

➤ Market and Economic Update – April 2025



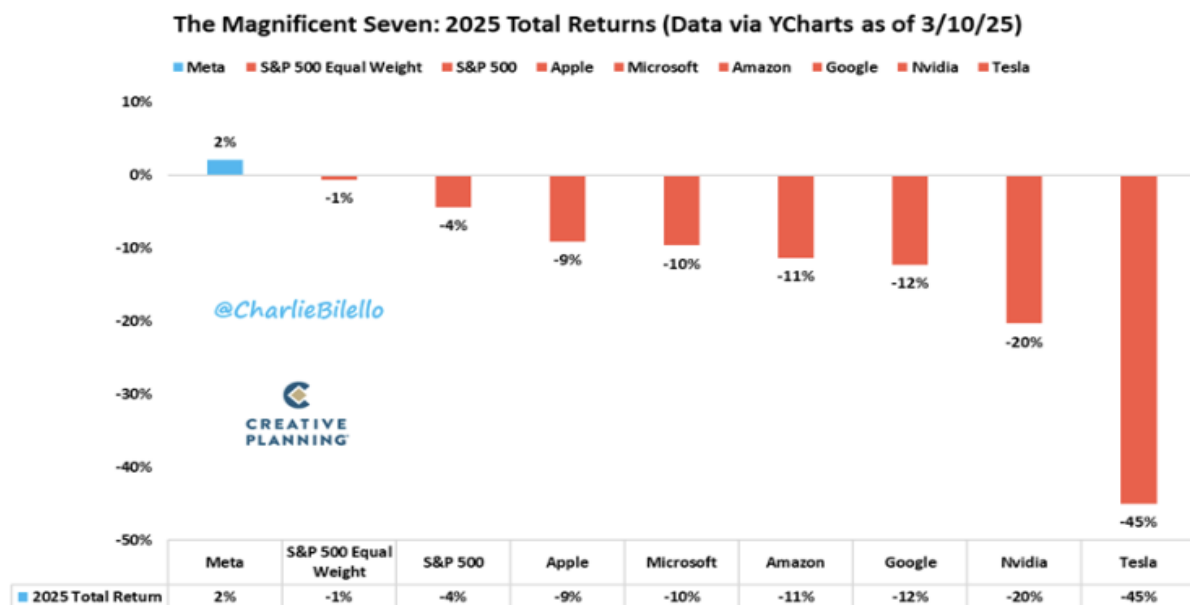
Peter Flannery CFP, FA

"People calculate too much and think too little."

-Charlie Munger

The Markets

It's here!



The graph above shows the decline in the trading prices of the magnificent 7 stocks compared to the S&P 500

Volatility is back (I prepared this section just prior to Donald Trumps 'Liberation Day', April 03 2025 and the subsequent general market pull back)

It will likely be ongoing, with possibly more 'lumpy volatility' to come.

That's because, whilst there are conflicting reports, there is the real possibility that inflation may rise to the point where the US Federal Reserve stops interest rate cuts and starts rate hikes. This is not a certainty, but now an important consideration.

The Vix

Market Summary > VIX

22.28

+5.09 (29.61%) ↑ all time

31 Mar, 3:15 pm GMT-5 • Disclaimer

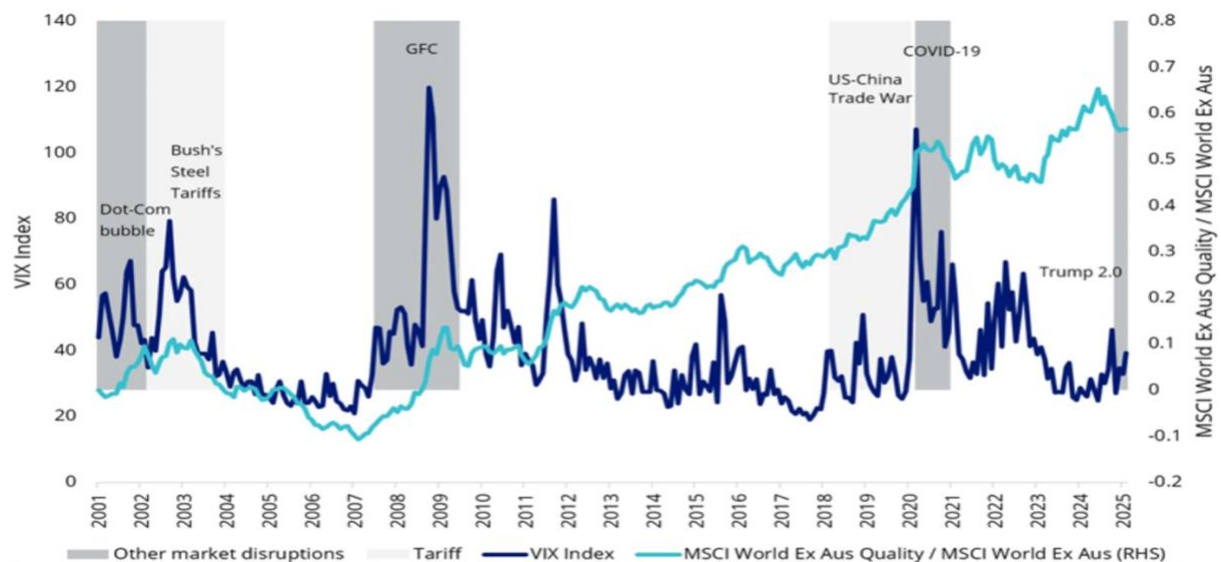
1D 5D 1M 6M YTD 1Y 5Y Max



The graph above shows the recent increase in the Vix index (to the right of the graph) compared with other events in the past.

The Vix graph above helps put the recent volatility in perspective. The two biggest spikes in the graph above relate to The Global Financial Crisis (2008) and Covid (2020).

Tariffs, The MSCI (Global Share Market Index), and Market Volatility



The graph above tracks tariffs, the global share market and market volatility.

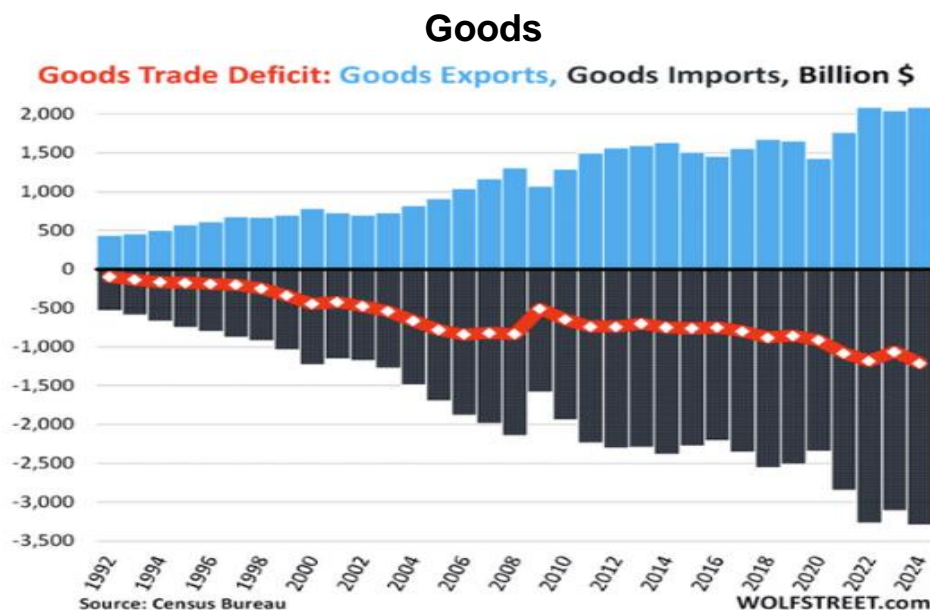
All that said, the data is not indicating a long and deep recession. This is a low possibility and not a certainty currently.

One interesting piece of the puzzle is the disinflationary impact of Donald Trump, Elon Musk and their efforts to reign in the twin deficits via the Department of Government Expenditure (DOGE) initiative.

A recent CNBC headline “US Budget Deficit Hits Record \$UA840 billion Over the Last 4 Months” shows that taming the twin deficit beast may not be easy but if achievable will be disinflationary.

Tariffs, a double edge sword

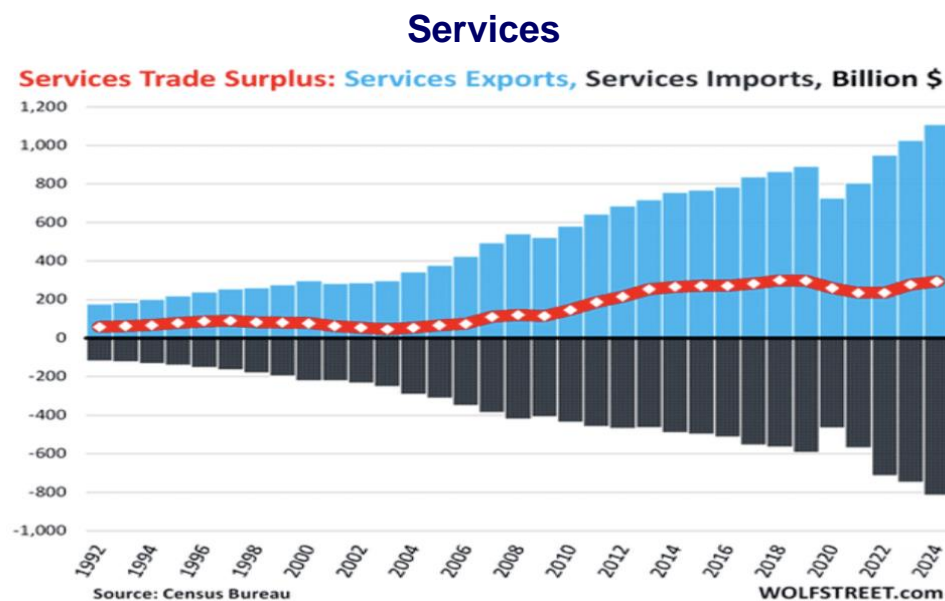
Here it is... America buys a lot more goods from the rest of the world than the world buys from America. That gap or the difference is the trade deficit. It has been that way (a trade deficit) mostly since the 1970's (the red line).



Source: Wolf Richter

The graph above shows the goods trade deficit

America exports more services than it imports – a surplus.



Source: Wolf Richter

The graph above shows the services trade surplus (the red line).

The point here is that imposing tariffs on trading partners could result in tariffs on those services that America sell to the world – the double-edged sword. What does that mean for inflation and interest rates?

That is the question. It may mean an increase in inflation and potentially an increase in interest rates. This is not a certainty. It is however a real possibility.

Navigation

Investing in quality businesses sounds a bit obvious. It remains important because quality businesses are not always in favour, and not always popular. Patience beyond the usual attention span of an impatient novice investor might be useful.

We are not looking to time the markets but building and maintaining levels of cash is the current plan.

Market Conditions

The US Share Market (Dow Jones) April 2024 – March 2025

Market Summary > Dow Jones Industrial Average

40,545.93

+1,418.79 (3.63%) ↑ past year

3 Apr, 4:19 pm GMT-4 • Disclaimer

1D 5D 1M 6M YTD **1Y** 5Y Max



The above graph tracks the movement in the Dow Jones over the last 12 months.

The all-time high of 45,014 was reached on 4 December 2024. By the end of December, the Dow Jones Industrial Index had drifted back to 42,544 and currently sits at 40,545 (as at 03/04/2025).

Markets have shifted the attention from AI to tariffs generally. Hence the downside volatility.

The US Share Market (Nasdaq) April 2024 – March 2025

Market Summary > Nasdaq Composite

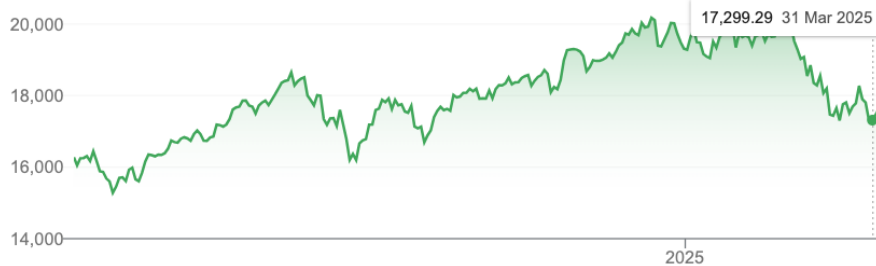
16,550.60

INDEXNASDAQ: .IXIC

+273.15 (1.68%) ↑ past year

3 Apr, 5:15 pm GMT-4 • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



Open	16,790.52	High	16,889.34	52-wk high	20,204.58
Prev close	17,601.05	Low	16,533.04	52-wk low	15,222.78

The above graph tracks the movement in the Nasdaq over the last 12 months.

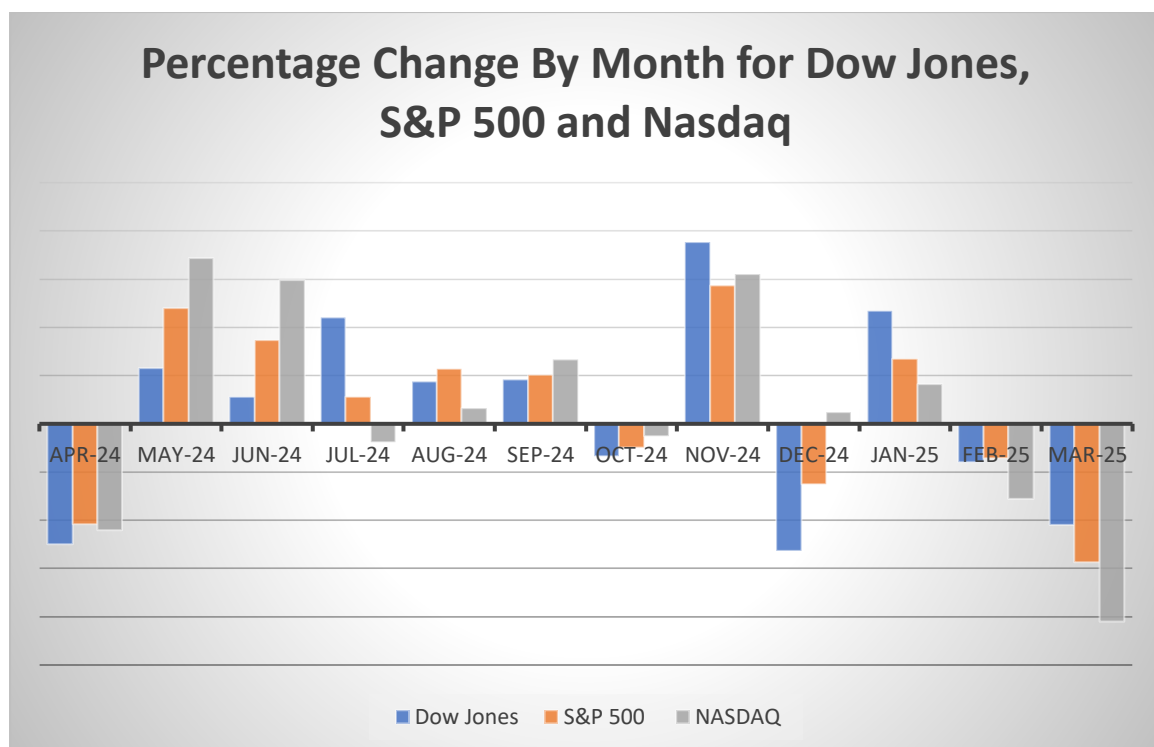
The Nasdaq tends to be a bit more volatile than say the Dow Jones but has shown more growth over time.

Share Market Index Movement – USA.

Volatility over March 2025

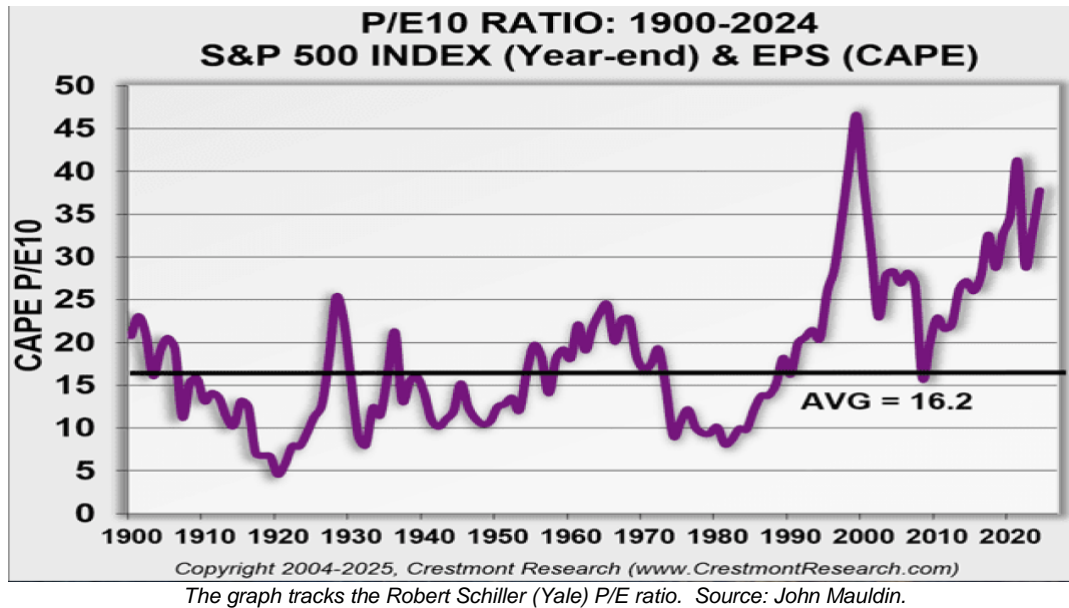
This was how it went for the 3rd month of 2025:

- The Dow Jones finished the month by –4.20%
- The S&P500 by –5.75%
- The Nasdaq by –8.21%



The graph above tracks market mood and the resulting movement across the Dow Jones, the S&P 500 and the Nasdaq.

Markets are now volatile, reacting to news about tariffs.



The Robert Schiller P/E10 ratio is inflation-adjusted and smooths the variability of earnings per share across business cycles.

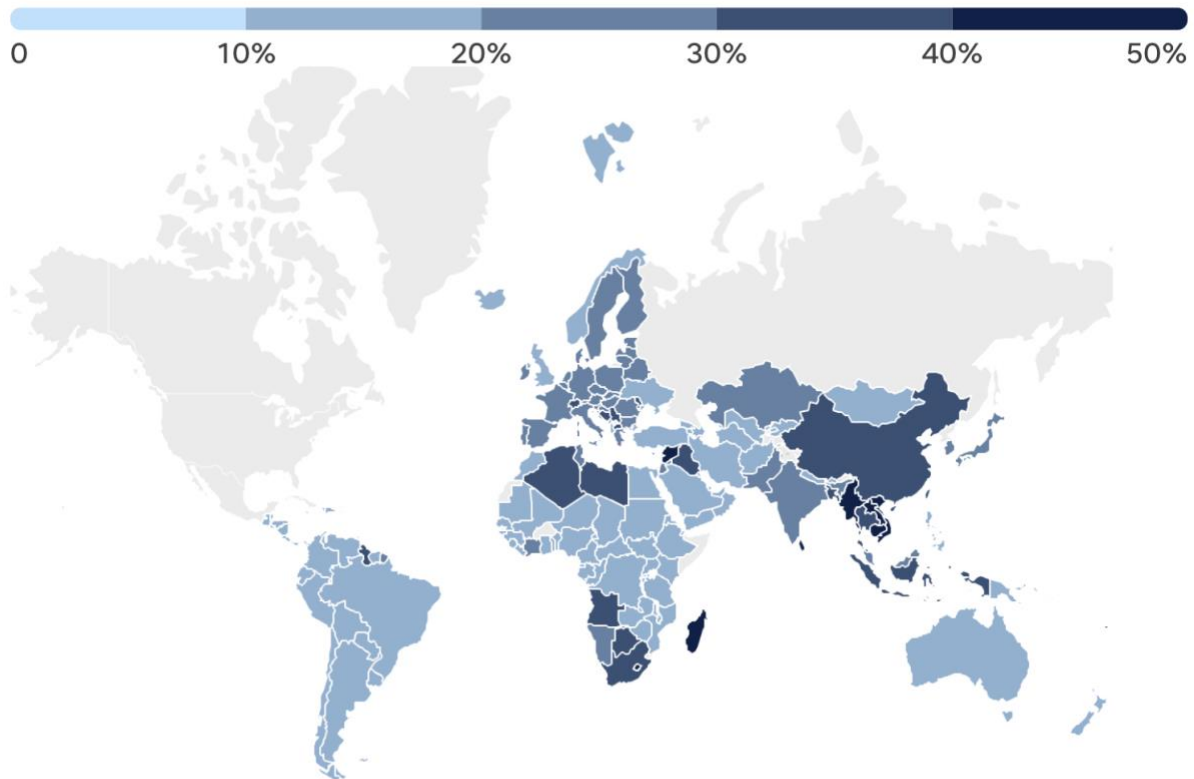
Market pricing and P/E ratios move up and down. Nothing new. Currently, markets are expensive using this method, as the graph above shows, at more than twice the historical average. As the P/E ratio rises, the level of dividends paid out declines. At the current level, dividends are about 1/3 of the historical average.

This is not a reason to panic but should be a consideration in the decision-making process around committing capital to growth investments at the moment.

Where to next?

Tariffs imposed by the U.S. on April 2

Trump announced a 10% baseline and additional tariffs for certain countries.



NOTE The U.S. earlier imposed a 25% tariff on Canadian and Mexican goods.

The image above shows the level of tariffs imposed on several countries around the world by the US government.

Markets remain focused on the news around US tariffs delivered on what Donald Trump called 'Liberation Day'. Donald Trump remains focused on the US twin deficits using tariffs as both a short-term 'bargaining chip', and potentially a longer-term revenue-gathering tool.

As investors, this is not the end of the world, but might push inflation in the US and elsewhere upwards again.

At the same time, we see the annual rate of US economic growth (GDP) slowing from 2.7% in the 3rd quarter of 2024 to an annual growth rate of 2.5% over the 4th quarter of 2024. Slowing economic growth can be disinflationary, potentially slowing down rising inflation.

Markets are digesting the tariff news, hence recent market volatility (the voting machine at play).

Last month I mentioned...

"Increasing levels of cash might be beneficial as the Vix Index shows increased market volatility over 2025.

The uncertainty means pricing volatility.

The pricing volatility means lower prices and better buying (providing we have cash on the side)"

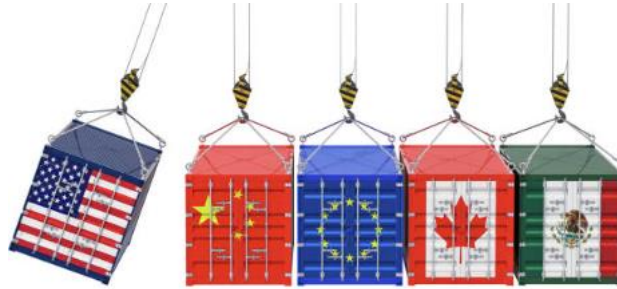
Looking ahead it still looks like cash on the side remains a useful idea.

Not that I can predict future market moves, but we might still be in the early stages of the current round of market volatility, especially if inflation spikes up and interest rates follow.

Retaining and building cash/portfolio flexibility is appropriate generally, whilst taking advantage of lower trading prices on selected investments as the value emerges.

The Global Economy

SPECIAL TARIFF EDITION



It finally happened.

After months of speculation, President Trump formally declared April 2nd as “Liberation Day” – introducing a new set of tariffs that mark a significant shift in U.S. trade policy. A base 10% tariff now applies to most imports into the United States, with higher rates targeting key trading partners: China (54% on certain goods), the European Union (up to 49%), and a 25% flat tariff on all foreign-made vehicles. While the announcement attracted plenty of media attention, it also marks a meaningful development in the broader economic narrative.

The stated aim of the policy is to reduce reliance on imports, strengthen domestic manufacturing, and help address the long-standing U.S. trade deficit. It’s a strategy that appeals to concerns around supply chain resilience and economic independence, particularly in light of recent geopolitical uncertainty.

However, it also reintroduces questions about the long-term trade-offs between global integration and local self-sufficiency.

Initial reactions from global partners were measured but firm. China called the tariffs “unilateral and counterproductive” and pledged a considered response. Canada moved more quickly, introducing tariffs of its own, specifically targeting the U.S. auto sector. The European Union has indicated that further diplomatic and economic discussions are underway. It’s not yet clear whether these early responses will escalate into broader trade disputes or remain contained to specific sectors.

Markets responded with some volatility. Major U.S. indices dipped in the days following the announcement, led by the Nasdaq. This reflects both the immediate uncertainty and the broader questions now facing businesses and investors alike. If the tariffs persist – or expand – there may be implications for pricing, margins, and cross-border operations across multiple industries.

Of particular interest is how these changes intersect with existing inflation concerns. U.S. CPI inflation rose to 3.2% in March, slightly above expectations. Tariffs tend to raise the cost of imported goods, and while the intention may be to shift consumption towards domestic alternatives, the transition isn’t always immediate.

The Federal Reserve now faces a more complicated environment, balancing the inflationary effects of trade policy against a still-resilient economy. At this stage, expectations for near-term

interest rate cuts have softened, and some analysts are beginning to revisit the possibility that rates may need to hold steady – or even rise again – if inflation remains persistent.

Stepping back, it's clear that these tariffs represent more than a tactical shift. They are part of a broader trend toward protectionist policy – not just in the US, but globally.

Over the past few years, countries have shown a growing willingness to reassess their exposure to international supply chains, particularly in strategic sectors. The latest US tariffs appear to be an extension of that trend, albeit delivered with more scale and speed.

For now, the full effects will take time to emerge. Some industries may benefit from stronger domestic demand, while others may feel pressure from higher input costs and reduced export access. Much will depend on how trading partners respond, and whether the current tension gives way to renegotiation or broader escalation.

This is not the first time markets have faced uncertainty around trade – and it won't be the last. Investors, businesses, and policymakers alike will need to stay alert, assessing developments not just on headlines but on how they play out across supply chains, pricing, and consumer sentiment.

Keep an eye out next week for a special Morgan Edwards economic update, where we'll look more closely at how these changes may influence portfolio positioning, inflation risk, and long-term economic direction.

Investments and Financial Services



“If I invest my student loan money, will it earn more than I’ll make as an unemployed college graduate?”

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