CORBETT ROAD
WEALTH MANAGEMENT

MARKET MUSINGS

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Stocks Suffer Correction As Tariff Concerns Overwhelm Market

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SUMMARY

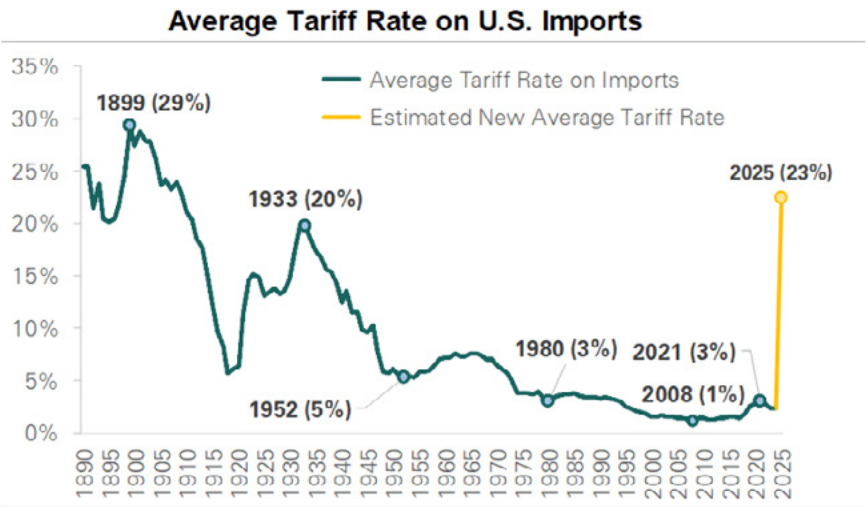
- While we typically use April Musings to recap the first quarter, the events since March 31 have been too significant to ignore—most notably, the newly implemented tariffs and their potential ripple effects on the economy and markets.
- The tariffs took effect on April 9. But the very same day, the President paused tariffs on all non-retaliating countries, except China. The pause will allow more time for negotiations, but additional clarity on the end goal and policy implementation will be needed for investors and companies to regain confidence.
- The Fed finds itself caught between conflicting forces. On one side, tariffs are set to drive up prices and fuel inflation. On the other, they threaten to slow economic momentum. For now, the Fed appears poised to wait while monitoring incoming data.
- During times of uncertainty, the market often experiences sharp declines and vicious rallies. Proper portfolio construction calls for a balance between longer-term growth investments and tactical risk management.
- While the signal remains positive, it hasn't yet registered the full fallout from potential tariff-related disruptions. That impact will take time to work through key indicators like employment and consumer spending. Our **micro**cast™ signal remains neutral—the same recommendation it has held since downgrading from an aggressive posture last November. Both tactical risk models remain flexible and ready to adjust as conditions evolve.

TARIFFS ARE IN PLACE, **BUT NOT AS BAD AS INITIALLY PROJECTED**

Reciprocal tariffs officially took effect at midnight on April 9. However, by the end of the day, President Trump announced a 90-day pause for most countries and a temporary reduction to a baseline 10% tariff while negotiations continue. The sole exception was China, where tariffs were raised sharply to 125%.

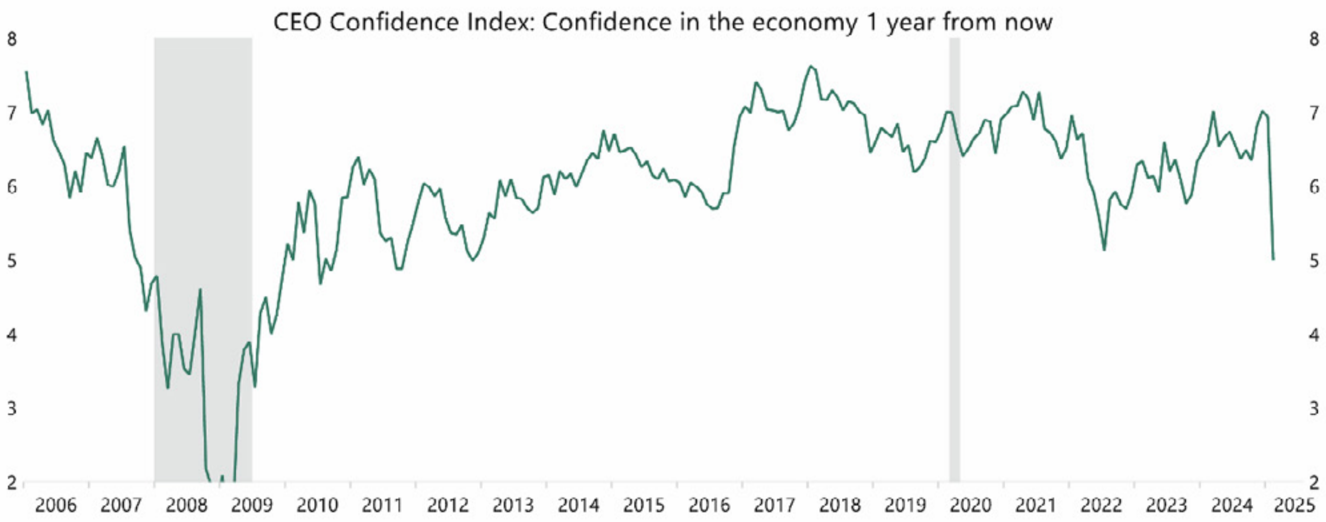
Given that the US imports roughly $440 billion in goods from China, this move appears more like a negotiating tactic than a final decision. It is highly likely the figure will be revised to a more practical level in the coming days and weeks, as the current level is completely unsustainable.

Before the pause was put in place, the average tariff rate was set to rise to the highest level since the early 20th century (chart from MarketDesk):



Source: U.S. Census Bureau, U.S. Intl. Trade Commission: "U.S. imports for consumption, duties collected, and ratio of duties to value, 1891-2023 (Table 1)", Yale Budget Lab.

This led to rising uncertainty, which has weighed on business confidence. Surveys of CFOs, CEOs, small business owners, and consumers show a clear pullback in optimism about current economic conditions. CEOs are the most negative they've been since 2022 (chart from Apollo):



Source: Chief Executive Magazine, Bloomberg, Macrobond, Apollo Chief Economist

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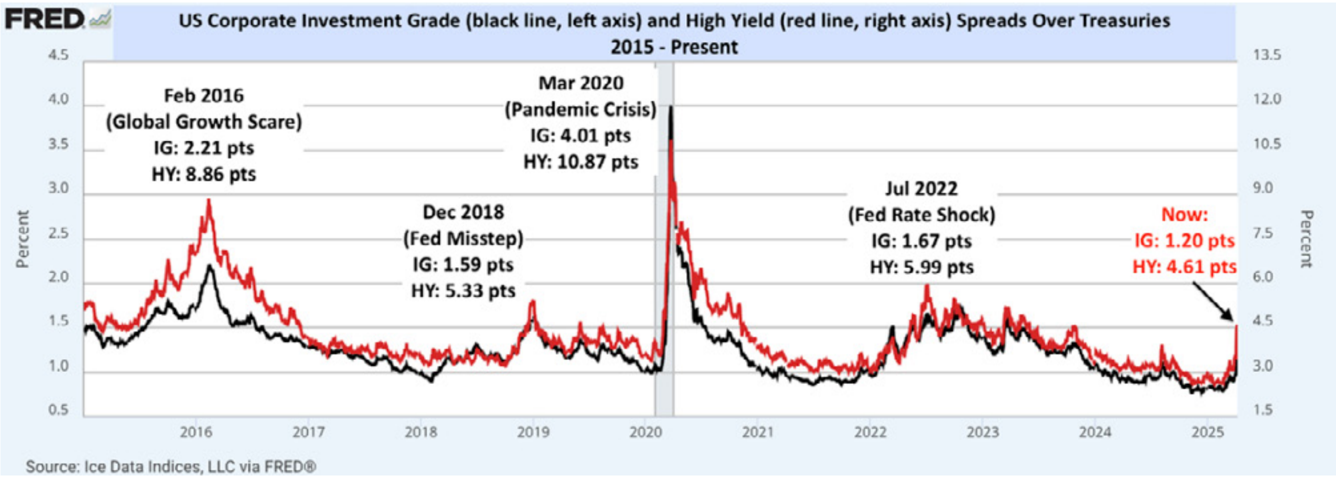
Hopefully, the announcement of a pause in tariff implementation and a lower, uniform tariff rate across non-retaliating countries will help restore some confidence among businesses and consumers alike.

The good news is that credit spreads are not signaling a recession. Credit spreads measure the difference in bond yields between a corporate bond and a US Treasury bond of the same maturity. This spread compensates investors for the extra risk taken in lending to a company (which might default) instead of the US government (which is considered risk-free). During times of stress, credit spreads widen as investors sell riskier assets.



The chart above (courtesy of DataTrek) shows that while spreads have widened, they remain well below the highs seen in 2018 and 2022—not to mention the extreme levels reached during the pandemic or even the global growth scare of 2015–2016.

CAN THE FED **WALK THE TIGHT ROPE?**

The Federal Reserve is in a precarious position. On one side, inflation could be driven higher by tariffs, even at the lower rate. On the other, economic growth is slowing. These two forces pull in opposite directions—and they complicate the Fed's response.

Ordinarily, when economic growth slows or recession risks rise, central banks like the Fed respond by cutting interest rates. Lower rates reduce the cost of capital, encouraging borrowing, investment, and consumer spending—measures designed to jump-start demand.

But this time the slowdown isn't happening in isolation; it's colliding with potential tariff-driven inflation, creating a difficult policy trap.

Tariffs function as a tax on imports, pushing up prices on goods like electronics, clothing,

Please see important disclosures at the end of this article machinery—even food. These rising costs aren't the result of surging demand, but of supply-side shocks. Consumers end up paying more simply because imported goods cost more to bring in.

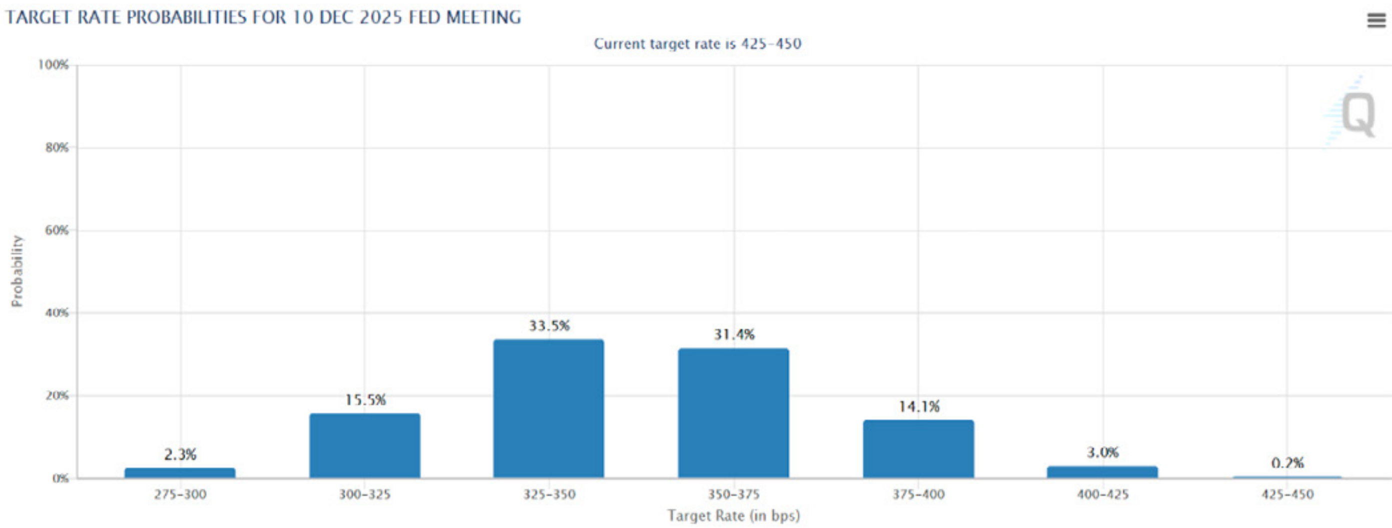
If the Fed were to cut rates in this environment, it could backfire:

- Lower borrowing costs would spur demand for goods that are already rising in price.
- This could result in even higher inflation, despite a weakening economy. This is stagflation.

So, does the Fed support growth by cutting rates or fight inflation by standing pat? In this case, rate cuts risk worsening inflation in a slowing economy while keeping rates high, to keep a lid on inflation, risks crippling economic growth.

Coming into the year, futures markets were pricing in 1-2 rate cuts in 2025. As tariff rhetoric ramped up, this quickly shifted to 3-4 cuts by December, highlighting investors' expectations that the Fed will need to lower rates more aggressively to support growth given the rising uncertainty from tariffs.

The chart below (from CME Group) shows the current target rate probabilities for the Fed's December 2025 meeting. A target rate of 325-350 implies four quarter-point rate cuts.



Rapidly shifting expectations highlight the Fed's core challenge: in a fast-moving policy environment, forecasting growth and inflation is nearly impossible. As a result, the Fed is likely to adopt a wait-and-see approach. **Meaningful rate cuts may only come once there's clear evidence of labor market deterioration.**

IN TIMES OF UNCERTAINTY, **PROPER PORTFOLIO POSITIONING IS CRITICAL**

In today's uncertain market, event-driven volatility—by tariffs, geopolitical shocks, or sudden policy shifts—calls for more than just diversification. It requires balance, discipline, and an adaptive approach to risk management. No single investment approach can address every challenge, which is why combining multiple proven methodologies is key to building resilient portfolios.

Our tactical strategies will continue to evolve with the shifting macro and market backdrop. But the monster rally on April 9—the biggest since the pandemic lows—serves as a powerful reminder: proper portfolio construction means the willingness to maintain consistent exposure to risk assets, even in turbulent times. Blending tactical with fully invested active solutions can help to systematically manage risk in real time while maintaining sufficient market exposure to deliver long-term growth.

In summary, the rollout of reciprocal tariffs on April 9 was swiftly tempered by a 90-day pause for most countries and a temporary 10% tariff rate—China being the lone exception. Still, the original tariff announcements have driven uncertainty higher and may have lingering effects on business confidence. The Federal Reserve now faces a complex policy dilemma. Slowing growth typically calls for rate cuts, yet tariff-driven inflation may limit the Fed's flexibility—raising the risk of stagflation. In this environment, the need for a disciplined, balanced approach to portfolio management is clearer than ever.

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