

Assessing Financial Uncertainty and Market Volatility Post-April Shocks

April 2025

The financial uncertainty and volatility in April following Liberation Day have been well documented across financial media and the broader media. While the angst experienced during the massive day-to-day fluctuations in the financial markets was unsettling, the overall damage was much less impactful by the end of the month. The S&P 500 was down -0.76% in April, ahead of each of the prior two months' performance, but it should be pointed out that the journey was much more stressful than the final destination. Consider that the index was down roughly 10% through the first week of the month before rallying on the news that the announced tariffs would be postponed for 90 days while the US began negotiations with various global partners. After all the gyrations in the financial markets, equity indices and Treasury yields finished very close to where they began the month (Exhibit 1).

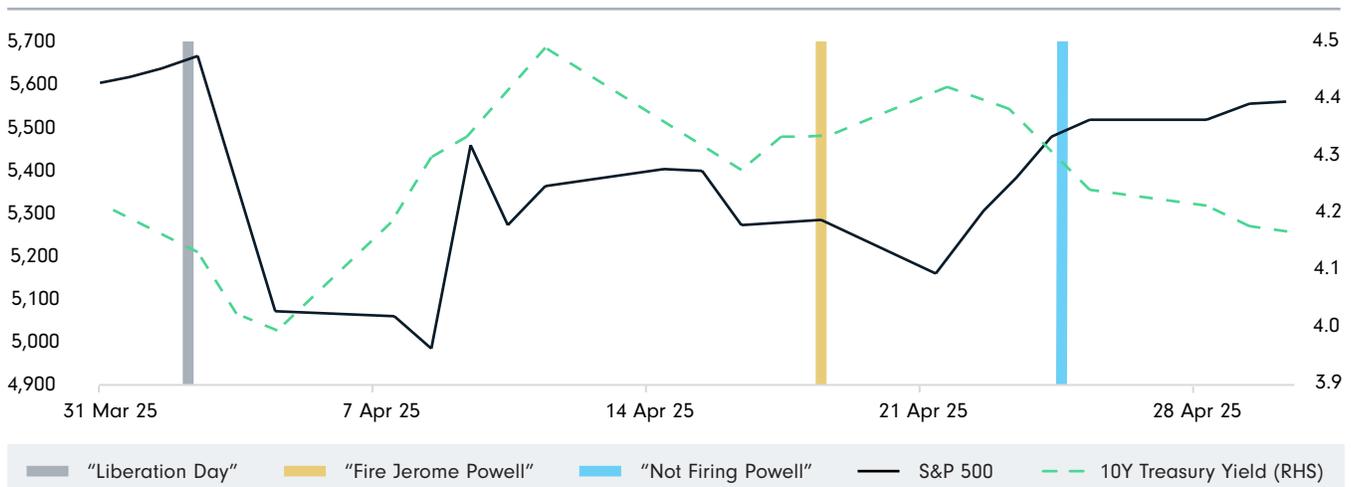
Now that the markets have navigated the most disruptive month since March 2020, the question is: Where do we go from here?

Exhibit 1 – What Happened in April?

| | 31 Mar 2025 | 30 Apr 2025 | Low | High |
|--------------------|-------------|-------------|----------|----------|
| S&P 500 | 5,611.85 | 5,569.06 | 4,982.77 | 5,670.97 |
| 2Y Treasury Yield | 3.88% | 3.60% | 3.60% | 3.96% |
| 10Y Treasury Yield | 4.21% | 4.16% | 4.00% | 4.49% |
| 30Y Treasury Yield | 4.57% | 4.68% | 4.41% | 4.90% |

Source: Bloomberg and FRED.

Major Events & Markets (%)



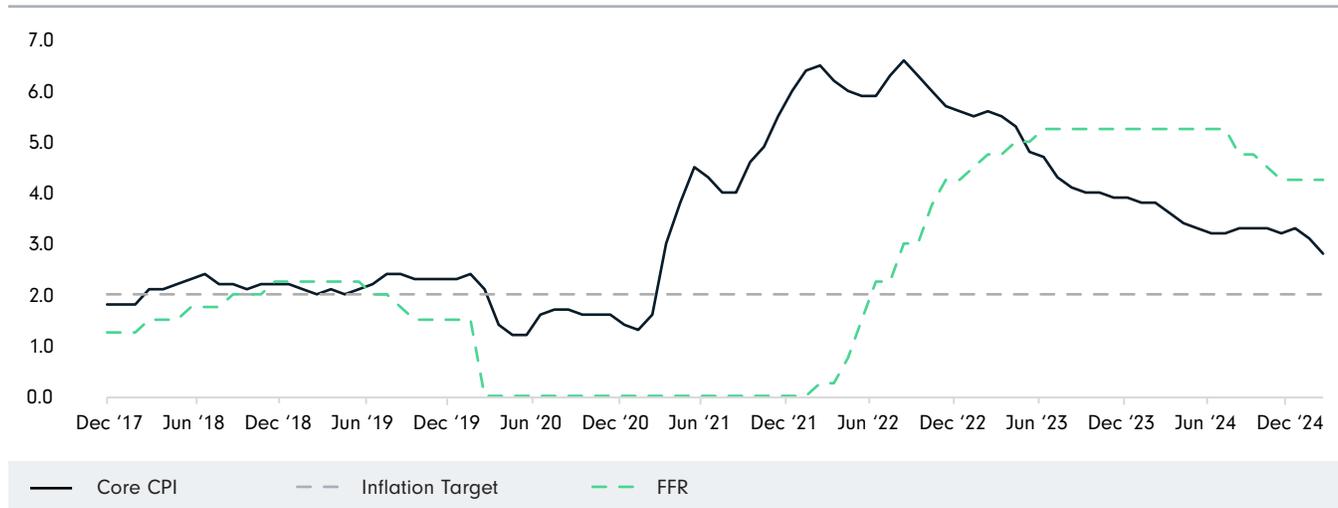
Source: Bloomberg and FRED.

Inflation, labor markets and the Federal Reserve – to hike, reduce or do nothing

The most recent meeting of the FOMC on May 7 reinforced the continued pattern of holding the line on rates while awaiting additional information regarding the potential impact of tariffs on the US and global economies. Removing the angst and uncertainty driven by tariffs and just examining the mandate of the Federal Reserve indicates a very challenging path forward based on the current labor market and status of inflation.

The national economy and the Federal Reserve are heading towards the proverbial fork in the road, with inflation on one side and the labor market on the other. Higher-than-targeted inflation is traditionally attacked by increasing rates to slow a hotter-than-expected economy. The Federal Reserve's aggressive tightening campaign in 2022 is the most recent example of this approach, as the Fed funds rate increased 425 basis points in 2022 and an additional 100 basis points in 2023 to combat COVID-induced runaway inflation. Another example would be the late 1970s/early 1980s battle against rampant inflation by then-chairman Paul Volcker. While inflation has cooled more recently, tariffs have the potential to bring it back with a vengeance, though the pace and extent of the impact are up for debate. Thus, the Fed remains on the sidelines from an inflation standpoint, ready to move if, and when, it is needed.

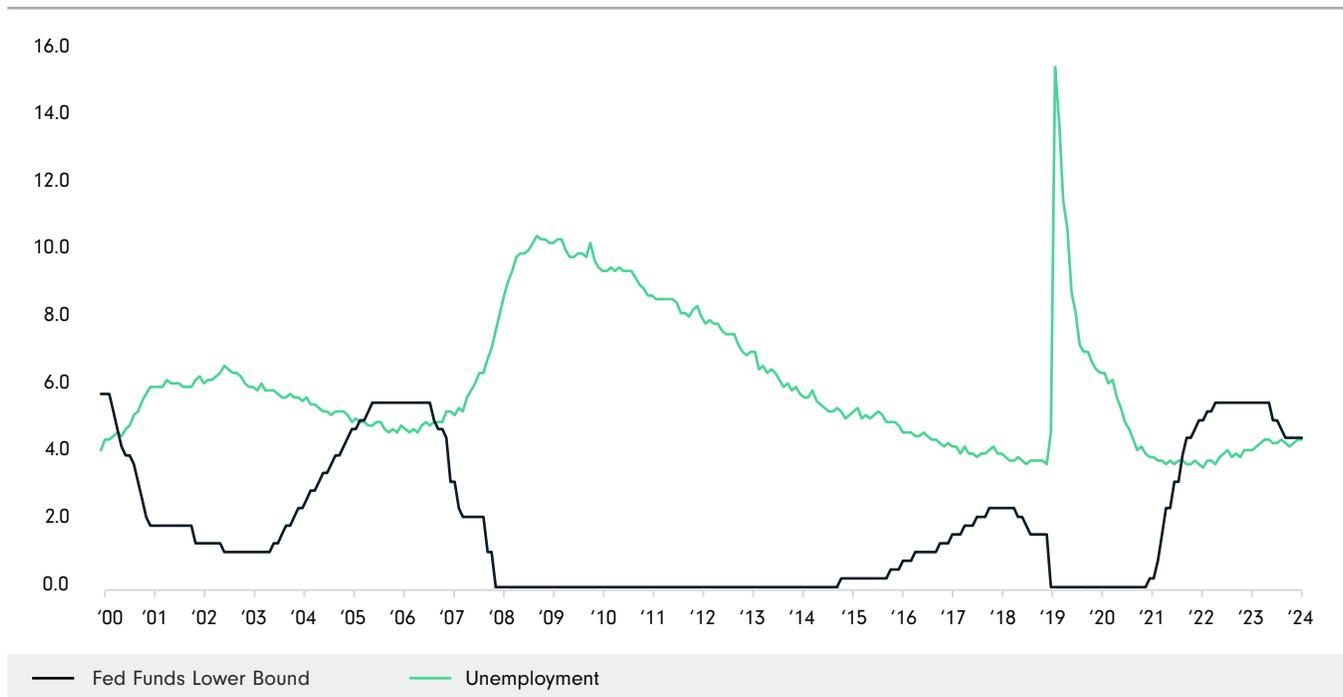
Exhibit 2 – Inflation Trends Lower but Remains Higher Than Target (%)



Source: Bloomberg

On the labor market side of the equation, it's a bit of a different story. The labor market continues to show resilience, averaging roughly 153,000 jobs added per month over the past twelve months, with the unemployment rate holding in the 3.9%-4.2% range, well below the historic average of 5.68% from 1948 to 2025. However, the dual-edged sword of DOGE staffing reductions and resulting downsizing in anticipation of the impact of tariffs could lead to higher rates of unemployment in the coming months and a slowdown in the labor market.

Historically, we can look at periods like the bursting of the dot.com bubble, the Global Financial Crisis, and the COVID pandemic to see how the Federal Reserve reacts to increases in the unemployment rate. While the labor market has held strong in the years since the worst of the COVID pandemic, a potential rise in the unemployment rate could rattle markets and force the Fed to choose between two very different paths: raise rates to battle inflation or lower rates to alleviate strain in the labor market.

Exhibit 3 – Federal Reserve Battles Unemployment (%)

Source: Bloomberg.

The Federal Reserve, led by Jerome Powell, has opted to exercise restraint in the face of economic uncertainty and vitriolic attacks from the administration. The Fed has made it clear that it will remain data dependent and, much like the rest of the world, was shocked by the size and breadth of the tariffs announced on Liberation Day. In his most recent press conference in early May, Powell cited the stronger-than-anticipated labor market and the fact that inflation has stabilized as reasons to continue holding the line on interest rates. However, he also focused on the heightened uncertainty around tariffs and their impact. He stated that the Federal Reserve is well-positioned to respond in a timely manner to economic developments.

The future of Jerome Powell

President Trump implied that he could fire Jerome Powell whenever he chose, and reports surfaced that administration members had been looking into the possibility of doing so. This was in response to Powell's initial comments about the impact of tariffs on inflation. But can a president remove the chairman of the Federal Reserve?

Legally, the answer is complicated and untested. A president has never removed a Fed chair. The Federal Reserve Act of 1913, which established the Federal Reserve, states that members of its Board of Governors, including the chairperson, are appointed by the President and confirmed by the Senate and can only be removed for "cause", which has been interpreted to mean misconduct, not a policy disagreement.

While a president has never attempted to remove a Fed chair, current lawsuits working their way through the judicial system could potentially establish precedent, though the cases are unrelated to the Fed.

Trump's suggestion regarding the removal of Powell has emerged as the Supreme Court is currently weighing a case involving presidential power and its application to firing senior officials at independent agencies. While the case involves the National Labor Relations Board and the Merit Systems Protection Board, the implications could ripple wider. If the Court sides with the Trump administration, it could potentially be argued as a precedent for the removal of Powell, though the Fed has said it doesn't believe that challenge to be applicable. If it came down to a court battle, Powell would have the standing to challenge his firing in federal court, but he would have to fund that effort with personal resources. Even as Trump walked back his initial proclamation to remove Powell, the name-calling persists with the President referring to Powell as a "...fool, who doesn't have a clue."

Both political parties have reinforced their belief in the independence of the Federal Reserve, as have various members of the Fed themselves, including those appointed by the current president.

Supply chain disruption and the economy – cargo ships and the Port of Los Angeles

The COVID supply chain shock taught the world quite a bit about supply chain logistics, and images of container ships stuck out at sea awaiting entry into the Port of Los Angeles remain ingrained in our memory. And who can forget the container ship Ever Given, which ran aground and blocked the Suez Canal for six days, disrupting the world as a major trade route was shut down in an unprecedented manner.

An almost immediate result of the 145% tariff announced against China in early April was the drastic reduction of cargo shipments coming out of Asia, with some estimates pegging the reduction of shipping at nearly 60%. And while we haven't yet felt the impact on US shores, we should be prepared. As American companies look to replenish inventories, there will be fewer and fewer goods arriving at the various ports of entry as Chinese exporters deal with inflated costs to their goods and reduce shipping.

If we are again faced with COVID-like shortages (Remember empty grocery store shelves? A run on toilet paper?), the knock-on effect could result in layoffs in key transportation industries like trucking, logistics and retail.

Ports are not designed for on-again, off-again shifts in volume but for stable flows. The tariff timing couldn't be worse, as March and April are when suppliers begin to increase inventory for the second half of the year to fill orders for holidays and back-to-school shopping. With the uncertainty surrounding the timing and final level of tariffs, importers reliant on global trade are frozen, and this will begin to manifest itself on store shelves and retail centers.

Even the most recently announced shift in the tariff stance between the United States and China may not be enough to prevent the disruption to the economy, though it could reduce the impact. Mother's Day weekend talks in Geneva resulted in significant reductions to the initial tariff levels, with the reciprocal tariff on China dropping to 10% from 125%, and Beijing's retaliatory 125% tariff on US goods reduced to 10%. The 20% tariff imposed on China over its role in the fentanyl trade remains in place. These reductions will last 90 days while negotiations between the two countries continue. And that is where the concern lies.

Will the market euphoria experienced in the wake of these reductions hold if the market has only been given a 90-day reprieve? Uncertainty remains as the trade war could heat up again, but there is a glimmer of hope that the worst damage to the global economy may have been prevented.

S&P 500 Index measures the performance of 500 large companies in the US.

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