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