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Markets likely to stay volatile in the weeks ahead

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Tuesday's initial sharp gains for the S&P 500 on hopes of tariff progress abruptly evaporated later in the session after it became clear the Trump administration would push ahead with punishing new tariffs on virtually all imports. At one stage, the index was as much as 4% higher on Tuesday, putting it on track for its largest one-day gain since 2022, before ultimately closing down by 1.6%.

With President Trump's reciprocal tariffs taking effect just after midnight Eastern Standard Time, including a 104% rate on some Chinese goods, pressure on risk assets has ratcheted up.

Headlines remain challenging. President Trump in the last few hours accused China of manipulating its currency while predicting Beijing would seek to cut a deal.

The historically large equity market swings at the start of this week follow a 10% fall in the S&P 500 in the two trading sessions following the President's 2 April announcement. The rebound early in Tuesday's session may also have been partly driven by technical factors, as equities had become significantly oversold following recent sharp declines.

What do we think?

Markets are likely to stay volatile in the weeks ahead as investor focus shifts between changing interpretations of the Trump administration's goals.

Our base case remains that after an initial phase in which tariffs rise further, US effective tariff rates should start to come down from the third quarter of the year as legal, business, and political pressure mounts, and as deals with individual

countries and industries are struck. We also expect the Federal Reserve to cut interest rates by 75-100 basis points to support the US economy. In this scenario, we believe the S&P 500 can recover to 5,800 by year-end.

However, investors should prepare for additional near-term stock declines. We do not believe the S&P 500 is currently priced for much beyond a mild recession (a drop to 3,500-4,500 would be more consistent with historical recessions, in our view). And while an about-face from the Trump administration or court injunctions can't be ruled out, in the near term we think it is more likely that news flow will continue to worsen, including potential EU retaliation and an end to exemptions on pharmaceuticals and semiconductors.

Even though the market may move even lower in the near term, periods of market stress have historically and consistently offered long-term rewards for diversified investors who look through near-term volatility, stay the course, or put fresh money to work.

Since 1900, a diversified portfolio has outperformed inflation by an average of 5.1% per year and outperformed cash by 4.6% per year (according to the Global Investment Returns Yearbook). History also shows that investors with excess cash would have benefited from putting it to work in a balanced portfolio, even when stocks are in the middle of a drawdown. Since 1945, a strategy to phase into a balanced 60/40 portfolio of S&P 500 and US government bonds over the course of 12 months and then holding has outperformed cash (3-month Treasury bills) in roughly 74% of 1-year periods and around 83% of 3-year periods. Strategies that started to phase in to diversified portfolios when the S&P 500 is more than 20% below its peak outperformed cash in roughly 87% of 1-year periods and almost all 3-year periods. ([Click here](#) to read more on phasing into markets.)

What should investors do?

At times of heightened uncertainty and elevated volatility, there are broadly three strategies investors can pursue:

- **Manage volatility.** For investors concerned about the near-term risks and looking to hedge portfolios against potential further declines.
- **Take advantage of volatility.** For investors unsure about the near term, but looking to utilize high levels of volatility to earn additional portfolio income.
- **Look through volatility:** For investors who were under-invested going into the sell-off or are willing to take on near-term risk for potential long-term reward.

We believe that there are ample opportunities for investors to pursue all three, enabling them to use current volatility to build stronger portfolios for the future.

Original report: [Equities fall further on tariff escalation, 9 April 2025.](#)

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