

Market Volatility Update

April 2025

Since the release of our last *Market and Legal Update* for the month of March, significant volatility has rattled the markets, resulting in drastic swings within just a week. These fluctuations have been largely driven by policy announcements related to tariffs.

On April 2nd, the current administration announced sweeping tariffs that were more aggressive than markets had anticipated. This led to a sharp market sell-off, with the S&P 500 Index dropping over 10.5% in the two trading days following the announcement. However, just a week later, on April 9th, a **90-day pause was announced on the tariffs**. This sparked a strong market rally, fueled by optimism that the pause could signal potential de-escalation and the start of negotiations with some countries. **The S&P 500 gained 9.5%** following the announcement, marking the tenth best day in its history.

While the back and forth on specific tariff measures remains fluid, and the ultimate scope, scale and longevity of the tariffs are unknown, global trade dynamics are likely to be reshaped from their historical norms. Current policy measures will likely influence future economic activity, and market reactions to these developments may contribute to a period of heightened volatility, particularly in the near term.

To explain the implications of current policies on the economy, it's important to provide some background on the **two primary tools** the U.S. government uses to influence economic outcomes:



Fiscal Policy:

Refers to government actions related to spending and taxation, aimed at stimulating or slowing economic growth or impacting the federal deficit. This includes measures like infrastructure investment, stimulus packages, tax changes and trade-related revenue tools such as tariffs.

For example, tariffs can generate revenue and protect domestic industries, but they may also lead to increased input costs for businesses and consumers, contributing to inflation.



Monetary policy

Managed by the Federal Reserve, focuses on achieving a dual mandate: maximizing employment and price stability. The Fed influences economic activity by adjusting short-term interest rates and managing the money supply. When inflation is high, as seen in the aftermath of the COVID-19 pandemic, the Fed typically raises interest rates to slow down demand and ultimately bring prices down. Sometimes fiscal and monetary policy are implemented concurrently.

For example, during the initial COVID-19 lockdowns, fiscal policy was expansionary with significant government spending to support households and businesses, while the Fed simultaneously reduced interest rates to support job creation and help stimulate economic growth. Similarly, during the 2008 financial crisis, the Fed lowered rates to encourage borrowing, investment and spending. Together fiscal and monetary policy play a critical role in shaping the economic landscape and their combination or at times divergence can significantly influence the pace of economic recovery or slowdown.

At present, tight fiscal policy is being implemented through a combination of reduced government spending and increased revenue measures through the introduction of tariffs. These measures, and the uncertainty around their implementation, can dampen economic activity in several ways. For businesses, the prospect of higher input costs or disrupted supply chains can lead to a slowdown in capital expenditures, reduced investment and a more cautious hiring approach as they wait for greater clarity on trade policy. On the consumer side, the anticipation of rising prices can erode confidence, prompting households to pull back on discretionary spending. Together, the combination of reduced business and consumer activity can weigh on the overall economic growth and, in more extreme cases, contribute to a recession. The implications of a potential recession coupled with higher inflation could also create complexity for the Federal Reserve's monetary policy decisions, as the central bank must balance the need to control inflation without further suppressing economic activity.

The Fed is closely watching inflation readings, which currently remain just slightly above their target. While recent inflation readings have been trending lower, the Fed's preferred measures of inflation are both backward-looking measures, therefore they do not reflect the impact of the recently announced tariffs. Since inflation will remain dependent on how the world trade policy plays out, the Federal Reserve will likely maintain a more patient approach with their monetary policy actions. In fact, at the latest FOMC meeting in March, it was noted that the uncertainty of the impact of government policies on the economic outlook will warrant a careful approach to monetary policy. The committee will wait for more clarity on inflation and economic activity data before taking any action. If inflation starts to climb, they will act swiftly. However, if inflation expectations remain anchored, the Fed can potentially continue their implementation of cuts.

Policy uncertainty may lead to a challenging period for the markets, but it's important to remember that volatility, regardless of its catalyst, is a normal part of investing. Maintaining a disciplined approach and staying focused on long-term investment objectives remains essential during periods of short-term disruption. While these types of events may seem unusual as they're unfolding, it is important to stay focused on long-term objectives and to avoid making emotional decisions. As illustrated earlier, the large market swings following April 2nd led to some of the worst and best daily market losses/gains in a single week. We have experienced similar shocks during the last Covid-induced bear market in 2020 and, the great financial crisis of 2008. Some of the best days in the market also tend to happen shortly after some of the worst days, highlighting the importance of staying the course during volatile periods.

We remain committed to helping our clients navigate these periods of volatility. Our team of Investment Consultants is here to support you through the uncertainty and to evaluate investment policy objectives to ensure they remain aligned with your long-term goals.

Need Help Navigating Market Volatility?



Please click below for additional resources:

For Employers:

- [Help Employees Guard Retirement Savings Against Market Volatility](#)

For Employees:

- [Handling Market Volatility](#)

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