

### Navigating Uncertainty: President Trump's Tariff Announcement

**One way or another, the American economy will get through this period, and the trade war, like all wars, will end.** While the financial news headlines focus on just one area of the market, such as the S&P 500 Index, **it is important to remember that this area only represents a fraction of Legacy's portfolios which are globally diversified within and across asset classes.** One of our key themes coming into this year was that the role of bonds, to provide portfolio ballast in times of equity market stress and generate a steady stream of income, has been reestablished. Indeed, bonds have provided the ballast needed this year with a strong positive total return.

After much anticipation, the tariff band-aid was finally ripped off Wednesday. President Trump's tariff announcement has sent shockwaves through the stock market, leading to declines as investors recalibrate expectations. The newly proposed tariffs target the European Union, China, Japan, and others, while sparing Mexico and Canada. The size, scope, and structure of the tariffs caught the market off guard. **The 'sell now, ask questions later' reaction function of investors has led to a sharp sell-off in global equity markets.** The market's reaction also reflects the uncertainty surrounding how companies and consumers will absorb these tariffs and the potential ripple effects on global trade relationships.

Given the scale of these tariffs, **the likelihood of an economic slowdown has increased over the level where we started the year, yet is not guaranteed.** The markets will continue to assess how higher costs for imported goods could pressure corporate margins, how much will be passed on to the consumer or how much will be absorbed by supply chains. Additional knock-on effects must also be considered – i.e. consumers may substitute products or change their spending habits.

**While tariffs do pose an uncertainty to growth, viewing them in isolation can miss the bigger picture.** The current trade and tariffs scenario must also be viewed in the broader context of evolving policy and regulatory events, many of which are still unfolding. These include tax reform, immigration, and deregulation, among others. **This policy shift is also likely to force Congress to act on tax relief measures to counterbalance the economic impact.** The interplay between these factors will shape market sentiment in the coming weeks as investors assess the broader implications for corporate growth and consumer demand. **Investors only need to reflect on the COVID-19 pandemic to recall that companies are adaptive. They adjusted supply chains during the pandemic and will do so again over time in this situation.**

Amidst all the tariff noise and panicked selling in the markets, **there are some silver linings.** First, the tariff announcement is now behind us, and the narrative should shift from tariff policy to tariff negotiation. The administration has already stated that the reciprocal tariff amounts mark the high watermark for tariffs, barring any retaliation. Second, the market now has details on what likely is the worst-case scenario for trade policy, assuming our trading partners follow the path of negotiation rather than escalation. Third, **lowered growth expectations and higher revenues from the added tariffs will place added pressure on Congress to pass a tax bill that could include lower corporate and income tax rates; paired with deregulation, these forces could offset the negative impacts of the announced tariffs.**

Despite the immediate volatility, markets have historically demonstrated long-term resilience in the face of uncertainty. While this policy marks a clear effort by President Trump to reorder global trade dynamics, the actual economic impact may ultimately be less severe than initially feared. Companies and trade partners may adjust their strategies, seek exemptions, or negotiate policies that temper the worst-case scenarios. **As such, while the market reaction this week reflects a significant shift in expectations, history suggests that investors will eventually find a new equilibrium as more clarity emerges on the long-term implications of these tariffs.** We could also be close to peak policy uncertainty, in which market downturns have tended to coincide with peaks in economic policy uncertainty (see chart below). While we don't want to rely on one specific data point, and we may not be at peak uncertainty yet, it has historically represented a turning point.

**To conclude (and restate the preliminary): One way or another, the American economy will get through this period, and the trade war, like all wars, will end.**

