Spectra Investment Management, LLC

401 SE Osceola Street, Suite 202
Stuart, FL 34994
Tel: (772) 324-5640

501 Palm Street, Suite B-6
West Palm Beach, FL 33401
Tel: (561) 623-8305

www.spectrainvestment.com

# Tariff Tornado

2nd Quarter 2025

April 30, 2025

It was a quiet quarter, really. We trimmed the office coconuts and azaleas, re-alphabetized the files, deep-cleaned the fridge, and shampooed the rugs. The reality – a financial tornado blew through markets, and we've been tied down to our desks for most of 2025.

While Trump's tariff strategy seeks to reshape decades of global trade, its abrupt introduction struck like a tornado, triggering sharp and unpredictable market swings. Year-to-date, U.S. stocks (S&P 500) have taken a beating, overpriced tech stocks even more so, bonds have been clipped, while foreign stocks – surprisingly – have delivered gains.

## Golden Hedge

Another notable development: the U.S. dollar has weakened as debt, persistent deficits, and tariff uncertainty shake investor confidence. As a result, foreign capital has been moving into gold and overseas assets in search of stability.

**Fun Fact**: As of April 23, gold has outpaced the NASDAQ and S&P 500 over the past five years. With geopolitical tensions smoldering and hope for fiscal discipline fading, investors are rediscovering gold's appeal — just as our 2021 gold purchase nears a 100% gain. While we're pleased to have been early, the recent price surge concerns us.

**Comparison of Total Returns**

January 2, 2020 to April 23, 2025


Data from Bloomberg
Spectra Investment Management, LLC

## Liquidation Day

The good news: through March 31, all client portfolios were positive year-to-date, driven by U.S. value/dividend growth stocks, foreign equities, gold, and high-quality bonds. Unfortunately, early April's market volatility—fueled by President Trump's **April 2 "Liberation Day"** tariff rollout—has pushed our client's stock and bond portfolios into modest single-digit losses.

The evolving iterations of Trump's trade policies have proven far more punitive than expected. Two days after "Liberation Day", the U.S. stock market lost $6 trillion in value, bond yields surged, and the dollar tumbled. This feels more like **Liquidation Day** instead of "Liberation Day".

The sheer unpredictability of this tariff approach can put the brakes on capital expenditures and hiring — both of which can stop on a dime but take much longer to restart. If this is the new normal for Trump economics, it's intuitive that CEOs are likely to think twice before making long-term investments.

After reviewing boatloads of tariff analysis, we landed on a tariff analogy derived from Harvey Penick's classic golf book: tariffs [golf tips] are like baby aspirin—small, targeted doses can help, but take the whole bottle, and you might not survive. In short, Trump took the whole tariff bottle, and the world anxiously awaits the side effects.

## Maximum Pressure Politics

What is Trump's endgame with his tariff tornado strategy? On its face, it looks insane. But maybe that's the point. This is Trump's style – aim for the Moon so you can settle somewhere within Earth's atmosphere and declare a huge victory.

To understand this chaos-as-strategy approach, we drew on insights from retired FBI hostage negotiator Chris Voss and an infographic from BCA Research that's been making the rounds in investment circles. Together, they helped us see Trump as a disruptive negotiator.

BCA Research

According to Voss, Donald Trump is a master marketer masquerading as a master negotiator. He enters every negotiation with a bullhorn and a spotlight, kicking chairs and declaring victories before the first counteroffer hits the table. In Voss's terms, Trump is a textbook **assertive-aggressive negotiator** who thrives on confrontation, dominates the room, and initially approaches every deal as zero-sum.

The problem? While assertive-aggressive styles are effective in the short term and make for great television, **they destroy relationships**, burn through goodwill, and leave a trail of half-finished deals.

According to Voss, assertive-aggressive negotiators like Trump—and yes, even Kim Jong Un—see negotiation as a sport. They're comfortable with brinkmanship, escalation, and boxing it out in a fashion that scares the rest of the world. But beneath the spectacle, assertive-aggressive types often abandon the process if they don't get quick wins. When a deal doesn't land fast, Trump could pivot to the next deal, leaving counterparts wondering:

*What happened? Where'd he go? I thought we were making progress……*

In contrast to Trump's style, the *Ackerman Model*, a methodical Voss-suggested negotiation technique, involves calculated offers and concessions. Each step in the process is designed to make the other side feel like they're winning. It's strategic, slow, and requires patience—**everything Trump avoids**. Applying this model, Canada wouldn't reject Trump's tariffs outright. Instead, Canada might propose small, staged changes that let Trump declare victory while minimizing real damage.

### Talks Without Talking

History offers no support that broad sweeping tariffs lead to good outcomes. We worry that Trump has overplayed his hand, but as we write, daily headlines hint at rollbacks and that deals are coming. The counterargument? America's massive trade deficit gives Trump leverage; many nations rely on U.S. consumers. While the U.S. still depends on foreign high-tech and specialty goods, Trump has already carved out many exceptions. As Chris Voss might say, this is classic "maximum pressure"—start with a punch, then retreat just enough to keep the other side talking.


China's rising influence in a multipolar world (G7 vs. BRICS) is our second big concern. Trump's tariff showdown with President Xi—escalating from 25% to as much as 145%—**risks turning trade hostilities into a deeper strategic rivalry**. Meanwhile, China's deepening ties with Russia, India, the UAE, Egypt, and Iran suggest this could be less about commerce and more about strengthening the BRICS geopolitical alliance.

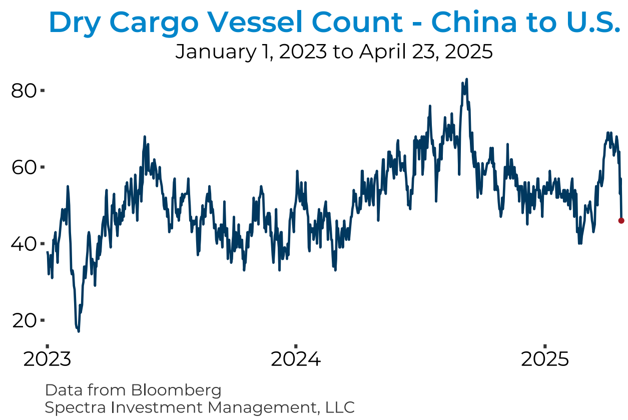
Despite optimistic murmurs from President Trump and Treasury Secretary Scott Bessent hinting at easing China's tariff tensions, Beijing is playing a very different hand. On April 24, **China's Commerce Ministry flatly denied that any trade negotiations are underway**, calling recent U.S. commentary "unfounded" and demanding a full rollback of what it deems "unilateral" tariffs. The two sides appear to be negotiating from entirely different realities—Trump anchoring at 145% tariffs, while China refuses to sit at the table without a preemptive concession. If this is Trump's maximum pressure strategy, **Beijing is countering with maximum patience**.

### Repricing Risk

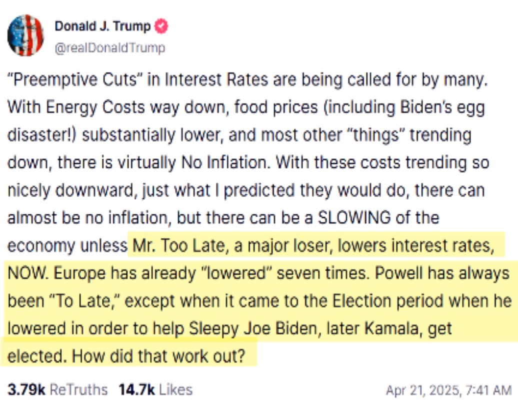
Let's assume that Trump truly believes the tariffs will result in a stronger U.S. economy. The reaction of the stock and bond market sharply suggests that too much change at once is a problem. Looking past the negative price action, airlines, cruise lines, and consumer stocks have led the downward earnings revisions in Q1 2025. According to Bloomberg, 62 S&P 500 companies slashed guidance by mid-April—the most in a decade. United Airlines even issued two earnings forecasts: one for a stable world and another for the recession they think we might already be in.

Naturally, consumer discretionary stocks stumble at the first hint of recession. But it's not just discretionary stocks. Even staples like Procter & Gamble have lowered sales guidance, citing volatile conditions. And with limited signs of the U.S. engaging in trade talks with China, Apple is reportedly planning to shift all U.S.-bound iPhone production to India by 2026.

The tariff stock market reaction is only part of the story. Within a few weeks of "Liberation Day", layoffs are accelerating, new orders are slowing (ISM), and container ships sailing from China to the U.S. have fallen sharply.




With uncertainty rarely this high, markets are repricing risk. In essence, investors should want a **higher expected return for all this uncertainty and risk**, and to achieve that, stock prices fall. Further, Trump's rants on X/Truth Social — threatening to fire the Fed Chairman and hurling insults — does little to calm markets or inspire business confidence. Particularly when the Fed is already worried about tariff-induced inflation, it might be unable to soothe investors with rate cuts (see Exhibit A). This no longer feels like global economic saber-rattling—it's starting to feel like the odds of a recession, or stagflation, are increasing by the day.


Donald J. Trump
@realDonaldTrump

"Preemptive Cuts" in Interest Rates are being called for by many. With Energy Costs way down, food prices (including Biden's egg disaster!) substantially lower, and most other "things" trending down, there is virtually No Inflation. With these costs trending so nicely downward, just what I predicted they would do, there can almost be no inflation, but there can be a SLOWING of the economy unless Mr. Too Late, a major loser, lowers interest rates, NOW. Europe has already "lowered" seven times. Powell has always been "To Late," except when it came to the Election period when he lowered in order to help Sleepy Joe Biden, later Kamala, get elected. How did that work out?

3.79k ReTruths 14.7k Likes Apr 21, 2025, 7:41 AM

We will skip the benefits, risks, and history of tariffs, quotas, and comparative advantage, from 19th-century economist David Ricardo to Bill Clinton's 1993 NAFTA. You're welcome 🤓.

Instead, what matters now is how tariffs could further disrupt markets and future portfolio positioning. Jim Stack of InvesTech Research frames it nicely with a clever acronym. Before the first tariff headline hit, the stock market was already facing **the O's** — Overconcentration, Overinvestment, and Overvaluation.

First, **overconcentration** worsened last year, with ten mega-cap stocks making up a third of the S&P 500. Historically, when markets are this top-heavy, downside risk accelerates. This year, the tech "Magnificent 7" has led the decline, falling harder than the broader market.

Second, **overinvestment** adds fuel to the tariff tornado. U.S. households entered the year with the highest-ever share of financial assets in stocks — a classic sign of overconfidence. This contrarian indicator (see Exhibit B) has historically registered high levels near market peaks.

Third, **overvaluation** leaves the market even more exposed. Stocks remain near historic highs by CAPE (Cyclically Adjusted Price/Earnings Ratio), a trusted gauge that smooths out earnings noise. Outside of COVID, valuations today suggest markets are priced for perfection (everything needs to go right!) — a dangerous setup as economic storms gather (see Exhibit C).

The "three O's" already weighed on markets before the tariff tornado struck. Our client portfolios, by contrast, have held up far better year-to-date because we have been acutely aware of these risks. Focusing on dividend growth stocks, global bargains, gold, and high-quality bonds, we stayed defensive and diversified, which should serve us well in 2025.

We haven't chased the recent rally. We might regret that, but we believe there is sufficient market pressure for the tariff tornado to hit again. If bargains emerge, our plan is simple: gradually sell some of our gold position and redeploy into productive companies or funds of similar. Gold is a reserve asset, not a compounding one — and our goal remains to preserve and grow capital with less gold in your portfolio than today.

After years of feeling like international investing was pushing on a string, momentum is building in foreign stocks. Europe has a long list of problems, but capital is starting to flow into cheap stocks in the Eurozone. We don't foresee adding to international stock funds, but we are sufficiently encouraged to hold existing positions.

**Key Takeaways**

1. **Repricing Risk** – Trump's tariffs have triggered layoffs, slowed orders, and stalled shipments. Markets are quickly repricing risk as recession fears rise and CEO confidence crumbles.
2. **Markets Were Already Fragile** – Even before tariffs, the stock market had higher than average risk — Overconcentration, Overinvestment, and Overvaluation.
3. **Gold Is Doing Its Job** – With soaring debt and a weakening dollar, gold has hit new highs, outperforming stocks over five years. Our early gold position has been a stabilizer, and we plan to redeploy gold gains into compounding assets gradually.
4. **International Momentum Is Building** – After years of frustration, international markets — especially the Eurozone — are finally outperforming the S&P 500 as fresh capital flows into cheaper foreign stocks.

We apologize for all the Trump and tariff talk. In our defense, this topic has hijacked financial headlines all year. For visual proof, see Exhibit D: a collage of *The Economist* covers featuring Trump on repeat this year. Next quarter, we'll do our best to diversify the conversation — tips on raising puppies, gardening, or cleaning a fax machine. 😊

Thank you for your trust and support as we navigate this landscape. We appreciate the opportunity to guide you through this tornado and look forward to compounding your capital in the years ahead. Let's connect soon!

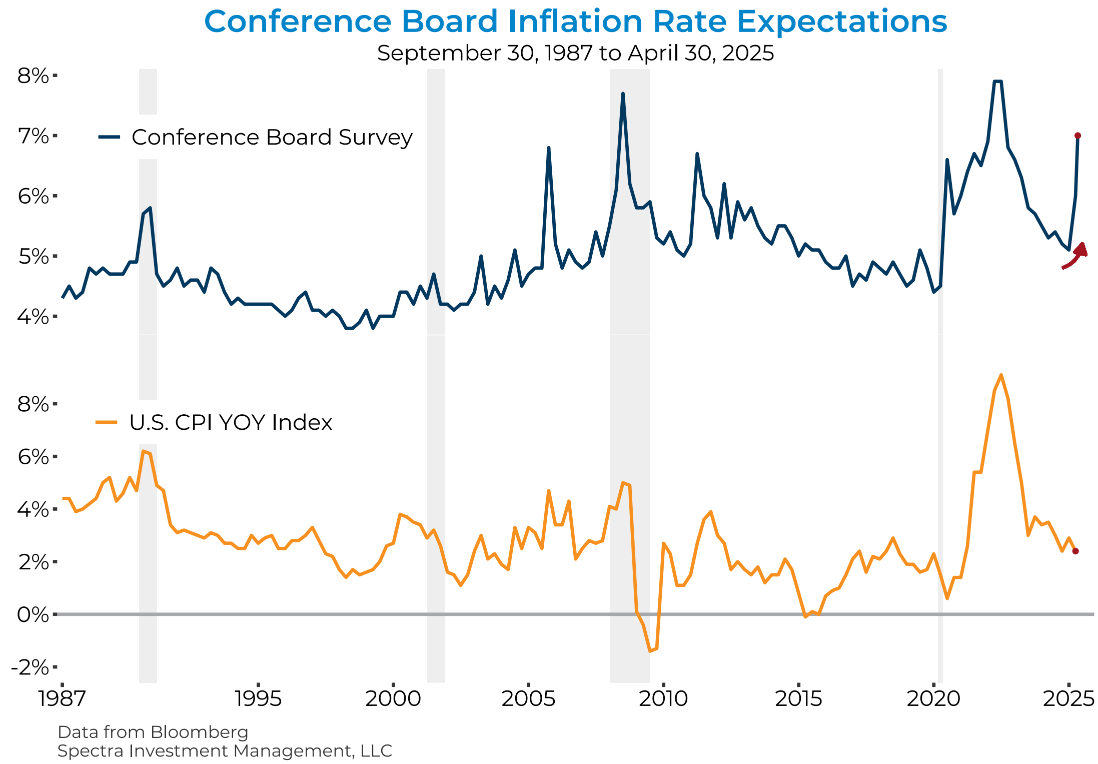
Very truly yours,

Scott A. Roads
Founding Principal

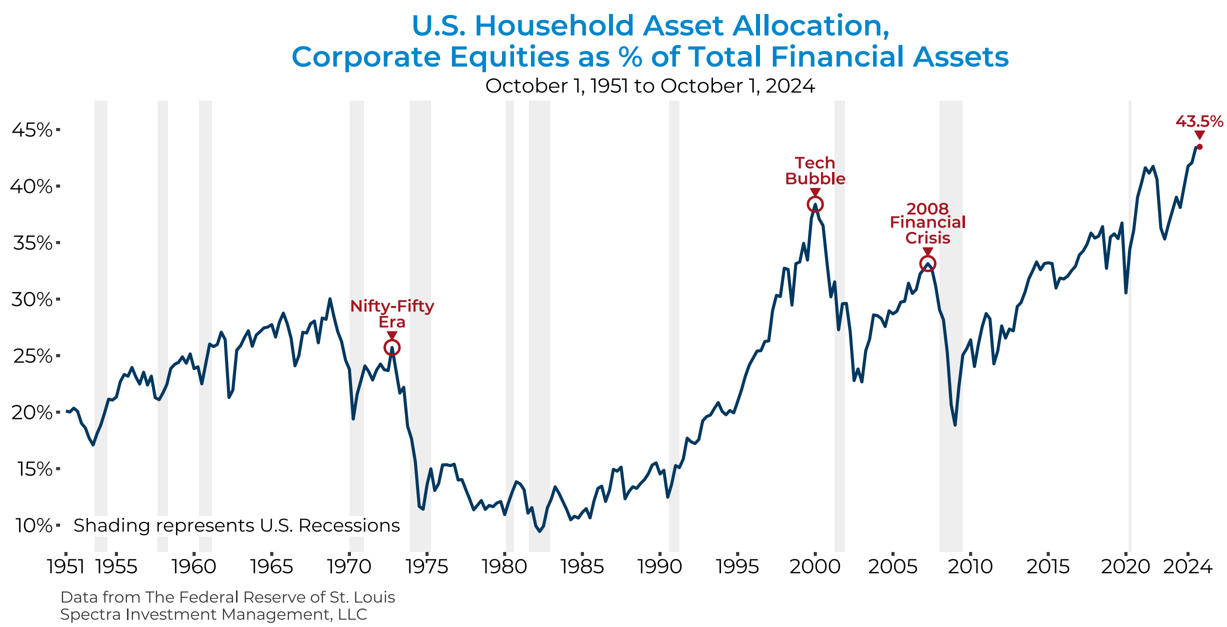
Julia E. Zaino
Principal

## Exhibits

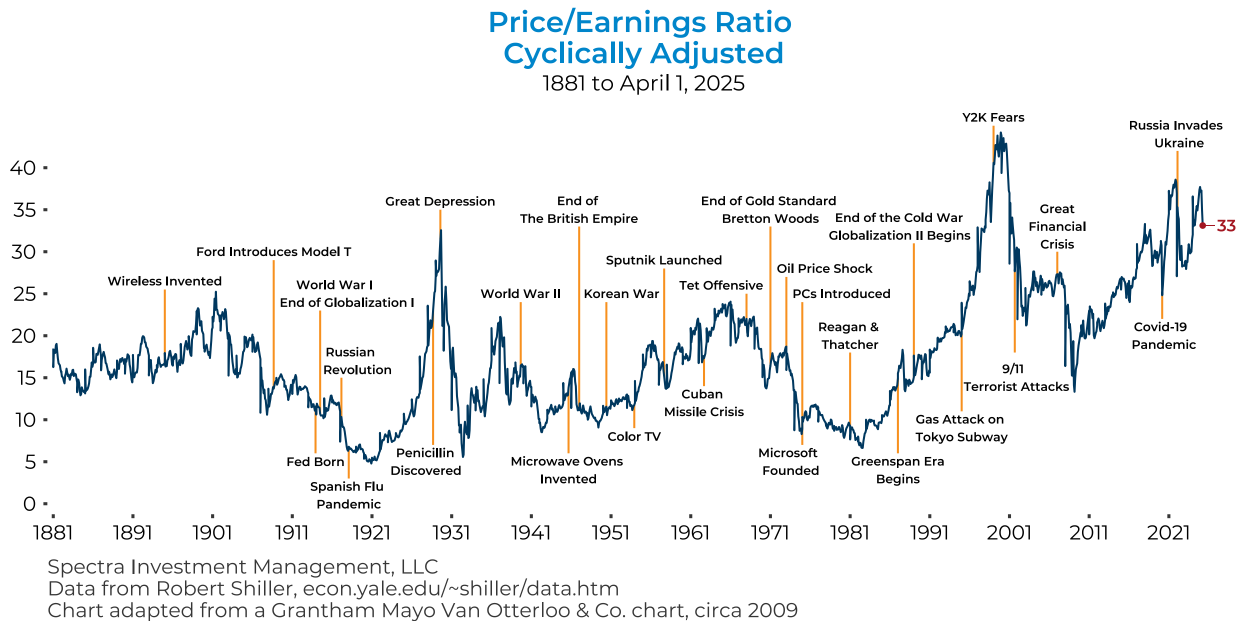
A. Conference Board survey of inflation rate expectations vs. the actual CPI Index



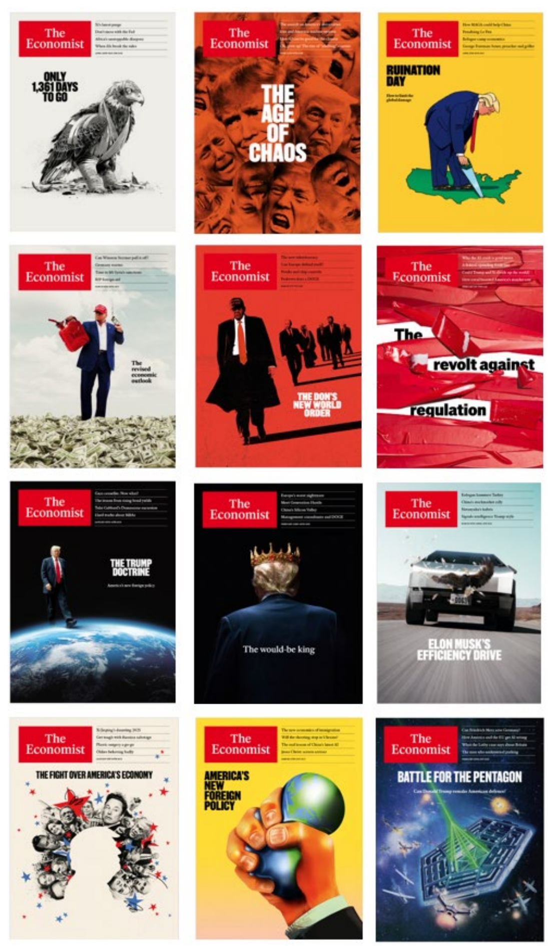

B. U.S. household allocation to corporate equities



## C. Historically high S&P 500 valuations




## D. 2025 Year-to-date covers for The Economist



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*Spectra Investment Management, LLC*
*401 SE Osceola Street, Ste 202, Stuart, Florida 34994   Phone: 772-324-5640*
*501 Palm Street, Ste B-6, West Palm Beach, Florida 33401   Phone: 561-623-8305*