.

I think while obviously this was telegraphed in advance, which countries were going to receive tariffs and the amount of them was not telegraphed. So what we saw today is the gap between reality and expectations. As is often the case, markets are trying to price in what they expect the future will look like. President Trump was elected on a tariff mandate, and certainly he has come in since his inauguration with various tariffs on different countries, initially on Canada and Mexico, but certainly now very widespread, pretty much every nation on earth.

The expectation was that after the initial bluster of tariffs on Canada and Mexico and then delays on them or retractions on certain parts of the tariff—saying any goods in the Canada-Mexico situation that were part of the USMCA free trade agreement would be exempt from tariffs.

Jeff Mo: So I think there was a view from the markets that having seen that type of behavior from President Trump—i.e., the tariffs maybe are not here permanently, or maybe they're only here on a small scale. It is being used as a negotiating tactic to get concessions from Canada and Mexico. So when he put out a date, April 2nd, and said that's when we will broaden the tariffs, I think there was a general view from the markets that, well, they won't be maybe too broad, or if they are broad, they won't be too large.

I think what ended up happening yesterday was very broad and in many cases very large, and that certainly surprised the market. There's still a general view—most economists agree that free trade is generally additive to global GDP growth, and so tariffs putting up barriers to free trade will therefore be subtractive to global growth.

So the reaction in today's markets, where the S&P 500 closed down about 5% or almost 5%, is a reflection that the market views this as negative for global growth. And not just equity markets—you could see it in bond markets as well. When there's expectations of recession or weaker economic growth, bond yields tend to fall—bond prices rise, yields fall—and that's also what we saw in bond markets as well.

Andrew Johnson: You know, a common question that we ask around here, Jeff, as you know, is "so what?" In other words, from your perspective, and really feel free to take this in whatever direction you feel, but maybe what are the short, medium, long-term implications of this tariff announcement for either markets, the broader economy, maybe even just investor sentiment moving forward?

Jeff Mo: I think in the short term, there's a scramble of expectation reset. Investors are certainly—at least some of them—restructuring their portfolios given the large moves. Corporations are also having to rethink perhaps their supply chain, their reinvestment strategies.

Even someone like Emmanuel Macron, the President of France, came out and called for a pause of French investment in the U.S. And even if corporate leaders aren't necessarily saying that publicly, I imagine around many boardroom tables, there is now more caution around reinvestment.

For example, there's been a move over the last few years for some companies to move their supply chains out of China to other parts of Southeast Asia. And I think those executives certainly were surprised today to see that pretty much every country in Southeast Asia is getting a tariff rate on them that is getting close to China's tariff rate as well. So essentially no benefit from having moved their supply chains and made all those investments.

So I think that would cause pause for both investors as well as corporations making investments. What does that mean if corporations invest less? Well, I think that trickles down to the economy. If they're investing less, they're building fewer new factories, they're spending maybe less on R&D, whatever it might be. That generally means less money flowing down to workers. Less projects being started on the ground.

This is all predicated on the fact that these tariffs perhaps are here to stay for a while, which is also uncertain at this point. As I said earlier at the beginning of my comments, President Trump has had a history even in these few short months of putting tariffs on or threatening to put tariffs on and then rolling them back or partially rolling them back days, weeks, and months later.

Now assuming that this is a genuine push to rebalance a U.S. trade deficit, and this is a strategy that the Trump administration is going with, I think that is negative for business investment. And ultimately when consumers see and understand this concept—maybe when consumers listen to this podcast and say, "Oh, businesses aren't investing. I should maybe also be more cautious."

And consumer sentiment has already weakened. There are many different ways of looking at that, whether it's trailing consumer spending in January, February, March—numbers are starting to come out as well—or surveys of consumer sentiment. They are starting to turn a little bit negatively, and I imagine something like this would cause an even more negative reaction.

There's also the aspect of the wealth effect. Stock markets have been pretty buoyant, and actually even with today's sharp pullback in U.S. markets, we're still kind of equal to where U.S. markets were in the late summer of last year. So it's not like we've lost a ton of gains. We've only lost about six to eight months worth of gains.

But when I talk about the wealth effect, many American consumers are also invested in the American stock market. So if they've seen their portfolios pull back five, 10%—I think the S&P 500 is down 9 or 10% now year-to-date in U.S. dollar terms. They will look at that and say, "Oh, well, my investment portfolio is not as strong as it used to be. Maybe I was gonna do a home renovation. Let's hold off on that."

So those are probably the conversations that are happening around dining room tables in the nation and even around the world. And I think all of these things are negative, but all of them are largely driven not necessarily by fundamental reasons, but by confidence generally, caused by the instability of these tariffs and the uncertainty of how much, when, and for how long that's been created by the Trump administration.

Andrew Johnson: Board rooms and dining rooms and everything in between. So we've heard the "what" Jeff. You just gave a great response to my "so what" question. My final question is "now what?" You're facing volatility, uncertainty as a portfolio manager. What do you do, if anything, and what's your approach to risk management in times like this?

Jeff Mo: The Mawer "Be Boring. Make Money." approach is very much staid in the sense that when something could be very emotionally reactive for an investor, your first step is actually to step back, to tell yourself, "Let's be calm. Let's assess the situation."

So what do we know here? We know that uncertainty has increased. We know that with uncertainty increasing, the probability or chances of investment dropping, whether it's consumer spending or business investment, is on the table. But at the same time, we don't have a lot of certainty to how these tariffs will ultimately play out, for how long and how much.

So I think in that environment, as pretty much in any environment that Mawer has faced in its history, the best path forward is to prepare, but not to predict. We don't know what tomorrow will bring, but we do know that buying a portfolio of wealth-creating companies that are run by excellent management teams, and then ensuring that we don't pay too much for them by going through a rigorous process and Monte Carlo analysis to ensure that probabilistically we're buying these companies at a discount to intrinsic value—we know that has worked in up markets, that has worked in down markets, and that has worked in very uncertain and volatile markets like today.

And so I would say that now is not the time to necessarily fix your ship in the middle of a storm. Now is the time to just assess and ensure that no one is falling overboard. It's sort of like a situation where we were sailing in pretty calm waters throughout 2024. Markets were up, volatility was low. Now in 2025, the winds have picked up. The waves are starting to crash on the side of the ship that is your portfolio.

And all of a sudden, April 2nd after market closed, there was a particularly big wave that came. Maybe even washed a bit overboard. You know, you're a good sailor. You kind of made sure everything on the deck had been tied down. You made sure you've already taken your sail down to kind of sail through the storm. But now, after the wave hit you, you still pop yourself up on deck and look around. Do we need to retie something down? Or maybe the ship is slightly unbalanced one way or the other.

Now that you know that this is a really big storm that could actually create waves that could wash off the ship, maybe you should move a couple of items from above deck to below deck. So those are small adjustments you can make when you're in the middle of the storm. But now is not the time to say, "Oh, actually I don't want this sailboat. Let's go get a completely new boat." You don't have the ability to do that.

At the margin, I think myself and other portfolio managers here at Mawer, we will consider the new information. Certainly, I think companies that have a business model that's more exposed to the movement of goods across borders, either within their supply chain or as a part of their end product sale—for example, retailers or consumer products companies—they're relatively more exposed. So those are the companies that we are taking a closer look at and scrutinizing whether or not the risk-reward ratio is still in our favor as investors.

But overall, I would say we built a portfolio with these scenarios in mind. We have companies that are defensive. We have companies that will do better and have their earnings and profits accelerate in a recession. And so these are the situations that I think an all-weather portfolio is built to withstand. And we don't think that this particular wave that happened yesterday was any different or greater than any others that Mawer has faced in our 51-year history.

Andrew Johnson: All right. Well, thanks again for taking the time to share your insights today, Jeff, and for our listeners, we'll be bringing Jeff back just over a week's time from now for a deeper and more fulsome conversation as part of our quarterly recap, and perhaps some reflections on this topic as we see things unfold further.

Andrew Johnson: So keep an eye out for that, and for our clients, as always, please reach out to the person that you work directly with if you have any questions or want to discuss this topic any further. Thanks everyone.