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# New Tariffs Drive Market Volatility

***There is an adage that the market doesn't like surprises, and part of the market reaction was due to the unusual approach.***

At 4:00 p.m. on April 2, 2025, President Trump announced sweeping tariffs on imported goods that were significantly larger and different in structure than expected. The announcement was carefully timed to coincide with the close of the New York Stock Exchange to avoid immediate market volatility. But over the next two days, the S&P 500 — generally considered representative of the U.S. stock market — plunged by 10.5%. The Dow Jones Industrial Average lost 9.3%, and the tech-heavy NASDAQ index dropped 11.4%.[1] The two-day rout erased $6.6 trillion in market value, the largest two-day shareholder loss in U.S. history.[2]

Market volatility continued on Monday, April 7, with prices swinging widely throughout the day, but the final results were more moderate. The S&P 500 dropped slightly by 0.23%, the NASDAQ was up slightly by 0.10%, and the Dow fell 0.91%.[3]

Obviously, a quick market drop is cause for concern, but it's important not to overreact and to maintain a steady eye on long-term goals. It may be helpful to consider the causes of the current market volatility along with a longer-term view of market trends.

## A surprising approach

The tariffs announced on April 2 were promised as a program of "reciprocal tariffs," which are traditionally defined as matching the tariffs other countries levy on U.S. goods and theoretically leveling the playing field. Determining reciprocal tariffs typically requires exhaustive analysis of a complex web of global trade rules on tens of thousands of products. Investors hoped for a moderate, measured program, and it's notable that the S&P 500 actually rose steadily in the three trading days before the announcement.[4]

The tariffs the president announced took investors by surprise. They were not reciprocal tariffs by the traditional definition but rather based on the trade deficit in goods between the United States and a given country. Trade in services, in which the United States often has a surplus, was not considered.

Specifically, the tariff was calculated based on the ratio of the country's 2024 goods trade deficit with the United States to the total value of its goods exports to the United States, multiplied by one half. Thus, if Country A sold $200 billion in goods to the United States and bought $100 billion in U.S. goods, the deficit was $100 billion, and the tariff was calculated as $100B/$200B = 50% x ½ = 25% tariff. Nearly all countries were assessed a minimum 10% tariff, regardless of the balance of trade, but Canada and Mexico, which already have substantial tariffs due to previous actions, are exempt from the new round. Other exceptions include Russia and North Korea, which are under trade sanctions.[5]

The Trump administration maintains that this calculation will close trade deficits, but most economists believe that such deficits are not necessarily bad or the result of unfair trading practices — and the calculation resulted in unexpectedly high new tariffs.[6] The European Union, which provides almost one-fifth of U.S. imports, was assessed a 20% tariff, while China was assessed 34% on top of the recent 20% boost and other tariffs already in place. Other important sources of imports with high new tariffs include Vietnam (46%), Taiwan (32%), India (27%), South Korea (26%), and Japan (24%).[7] Tariffs on most countries are now higher than the tariffs they charge for U.S. goods, and even countries that buy more U.S. goods than they sell, such as Australia and Argentina, will still pay the 10% minimum tariff.[8–9]

## Concerns and potential revenue

There is an adage that the market doesn't like surprises, and part of the market reaction was due to the unusual approach, with an untried calculation, higher-than-expected tariffs on many trading partners, and a minimum tariff on nearly every country of the world. But there is also a fundamental concern that these tariffs, on top of previously levied tariffs, will increase consumer prices to a level that seriously slows consumer spending, the driving force of the U.S. economic engine. Higher import prices can also hurt U.S. companies that depend on imported materials and parts, while retaliatory tariffs and other economic sanctions could hurt U.S. companies that export goods and/or do business abroad.

On the other hand, the Trump administration's stated goals are to stimulate U.S. manufacturing, address unfairness in international trade, and increase U.S. revenue, which could be used to decrease other taxes. Trump economic advisor Peter Navarro estimated that the tariffs could raise more than $6 trillion over ten years. This estimate is likely on the high end, because it assumes that tariffs, trade, and consumer behavior will not change. But revenue approaching that level could pay for extending the 2017 tax cuts, which are scheduled to expire at the end of 2025 and could decrease revenue by about $4.5 trillion over the next ten years if extended.[10]

Moreover, the tariffs as announced may be intended in part as a starting point for negotiations. President Trump and Vietnam's leader, To Lam, have already begun discussions, with Lam offering to reduce his country's tariffs on U.S. goods to 0% in return for reduction of the U.S. tariffs. It's likely that there will be negotiations with many key U.S. trading partners as the tariff program evolves.[11]

## Investing for the long term

Although it is impossible to predict the market, you can probably expect volatility for some time. The NASDAQ Index officially entered a bear market — a loss of at least 20% from a previous high — at the end of trading on April 4, while the S&P 500 Index — down more than 17% from its recent high — is approaching bear territory.[12–13] While any substantial decline can be worrisome for investors, it's important to remember that markets are cyclical. Regardless of the reasons for a downturn, the market has always bounced back. Here are some other considerations that may help provide perspective:

- After a down year in 2022, the S&P 500 gained 24.23% in 2023 and 23.31% in 2024, the largest two-year increase since 1998.[14–15] Although 2025 has been rocky, the index set an all-time record on February 19, 2025, *after* the initial round of tariffs was announced.[16] So the current market turmoil is coming after a period of unusual strength. While it may be disturbing to watch the value of your investments decline, the current drop is from a high level, and the current value of your portfolio might be similar to what it was at a time when the value seemed satisfying.
- The losses you see in your investment account are only paper losses until you sell. Panic selling locks in those losses. Historically, some of the best days of stock market performance have followed some of the worst days. No one can predict market direction, and pulling out of the market due to an emotional reaction can lead to missing gains on the way back up.
- A down market can offer buying opportunities, but no one knows when the market has reached bottom, so — as with selling — purchasing decisions should be made rationally based on a long-term strategy.
- Since 1928, the S&P 500 Index (including an earlier version) has returned an annual average of about 10%, but annual returns have varied widely.[17] Over 97 years, there have been 65 positive years, 30 negative years, and two flat years.[18]
- During this same period, there have been 24 S&P 500 bull markets (not counting the current bull) and 23 bear markets. The average bull market lasted 1,102 days and had a positive return of 121.4%. The average bear market lasted 340 days and had a negative return of -36.8%.[19] Put simply, bulls have lasted longer than bears, and bull gains have substantially eclipsed bear losses.

Past performance is not a guarantee of future results, but the clear message in these statistics is that it pays to be patient and stick to your long-term strategy. This is true during any period of market volatility, but the current situation — primarily driven by the reciprocal tariff regimen — is still so new and subject to change, it may be unwise to place too much emphasis on the initial market reaction. Even if the president maintains the current trade policy, the U.S. economy and the U.S. stock market have proven time and time again to be resilient and adaptable to changing economic conditions.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. The S&P 500 Index is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.*

1, 3–4, 13, 16) Yahoo Finance, April 7, 2025

2) Morningstar, April 4, 2025

5, 7, 9) *The New York Times,* April 4, 2025

6, 8) *The Wall Street Journal,* April 7, 2025

10) CNBC, April 2, 2025
11) *The New York Times,* April 6, 2025
12) Reuters, April 4, 2025
14) S&P Global Indices, 2025
15) MarketWatch, December 31, 2024
17) Investopedia, December 26, 2024
18) www.macrotrends.net, 2025
19) Yardeni Research, January 21, 2024

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