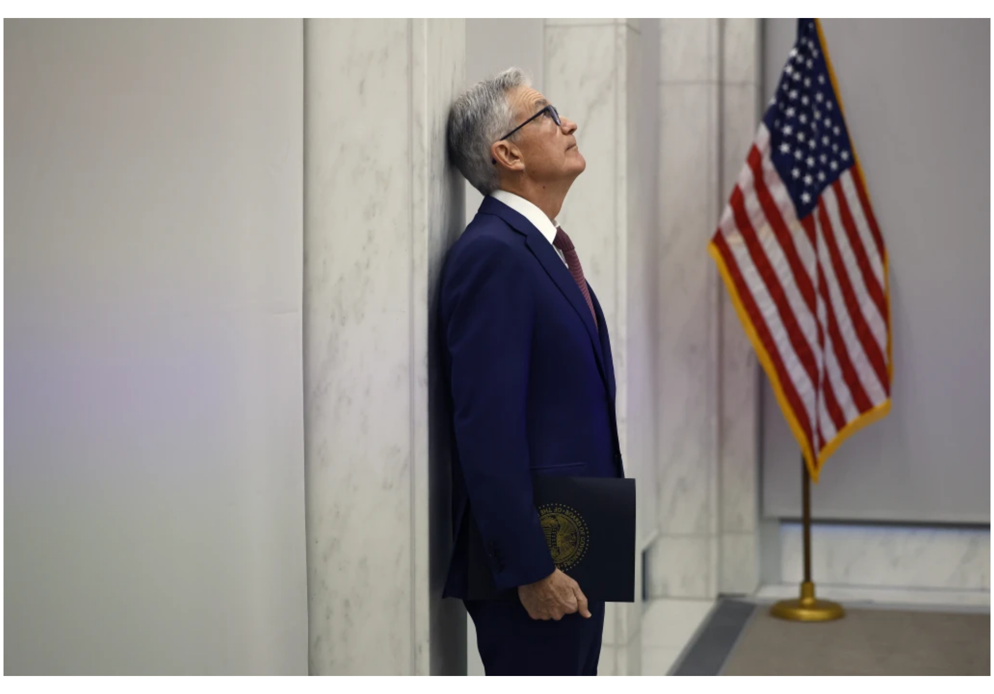
INVESTMENT STRATEGIES

Post-tariff pause, investors left with a 'bull market in uncertainty'

By Elijah Nicholson-Messmer April 10, 2025, 5:51 p.m. EDT 4 Min Read



Fed Chairman Jerome Powell prepares to deliver remarks to the The Federal Reserve's Division of Research and Statistics Centennial Conference on November 08, 2023 in Washington, DC. *Chip Somodevilla/Photographer: Chip Somodevilla/G*

Stocks initially surged following a 90-day pause on most reciprocal tariffs from the Trump administration, but financial advisors see little reason to celebrate.

Last week's announcement of larger-than-expected reciprocal tariffs by the United States sent markets into freefall, with the S&P 500 dropping by 12% over just four trading days. Concerns over a possible tariff-driven recession spurred investor hopes for rate cuts from the Federal Reserve this year, but the tariff pause has dampened that sentiment.

Scott Clemons, chief investment strategist at Brown Brothers Harriman in New York, described the 90-day pause as a "stay on economic execution."

"If left in place, tariffs this broad and deep would have paralyzed business investment, hiring, pricing and expansion, in addition to the more obvious direct dampening effect on trade," he said.

While investors welcomed the announcement, market unease around the Trump administration's economic policy remains. After rocketing nearly 10% on news of the pause, the S&P 500 extended its declines on Thursday, dropping over 5% in intraday trading.

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"What remains is a bull market in uncertainty," Clemons said. "Even with the 90-day pause, businesses are left wondering what will happen at the end of 90 days, or what other economically disruptive steps this administration might take."

Since Trump's announcement, yields on the 10-year Treasury have come down slightly, but remain elevated from a week prior. Financial advisors say that's a concerning trend.

"Treasuries are where investors are supposed to flee to for safety," said Michael Spector, co-founder and CEO of Adero Partners in Walnut Creek, California. "However, with tariffs causing a real fear of creating high inflation, no one wants to lock in current treasury rates that won't keep pace with inflation. To further the problem, the tariff policies could cause other countries to sell off their Treasuries, exacerbating a supply vs. demand problem. Houston, we may have a problem."

Rate cuts unlikely in near term

Even as markets tumbled earlier this week, officials from the Federal Reserve made clear that a tariff-induced economic slowdown would not lead to immediate rate cuts. Pressure on the Fed to cut rates lessened following the 90-day tariff pause, Spector said. But the Federal Reserve remains in a tough spot, said Burke Koonce, investment strategist at Trust Company of the South in Greensboro, North Carolina.

"Though the 90-day cooling off period was welcomed by markets, the Fed is in a tough position because it has to be highly vigilant against inflationary pressures caused by tariffs while still being supportive of an economy seen as being damaged by these actions," Koonce said. "Today's benign CPI [Consumer Price Index] print suggests the risks of an economic downturn might outweigh inflationary risks, and indeed, if the economy stalls, there won't be much inflation. It appears that the risk may be to the downside."

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Should Trump's tariffs resume at the end of the 90-day pause, experts point to two possibilities that could sway the Federal Reserve.

A broad tariff-induced price hike could see Americans dial back spending, sending the economy into recession as companies reduce their workforces to offset less consumer spending, said Gary Zimmerman, founder and CEO of cash management platform MaxMyInterest in New York.

Tumbling stock prices aren't a concern to the Fed, but if unemployment were to rise as a result of tariffs the agency may consider cutting rates earlier than originally planned, Zimmerman said.

"A rate cut from the Fed would indicate that they've observed a slowing of the economy, which should be bearish for equities and bullish for fixed income," he said.

Still, the Fed could find itself tied into a rate knot, should tariffs lead to a rise in inflation, experts say. If the Federal Reserve were to cut rates in response to higher prices — and lower spending — the economy could fall into a "double whammy inflation trap," said Michael Hansen, co-founder and managing partner at Frontier Wealth Strategies in Walnut Creek, California.

Both scenarios — a spike in unemployment or a rise in inflation — call for different monetary policies from the agency, but the U.S. could see the two timelines play out back-to-back, testing the agency's dual mandate to maximize employment and price stability.

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"It's possible that we experience a near-term recession followed by a resurgence of inflation, similar to what followed the COVID-19 pandemic," Zimmerman said. "The volatility experienced over the past few days has resulted from fiscal policy, so it would be unorthodox to use monetary policy to counteract fiscal policy. Usually these two tools are used to achieve the same goal, not to offset one another."

What it means for advisors

For financial planners looking to guide their clients, advisors say the best approach is a hands-off one.

"The best way to prepare for anything is to focus on the long-term and maintaining a diversified portfolio," said Carla Adams, founder of Ametrine Wealth in Lake Orion, Michigan. "Maintain your emergency fund of three to six months' worth of living expenses and keep cash on hand for any expected near-term expenses."

Still, shifts in the Federal Reserve's planned rate cuts could have significant implications for fixed-income investors.

"If you had conviction that rates were going to fall faster than the market expects, then you might want to buy bonds, since they will appreciate in value if interest rates fall more than the current market consensus," Zimmerman said.

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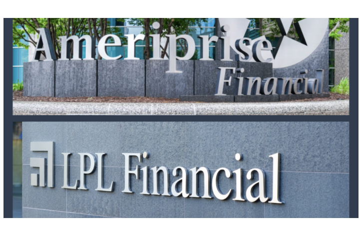

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