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Madness in March: Tariffs tip off market volatility

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After a strong start to the year, equity markets hit major turbulence in March, mirroring the unexpected upsets in the annual college basketball tournaments known as “March Madness.” New trade policies introduced by the Trump administration rattled investors. The S&P 500 fell 6 percent, the Nasdaq dropped 8.5 percent, and the Dow Jones Industrial Average slipped 4.3 percent for the month. Then the S&P 500, a broad market measure, dropped another 11 percent in the first week and a half of April. On April 2, “Liberation Day,” Trump announced tariffs on our primary trading partners, and the draconian measures were speedily matched in angry retaliation.

The market downturn was in response to the administration’s announcement of these sweeping new tariffs under the banner of “reciprocity.” The explanation was that they were designed to narrow America’s trade deficits with various trading partners, irrespective of whether those countries were charging high import tariffs. Markets, which dislike uncertainty, reacted predictably by repricing stocks lower, thereby reducing risk in an environment where global trade relationships are being rewritten.

Consider the humble coffee maker. When a 25 percent tariff hits imported kitchen appliances, the $80 wholesale cost to your local retailer suddenly jumps to $100. The retail cost then increases from $120 to perhaps $134. But the story doesn’t end there.

The coffee maker company, facing declining sales, cuts costs to survive. It delays developing the new model and cancels the expansion of its distribution center, putting 50 new jobs on hold indefinitely. Meanwhile, companies that make complementary products – specialty coffee, filters, cleaning supplies – see their sales decline. Even the trucking companies that transport these goods see a reduced shipping volume.

Now multiply this scenario across thousands of products. When manufacturers face higher costs for imported steel, circuit boards, textiles, or plastics, they must adjust or perish. As domestic producers face less foreign competition, they too often raise prices, creating a second wave of inflation. Consumers, meanwhile, pay more for everyday necessities, leaving less for discretionary spending that drives economic growth. This is how a tariff transforms into a hidden inflation multiplier that works its way through every corner of the economy.

The scenario worsens when trading partners retaliate. When China places tariffs on American agricultural products, for example, farmers lose critical export markets and face plummeting commodity prices. Washington, D.C. then provides more financial support for farmers, increasing the deficit, which raises borrowing costs for the U.S. Treasury, further fueling inflation.

Companies that attempt to relocate production to the U.S. to avoid tariffs face their own challenges — higher labor costs, regulatory compliance expenses, and the massive capital investment required to build new facilities. The entire process creates a cascading effect of price increases, decreased corporate investment, and increased unemployment – all resulting in the reduction in the value of real and financial assets, including cash.

We've seen this scenario before. The Smoot-Hawley Tariff Act of 1930 raised duties on thousands of imported goods, ostensibly to protect American jobs. History shows it worsened the Great Depression and dramatically shrank global trade. The lesson remains applicable today: policies intended to protect domestic industries often have unintended consequences that ripple throughout the economy.

Financial leaders have expressed concern about the potential economic impact. JPMorgan Chase CEO Jamie Dimon warned shareholders that current trade policies risk pushing the U.S. into a recession, with his bank raising global recession probability to 60 percent. Goldman Sachs also increased its recession odds to 35 percent and reduced its 2025 U.S. GDP growth forecast to just 1 percent. Apparently, these concerns and the imminent breakdown of bond markets got President Trump's attention enough so that on April 9, he backed down on the timing of implementing the tariff

increases announced on April 2. The stock market rebounded, clocking the highest one-day point increases ever in the U.S. stock indexes.

The Federal Reserve finds itself in a difficult position. Fed Chair Jerome Powell expressed concern about the inflationary effects of tariffs but maintained a wait-and-see approach at the March meeting. The Fed left interest rates unchanged, recognizing that raising rates in a slowing economy could exacerbate problems.

Despite chaos in the stock and bond markets, through March the real economy showed resilience. The U.S. added 228,000 jobs in March, with notable gains in health care, construction, and hospitality sectors. The unemployment rate ticked up slightly to 4.2 percent. While manufacturing activity contracted and consumer confidence dipped, household spending remained relatively robust. However, this data did not account for the effects of tariffs announced on April 2.

What does this mean for investors? First, prepare for unprecedented volatility as financial markets adjust to unpredictable trade policies and international retaliation. Second, recognize that inflation stemming from tariffs may limit the Fed's ability to provide monetary support if economic conditions deteriorate. Third, the White House is embarking on a strategy of de-globalization, which will create both challenges and opportunities.

This is not a call to retreat from stocks but rather a reminder to focus on companies with pricing power, strong balance sheets, and supply chains that are relatively insulated from geopolitical shocks. History shows that, long term, the U.S, equity markets have maintained an upward trajectory through wars and recessions, even as the path can be gut-wrenching at times.

Back in March 2017, I wrote a column titled "Will the market crash or correct or continue to rise?" At that time, as now, investors were concerned about market direction amid uncertainty. I reminded readers then that "the long-term trajectory of the stock market is up and to the right on a graph. On an annual basis, the market rises about 75 percent of the time." I advised you to "keep your eye on the horizon" because politics, while impactful, have not fundamentally altered the long-term path of equities. Those words remain as relevant today as they were eight years ago.

The market has indeed survived various administrations, policy shifts, wars, recessions and global pandemics. Despite inflation concerns from tariffs,

history shows that U.S. equities have consistently outpaced inflation over long periods, protecting and growing purchasing power when other asset classes like bonds and cash have failed to do so. Investors who maintain a long-term perspective, diversify across sectors and regions, and avoid the costly mistake of market timing will be best positioned to navigate these turbulent waters.

The U.S. economy has proven remarkably adaptive throughout its history. Innovation does not stop because of tariffs, and American businesses have demonstrated resilience through numerous economic and policy shifts. While current policies present significant headwinds, the fundamental strengths of the U.S. remain intact.

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