

We hope you had a great Easter weekend and are enjoying the start of the warmer days. Spring is around the corner, so let that sunshine in!

### **“Liberation Day” and the New U.S. Tariff Policy**

The first quarter of the year was marked by the surprise launch of the U.S. tariff policy, dubbed “*Liberation Day*.” This introduced a **10% universal tariff** alongside **targeted tariffs**—including 25% on non-USMCA produced automobiles, auto parts, steel, and aluminum. Even more aggressive tariffs were directed at specific regions:

- **EU: 20%**
- **China: 34%**
- **Vietnam: 46%**

Markets were caught off guard by the breadth and depth of these measures, triggering a sharp **equity sell-off** that soon spilled into the bond markets.

### **Market Reaction & Interest Rate Shock**

Fears over increased government deficits and rising inflation caused a spike in yields, with **10-year Treasury rates rising over 50 basis points to just above 4.5%**—one of the sharpest moves in recent history. This bond market stress appears to have prompted the government to backtrack slightly, introducing **tariff exemptions and resets**, which helped both equities and bonds recover.

When the economic impact became clear, **President Trump softened the tariff stance**.

- **Most country tariffs were reduced back to 10%.**
- **Auto-sector tariffs were paused** to allow companies time to reconfigure supply chains.
- **Exemptions were granted for smartphones and computers from China**, though these are expected to be temporary.



## What Is the Endgame?

The underlying **purpose of the tariff strategy remains unclear**. Is the aim to:

- Raise revenue for tax cuts or debt repayment?
- Force the reshoring of manufacturing?
- Leverage negotiations with trade partners?

These goals are not only conflicting, but they also lack a unified long-term vision. While onshoring sounds appealing, **automation will likely limit job creation**, and **tariffs function as a tax on consumers**, fuelling inflation on imported goods.

## Continued Volatility Likely

The unpredictable nature of tariff adjustments—often in response to geopolitical or market reactions—has introduced a high level of volatility. Tariffs have become a fluid policy tool, with rates changing frequently and without a consistent framework.

## China Retaliates: Trade Tensions Escalate

China has retaliated by imposing **125% tariffs** on U.S. goods, eventually matched by the U.S. raising its own tariffs to **145%**. In a further blow to trade China:

- **Ceased exports of rare earth minerals**
- **Suspended Boeing jet deliveries**

This tit-for-tat escalation threatens to sever nearly all trade between the two nations. The potential impact is significant:

- **Tech and manufacturing giants** like Apple, Tesla, Qualcomm, Micron, and Texas Instruments rely heavily on China.
- **Leisure and gaming companies** such as Wynn Resorts and Las Vegas Sands derive over 60% of their revenues from China.

## Canada's Resilience: A Silver Lining?

Amid global instability, **Canada could emerge as a long-term winner**. U.S. aggression has prompted Canadian leaders to reassess trade priorities. Key developments include:



- **Internal trade barriers being dismantled**, improving workforce mobility and productivity.
- **New infrastructure projects** in pipelines, LNG, rail, and ports to shift trade focus east-west instead of north-south.

Though these initiatives will increase deficits in the short term, they are widely seen as **strategic investments in Canadian sovereignty and future economic independence**.

### **Market Outlook: Caution Amid Complexity**

We remain cautious heading into the next quarter. Several **macroeconomic headwinds** are in play:

- **Persistent tariffs** could drive inflation higher.
- **US tax cuts and rising deficits** are pressuring the Treasury market, leading to **higher yields** and a **weaker US dollar**.
- Economic slowdown risks are growing, with potential outcomes ranging from **recession to stagflation** (inflation + contraction).

While we don't believe the originally announced **tariff levels are sustainable**, the path forward is unclear. Trump's pivot to exemptions after Treasury market volatility suggests that **pragmatic deal-making** may prevail. Still, **face-saving political concerns** will likely delay a full resolution, particularly between the US and China.

We anticipate a **gradual, negotiated de-escalation** once the economic impact becomes undeniable.

### **What's Priced In?**

Market sentiment is mixed, and it's difficult to determine how much of the negative outlook is already reflected in prices:

- **Bond markets are showing signs of firming**, which warrants close monitoring.



- **Consumer spending remains strong in the US**, but much of the data is **backward-looking**, potentially skewed by **front-loading ahead of tariff deadlines**.

With little clear short-term direction, **patience and caution** remain key.

### **Looking Ahead with Perspective**

Despite the noise and uncertainty, our **long-term outlook remains optimistic**.

- Markets have **weathered disruptions** before. While each crisis is unique, recovery patterns tend to **rhyme with history**.
- The chaos of today—including the uncertainty sparked by Donald Trump's erratic policies—is not the end, but simply another chapter in the **cycle of fear, correction, and eventual growth**.

Investing is not about timing every move perfectly—it's about having **faith in the future**, maintaining **discipline**, and showing **patience** when it's hardest.

### **Portfolio Positioning**

- We continue to hold **high-quality, dividend-paying equities** that we believe will perform well over time and rebound with recovery.
- We've also taken steps to **increase liquidity**, reducing equity exposure slightly and adding to **near-cash positions** to provide flexibility moving forward.

### **Final Thoughts**

Volatility creates opportunity. Staying grounded in discipline and resisting reactionary moves is what separates long-term success from short-term speculation. We remain committed to facing this period of uncertainty with a calm, measured approach.

As always if you have any questions or want to touch base, we are just an e-mail or phone call away.



## The Andras Group

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