GUGGENHEIM investments

April 8, 2025

Notes on Tariff Turbulence

Update on our macro and market outlook following announcement of new tariff and trade policies.

Primary Takeaways

- It has been several days of extraordinary volatility, but investors must look through this volatility and focus on the fact that **this remains a good market for bonds vs. stocks** in our view, especially higher quality bonds. Stocks have a greater valuation premium, and we believe the risk to earnings and current multiples makes them prone to continued gap risk.
- Across our fixed-income strategies, we generally went into this event defensively positioned, which allows us to be opportunistic as we prepare for potential further spread widening and volatility. For now, the **reset in valuations could provide a better entry point for credit**, as high grade credit fundamentals were broadly strong coming into this. All-in yields remain elevated relative to history.

New Tariff Announcements

- The Trump administration's reciprocal tariff announcements **exceeded nearly all estimates**, lifting the effective tariff rate on U.S. imported goods to around 23 percent—the highest level in over 100 years.
- **The largest levies were applied to Asia**, with China facing tariffs of 54 percent; European tariffs were closer to expectations, with the E.U. facing tariffs of 20 percent; Canada and Mexico were spared from the worst of the new trade measures, as no new tariffs were applied, and United States-Mexico-Canada Agreement (USMCA) goods were exempted.
- These new measures are **likely to weigh on global growth**, with the largest declines occurring in Asian economies given their generally high export exposure to the United States and higher tariff rates. Tariffs should also further weigh on already soft European growth.

Changes to the Guggenheim U.S. Outlook

- **Prior to the announcement**, we had already anticipated a slower Q1/Q2 as fiscal policy impact would start negative (DOGE, tariffs, etc.) with potential positives (deregulation, tax cuts, etc.) taking more time.
- **Following the announcement, our baseline projection still sees positive U.S. gross domestic product (GDP) growth in 2025**, albeit very low. Our analysis indicates that the odds of recession have materially increased and are roughly 50 percent. Trade partner retaliation and the sharp tightening in financial conditions could push growth even lower.
- **Economic policy uncertainty remains extremely high** and we believe this will have a major impact on businesses and consumers, with potential lasting impact depending on policy shifts from here.
- **This is likely peak headline pain** however, as tariffs will likely be negotiated down, or tariff revenues used for fiscal stimulus, cushioning growth.
- If tariff announcements hold, **we expect core inflation to rise above 3.5 percent** this year but anticipate that this inflation will fade in 2026 as the economy slows. A risk to this view is if inflation expectations rise, in which case 2026 inflation could be sticky.
- There is policy room for the Federal Reserve (Fed) to react to a slowing economy. We **expect four to six rate cuts over this year and next** as the economy slows. Given the likelihood of elevated inflation in 2025, the Fed will be reactive to shifting conditions, only easing once labor market conditions soften.
- Our baseline view is for **three cuts this year**, accelerating in 2026 to a terminal rate below 3 percent. We could see more cuts in 2025 if the economy deteriorates rapidly, or rate cuts slow if inflation becomes entrenched.

Market Response

- Absent a policy pivot, we see **price volatility remaining extremely high**, and the risk of a financial accident increases.
- Fixed income had been the **only relative safe haven** immediately following the announcement, but we have started seeing retracement.
- **High quality fixed income proved an effective diversifier as equity markets fell.** Even as spreads widened, investment-grade fixed income registered positive total returns, as expectations for slower growth caused yields to fall.
- The multi day decline in U.S. stocks has been one of the most severe of all time. **There is room for U.S. stock indexes to fall further**, even after Monday's pause.
- **The dollar has traded broadly lower** even as equities sold off, which we attribute to U.S. growth being marked down more sharply than many other economies and some reversal of U.S. overweight positions.

Important Notices and Disclosures

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to risk, including interest rate risk, credit risk, and liquidity risk. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy, or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy or, nor liability for, decisions based on such information.

NOT FDIC INSURED | NOT BANK GUARANTEED | MAY LOSE VALUE

L-PORTSTRAT5 x426 64542