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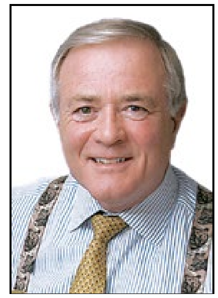
William Rutherford

Wall Street rebounds while Main Street struggles

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April 2025 was a month that reminds us why investing requires a strong stomach. President Trump's "Liberation Day" tariffs on April 2 set off the worst four-day stock market slide since the 2008 financial crisis. Then, in a dramatic reversal on April 9, we saw the biggest single-day point gains in history for the Dow, S&P 500, and Nasdaq, as the tariff implementation date received a 90-day reprieve, largely to forestall an imminent meltdown in the U.S. Treasury market.

By May 2, markets had strung together nine consecutive winning days – the longest streak since 2004. The Nasdaq and S&P 500 had recovered their tariff-induced Liberation Day losses. Yet a significant percentage of stocks remain 20 percent below their 52-week highs.

On April 21, the dollar hit its lowest level since March 2022 due to concerns about Trump removing Jerome Powell as Fed Chair. With this backdrop, foreign investors continued the sale of U.S. assets that Liberation Day had precipitated.

For decades, the world has been saving and the U.S. spending, with those savings funding our deficits in the form of purchases of U.S. Treasurys. The resulting demand for our bonds results in low borrowing rates for the Treasury. The announcement of draconian tariffs on April 2 signaled a shift by the U.S. to a multipolar world that would make U.S. investments less attractive, resulting in a massive global repositioning to reduce exposure to U.S. assets. Additionally, oil prices registered a dramatic decline of 15 percent in April, as measured by Brent crude, reflecting reduced global demand, fears of recession and increased supply from Russia and Saudi Arabia.

Aside from geopolitical moves, today’s markets are more volatile on a daily basis than even a few years ago due to the continued rise of algorithmic trading systems. These often result in forced selling from risk models, which in the equity markets have been facilitated by the rise in stock ETFs and other forms of passive investing.

Zero-day equity options trading is amplifying daily swings. This is the buying and selling of options contracts that expire the same day they are traded. These have surged in popularity recently using major indices like the S&P 500. They are highly leveraged financial instruments, speculating on price moves that occur within hours or even minutes and so are contributing to sharp intraday market moves. As an example, on April 8, the S&P 500 surged 8.3 percent in 34 minutes, and on April 9, the index opened up 4 percent but closed down 3 percent for its largest intraday point swing (532.91 points) in history.

In the vast U.S. Treasury market, the “Basis Trade” is adding systemic risk and volatility as did the “Yen Carry Trade,” which sent markets reeling in August 2024. Volatility can strike faster and harder than before as it did in early April, when these systemic risk events of unwinding excessive leverage tied to interest rate differentials impacted the U.S. Treasury market, further impacting equity markets.

Addressing concerns that lie beyond the trading floors, Ryan Petersen, CEO of logistics firm Flexport, reports that ocean freight bookings from China to the U.S. have dropped 60 percent since the tariffs took effect. Companies typically order goods 90 days before shipment. For Christmas, when retailers book most of the profits that support their businesses the rest of the year, orders are placed six months or more in advance. When tariffs hit suddenly, the economics of already-ordered goods turns upside down.

Container shipping lines are canceling voyages and downsizing vessels. The Port of Los Angeles, the busiest container port in the U.S., expects a 35 percent decline in shipments from Asia. China represents 45 percent of the port’s trade. The Port of Los Angeles and its neighbor, the Port of San Pedro, account for 30 percent of all U.S. containerized imports. For small businesses operating on thin margins, these supply chain disruptions could be catastrophic. Many face impossible choices: absorb costs they can’t afford, raise prices and risk losing customers, or scramble to find new suppliers.

The impact on small businesses cannot be overstated. Unlike larger corporations with diverse supplier networks and financial cushions, small enterprises often rely on single suppliers and operate on 30-to-60-day cash cycles. A 25 percent tariff can instantly transform a profitable order into a loss-maker. Many small business owners describe feeling blindsided – they built their businesses on stable trade relationships that changed overnight. Small businesses historically have been the biggest employment drivers in the U.S. According to the Small Business Association, small businesses have been responsible for an impressive 61 percent of all net new job creation from 1995 to 2023.

Apollo Global Management's research shows consumer sentiment has fallen to near-record lows. Businesses are cutting capital expenditure plans and revising earnings forecasts downward. Adding to the uncertainty, we haven't yet seen the full impact of the workforce reductions related to the Department of Government Efficiency. These employment statistics typically lag by several months.

We're witnessing something unprecedented – market volatility and consumer pessimism driven almost entirely by self-inflicted policy decisions. While recent negotiations have sparked optimism about agreements with some trading partners, China remains the elephant in the room. Given the complexity of U.S.-China trade relationships and China's need to "save face," resolution could take months or even years.

So, what should investors do? First, remember that market corrections are normal. Since 1928, the S&P has weathered 14 bear markets, yet its long-term trajectory remains decidedly upward. Missing just a handful of the best trading days can severely impact long-term returns.

The recent nine-day rally demonstrates why staying invested matters. Markets often recover when least expected, and those who sold during the April turbulence missed this substantial rebound.

While the tariff situation creates real challenges for businesses, particularly smaller ones, the underlying U.S. economy has fundamental strengths: Interest rates remain at reasonable levels, corporate balance sheets are generally healthy, and innovation continues apace. Large tech companies reported in the first few days of May that their spending on AI infrastructure remains unabated. Lower prices at the gas pump will help offset tariff-induced inflation for other consumer goods.

For long-term investors in individual stocks, periods of volatility often create opportunities. Diversification remains essential – not all sectors react equally to trade disruptions. History suggests that patience typically rewards investors better than do attempts to time market swings. Stay disciplined, stay diversified, and remember that time in the market has been a reliable driver of investment returns.

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