Tariff Gambit: Our Thoughts on Weathering the Volatility

The fluid tariff situation is paralyzing businesses, worrying consumers, and confusing investors. In periods of high uncertainty, we believe the best approach is to remain steady and reassess whether portfolio allocations align with investment goals. Here's how our teams are managing the current environment.

What's happening

Reciprocal tariffs went into effect at 12:01 a.m., April 9, reaching the highest average tariff levels since the 1910s. By mid-day, President Trump announced a 90-day pause on countries that had not retaliated, kicking off a rally across equity and credit markets…only to retrace yet again on Thursday as the trade war with China escalated.

Through the market close on April 9:[1]

- The volatility index (VIX) spiked over 140% since the start of the month.
- The S&P 500 is down 11% from its February high, with all sectors in the red year to date, led by information technology, consumer discretionary, and materials.
- West Texas Intermediate (WTI) crude oil is down almost 13% this year, to $62 and change, driven by a weaker global demand outlook and expected increased supply from Organization of the Petroleum Exporting Countries (OPEC+).
- Gold is setting new all-time highs after a brief lull over the past week.
- The U.S. Dollar Index has sunk to a six-month low.
- Rate markets have been volatile, with yields initially falling then retracing higher as the selloff across markets intensified.

Many of the common gauges that signal equity market lows—such as the put/call ratio, percentage of stocks below 200-day moving average, and the VIX index—are at levels suggesting the potential for a significant bounce in equities. This was evident on Monday, April 7, when the S&P 500 Index experienced a 4.11% intra-day whipsaw. That type of volatility reflects investors' emotional hand wringing to conflicting news.

Macroeconomic implications

If all the announced tariffs (including those on pause) remain in effect, we anticipate 1.0-1.5% downside to our 2025 U.S. real GDP estimate of 1.7%. We estimate **U.S. inflation[2] will likely rise to 4.3%** (from 2.8% currently) over the remainder of the year.

Uncertainty is driving economic risks higher. The constant state of flux over tariffs may cause consumers to tighten their spending and businesses to reduce or delay capital expenditures and hiring,

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potentially creating a vicious cycle absent signs of progress on tariff negotiations. We believe global equity markets have priced in a significant downgrade to U.S. and global growth, but they don't yet signal expectations of a meaningful recession featuring mounting job losses, waning consumption, and decreased business spending.

We are closely monitoring the functioning of markets. Whereas the year-to-date selloff in equities has been swift and violent, rate markets had been functioning well until this week, when yields started moving higher in sympathy with the selloff in equities. This suggests funding markets may need Federal Reserve support.

What's to come? With financial markets reacting to a policy shock rather than a typical growth slowdown, market moves are likely to remain highly sensitive to the news cycle. Yesterday's vertical moves following the announced tariff pause offered a glimpse at the market's appetite for a resolution. We believe this was largely a psychological rally, as the pause suggested the administration is open to lowering tariff rates.

Don't expect economic reports over the next few months to provide an accurate picture of how the economy is handling tariffs—at least not until retail stores run down their inventory. Do, however, look to weekly jobless claims, which will provide a glimpse into how businesses are managing costs amid uncertain customer demand. We believe the Fed has room to cut rates, but much depends on the duration and magnitude of tariffs. We're also tracking capital flows out of the U.S.

During periods of uncertainty, balancing risk versus reward and sticking to a proven discipline and process is critical. We are continuously monitoring the situation and will make portfolio adjustments as opportunities present themselves.

Equities

Valuations and earnings at risk: The S&P 500 multiple remains elevated vs. historical levels at around 18x price-to-earnings (as of 04/09/25).

Large cap value: We remain positioned for a broadening in market leadership and continue to favor the defensive "stable value" segment—including consumer staples, real estate, utilities, pharmaceuticals, and telecom–over global cyclicals in light of persistent tariff-related risks.

Large cap growth/mid cap growth: Entering the quarter (and currently), we had balanced exposure to cyclical and defensively oriented names, as we anticipate the heightened volatility will continue. With the outcome of tariff negotiations still uncertain, we have trimmed exposure to companies and industries where valuations did not adequately reflect the increase in macro risks, such as advertising and capital markets, and increased exposure to durable areas with attractive valuations such as healthcare services. We continue to closely monitor our exposures as the situations develop.

Small cap growth: Given ongoing tariff uncertainty and building macro headwinds, we have modestly shifted exposure away from more cyclical holdings to companies with higher secular growth exposure and relatively lower tariff exposure. Throughout the portfolio, we remain focused not only on fundamental trends but on how well portfolio companies are able to navigate the current environment. International revenue exposure, input cost trends, pricing power, and supply-chain flexibility remain of particular importance given the uncertain backdrop. As always, we are maintaining our quality bias with sensitivity to relative valuations. We are paying particular attention to future growth, favoring secular growers and making quality portfolio upgrades. Although a volatile macro environment could delay small cap stocks' outperformance, we believe prudent and disciplined bottom-up stock selection will provide potential for strong relative and absolute returns over a full market cycle.

Global artificial intelligence: Even as the administration is taking a more aggressive approach with reciprocal tariffs, we continue to believe Trump wants the U.S. to maintain its leadership in AI. However, companies that rely heavily on overseas supply chains in certain countries may face greater uncertainty. We expect elevated volatility as markets settle into the new policy backdrop. It is important to highlight a lot of uncertainties are now being discounted into equity prices. As we get more clarity over the coming months, markets may begin to stabilize and stage a recovery from oversold conditions.

Voya Machine Intelligence: We have opportunistically taken advantage of the sharp selloff to buy into harder-hit, higher-beta growth names in sectors such as consumer discretionary, information technology, and financials, while taking profits in defensive areas.

Fixed income

Rates: Interest rates initially fell in response to the April 2 tariff announcement, but subsequently retraced higher as the selloff across markets intensified. This dynamic is not uncommon, just as rates sold off in 2020 before eventually reverting lower. We believe rates will follow a similar trend again based on the likely impact of tariffs on growth. Additionally, while tariffs will likely result in higher inflation in the very near term, some of the impact should be offset by easing labor costs as the labor market continues to rebalance, and by shelter inflation aligning with more real-time indicators. Longer-term, the impact on inflation should be less significant, assuming the downturn in growth is not met with significant fiscal stimulus.

Corporate credit: As expected with a macro-driven event, spreads have widened, with investment grade spreads moving more than 30 bp higher from recent lows and high yield spreads rising by more than 150 bp. This is a justified reaction, as most corporations are directly impacted by the imposition of tariffs. While spreads bounced back yesterday, we expect further volatility ahead. As we head into first-quarter earnings season, we will look for opportunities to begin reducing our underweight should spreads widen further.

Securitized credit: Securitized spreads have widened to a lesser degree, as the collateral that backs these structures—consumer credit, commercial, and residential real estate—are only indirectly exposed to tariffs. Because of this, our overweight to these sectors has allowed our portfolios to outperform their respective benchmarks.

Short duration high income: In the high yield market, credit fundamentals remain stable, and the default rate is expected to stay below the historical average of 3-4%, making it resilient to an economic slowdown. However, most sectors are affected by tariff news, with companies that have offshore production, higher overseas sales, and lower margins more vulnerable. We've limited exposure to the most impacted industries, such as auto manufacturing and traditional retail, while our aluminum manufacturing and chemical production exposures are offset by our steel holdings. In addition, we've increased investments in less tariff-sensitive sectors like broadcasting and cable TV and mortgage finance, which can potentially benefit from lower interest rates.

Multi-asset strategies

We are modestly overweight stocks, and although we anticipate continued high volatility, we believe equities can gain with additional clarity around trade policy and positive earnings growth for the year.

Equities: We have seen a significant rerating of U.S. equities, even as companies continue to deliver solid earnings. Through the drawdown, selling was broad-based. Despite the recent stock market reversal, we see additional upside as the 90-day pause suggests the administration's desire to negotiate with our trading partners as opposed to keep tariffs in place for a prolonged period. Within equities, we continue to prefer the earnings profile of U.S. companies over the more cyclical earnings of European equities.

Fixed income: We remain overweight U.S. investment-grade credit, which offer decent yields and portfolio stability, as U.S. corporations are generally in a strong financial position. Although higher inflation could increase rates, we think yields will decline if there is a material deterioration in economic growth, providing a hedge against equity risk. We continue to favor shorter-dated bond maturities, which provide more precise exposure to the Fed's actions. This approach is particularly prudent given the current liquidity challenges faced by longer-dated treasuries, which we believe are more susceptible to sell-offs in the event of rising budget deficits.

A note about risk

The principal risks are generally those attributable to investing in stocks, bonds, and related derivative instruments. Holdings are subject to market, issuer, and other risks, and their values may fluctuate. Market risk is the risk that securities or other instruments may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security or instrument may decline for reasons specific to the issuer, such as changes in its financial condition.

1. All data as of 4:00 pm ET 04/09/25 unless otherwise specified. Source: FactSet, YCharts.

2. As measured by core PCE (personal consumption expenditures).

One cannot directly invest into an index.

Index definitions: The S&P 500 Index is an unmanaged index that measures the performance of securities of approximately 500 of the largest companies in the United States. The ICE U.S. Dollar Index measures the value of the U.S. dollar relative to a basket of currencies including the euro, yen, British pound, Canadian dollar, Swedish krona and Swiss franc. Crude oil price measured by the West Texas Intermediate front-month futures contract. The Chicago Board Options Exchange's CBOE Volatility Index (VIX), a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Put/call ratio: The put-call ratio is calculated by dividing the number of traded put options by the number of traded call options.

200-day moving average: Calculates the simple average of the closing price of a stock over the most recent 200 trading sessions.

Artificial intelligence (AI) including natural language processing, machine learning, and other forms of AI may pose inherent risks, including but not limited to: issues with data privacy, intellectual property, consumer protection, and anti-discrimination laws; ethics and transparency concerns; information security issues; the potential for unfair bias and discrimination; quality and accuracy of inputs and outputs; technical failures and potential misuse. Reliance on information produced using AI-based technology and tools should factor in these risks.

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