Liberation (Obliteration) Day

Market Volatility

- Wall Street experienced heightened volatility in response to President Trump's tariff announcement, with the S&P 500 declining by 4.84% on Thursday and 5.98% on Friday. This marked the 14th-worst two-day performance for the index since 1920, with more severe downturns historically tied to major crises such as the Great Depression (7 instances), the 1987 crash (2), the COVID-19 market shock of March 2020 (2), the Global Financial Crisis (1), and World War II (1).
- The Australian market exhibited relative stability on Thursday, declining 0.94% as investors cautiously assessed the economic implications of newly announced U.S. tariffs and the potential for further trade escalations. However, selling pressure intensified significantly on Friday, with the benchmark index plunging 2.44% to close at 7,667.8 points—entering an official correction phase, now down 10.38% from its February peak.
- Fixed Income has played its role as a diversifier so far (in an extremely short timeframe, so we will continue to monitor closely) with the Australian Fixed Income Index up 0.70% on Thursday and 0.31% on Friday, as investors rushed to Government Bonds for safety and pushed yields lower. US Government Bonds were also higher, with the 10 Year Yield down 0.2% over the week.
- The Futures market is now pricing in 4 Interest Rate Cuts from the RBA by the end of 2025, up from 3 on Wednesday last week immediately prior to the Tariff Announcement. The AUD also gyrated wildly, it was up 0.48% on Thursday as the USD weakened, but then fell 4.57% on Friday, falling briefly below $0.60 US Cents.

Economic News

- Last week, US employment data continued to provide a strong backdrop for their domestic economy. Thursday's Initial Jobless Claims remained low (219,000) and on Friday The U.S. Bureau of Labor Statistics reported that in March 2025, the U.S. economy added 228,000 nonfarm payroll jobs, surpassing the average monthly gain of 158,000 over the prior 12 months. Consensus expected a lower figure of 140,000. The unemployment rate edged up slightly to 4.2%. Notably, these figures do not include those who have been laid off but are still receiving their severance packages and are technically still on payrolls.

Tariffs

U.S.

- Last week, President Donald Trump announced a sweeping tariff strategy, imposing a baseline 10% tariff on all imports into the United States, with higher "Reciprocal" rates targeting specific countries. Notably, imports from China faced an additional 34% tariff, while the European Union is subject to a further 20% tariff rate.
- Definition: Tariffs are taxes that a government puts on goods coming into the country from other countries. So, if a business in the U.S. wants to purchase something from overseas—like steel from China—it might have to pay extra money (a tariff) to bring it in. Governments often use tariffs to make imported goods more expensive, which protect local industries by encouraging people to buy things made locally instead. In turn, they can also lead to higher prices for consumers and tensions between countries.

International Response

Following President Donald Trump's announcement of sweeping tariffs last week, various countries and international entities have responded with a mix of retaliatory measures, negotiations, and policy adjustments:

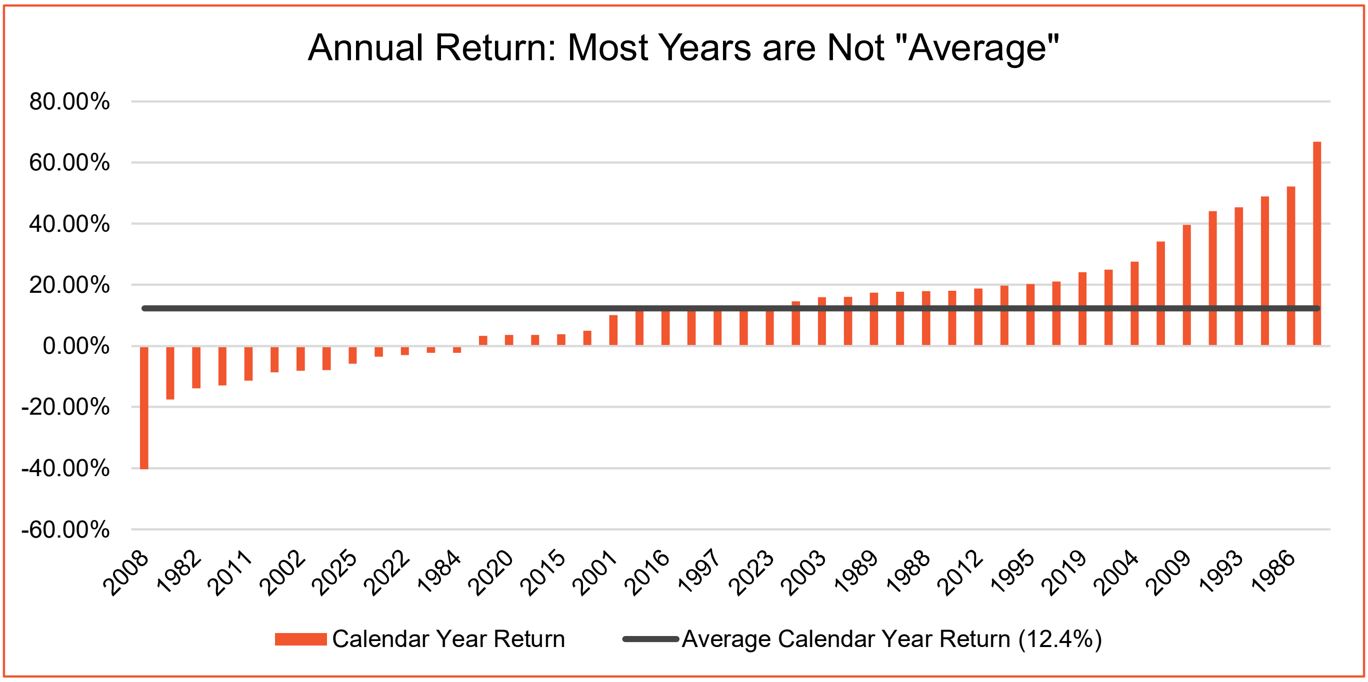
- China:
    - o **Retaliatory Tariffs:** China imposed an additional 34% tariff on all U.S. imports, effective April 10, 2025, in direct response to the U.S. tariffs. Beijing also implemented export restrictions on certain rare earth materials starting April 4, 2025.
- European Union (EU):
    - o **Unified Response:** The EU is seeking unity among its member states to implement countermeasures against the U.S. tariffs. Potential actions include imposing retaliatory tariffs on U.S. goods, targeting sectors such as technology and agriculture.
- United Kingdom:
    - o **Trade Discussions:** The UK is engaging in emergency talks with other affected nations to coordinate responses and mitigate economic impacts.
- Diplomatic Engagements:
    - o **Trade Negotiations:** Reportedly, over 50 countries have contacted the White House seeking to initiate trade negotiations in response to the new U.S. tariffs, indicating a global effort to address and potentially resolve the emerging trade disputes.

Chart Pack

In times of elevated volatility, it helps to "zoom out" and review long term market impacts – we have included a select series of charts below that aim to provide that context. It may seem trite to simply "take a long term view" and ride through the volatility, but that is easier said than done. It is our goal to outline why we believe in the long term through these charts – and over the long term we have seen equities markets as a significant driver of investor wealth in spite of a series of events that might lead us all to take refuge in cash or more defensive assets.

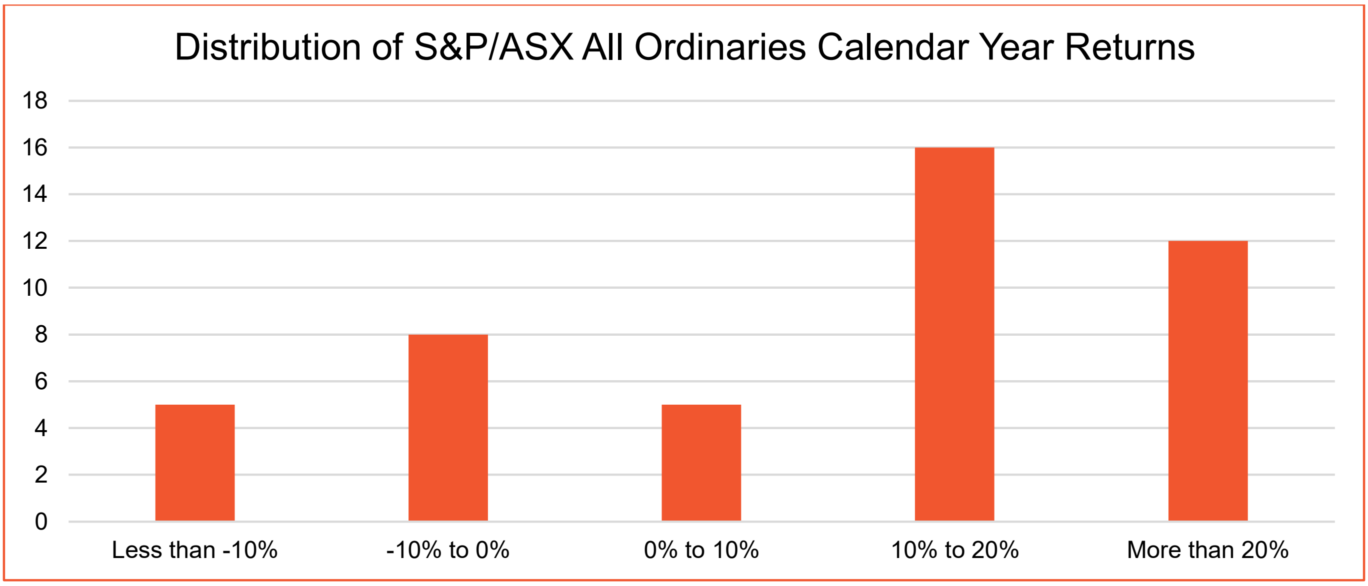
We do not know what is coming for markets in the short term, but feel much more confident that the compounding earnings and cashflows from holding equities will continue to provide for investors over the long term, in spite of the inevitable volatility that accompanies such investments.

We have used the S&P/ASX All Ordinaries for these charts – mainly because that index has a longer history and larger dataset to reference – whilst we use the S&P/ASX 200 as our reference for large cap Australian Equities, they are highly correlated, and the data presents similarly in more recent periods.



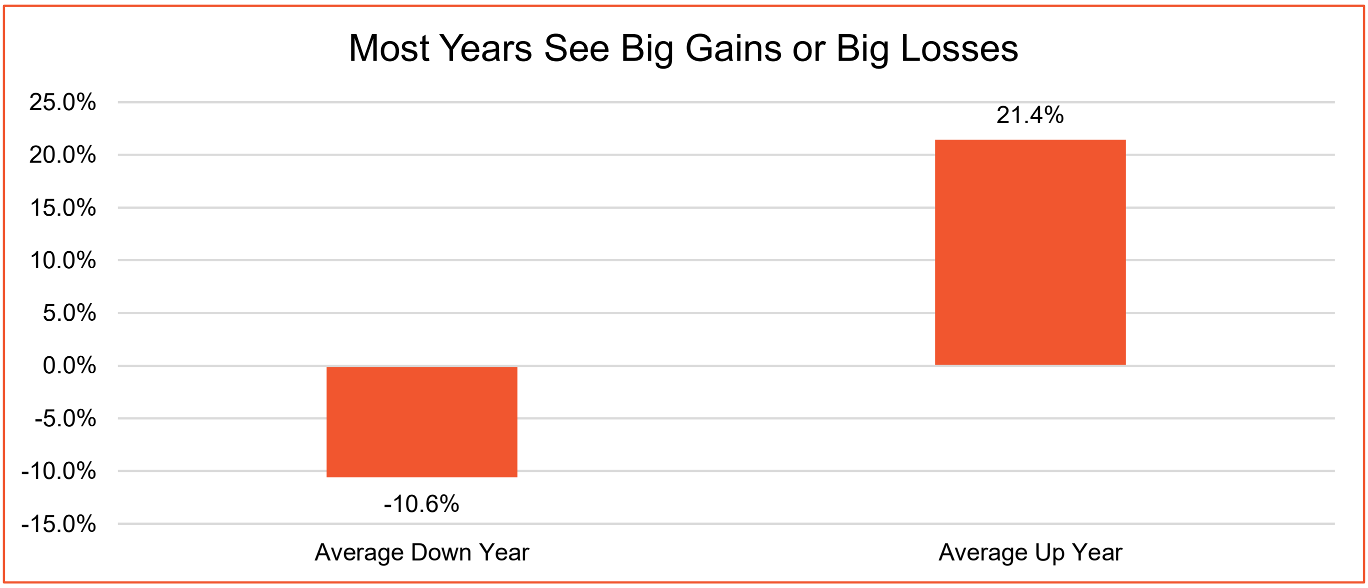
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Investment Implications: For investors, this chart reinforces the importance of maintaining a long-term perspective and managing expectations. With such variability in annual returns, it is critical not to base investment decisions solely on the idea that markets will perform in a predictable, "average" way each year. While returns in any given year might be higher or lower than expected, staying disciplined and focused on long-term goals can help investors weather periods of both strong growth and market downturns. This chart also highlights the need to diversify and maintain a strategy that accounts for potential extremes in market performance.



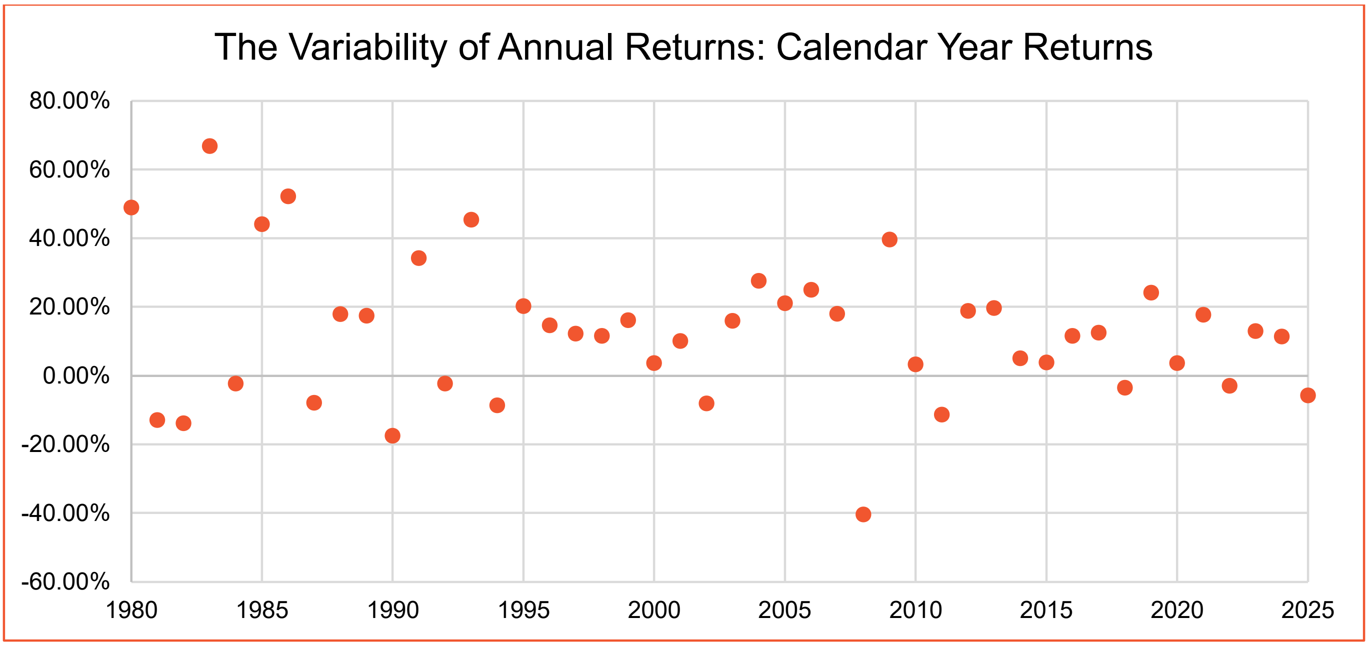
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Investment Implications: The ASX/S&P All Ordinaries tends to skew toward positive annual returns, with many years falling into solid growth categories. However, it's important to recognize that negative return years are still part of the market's history. Even with strong years, there have always been occasional down years, and investors should be prepared for this mix of good and bad years as part of the long-term investment journey.



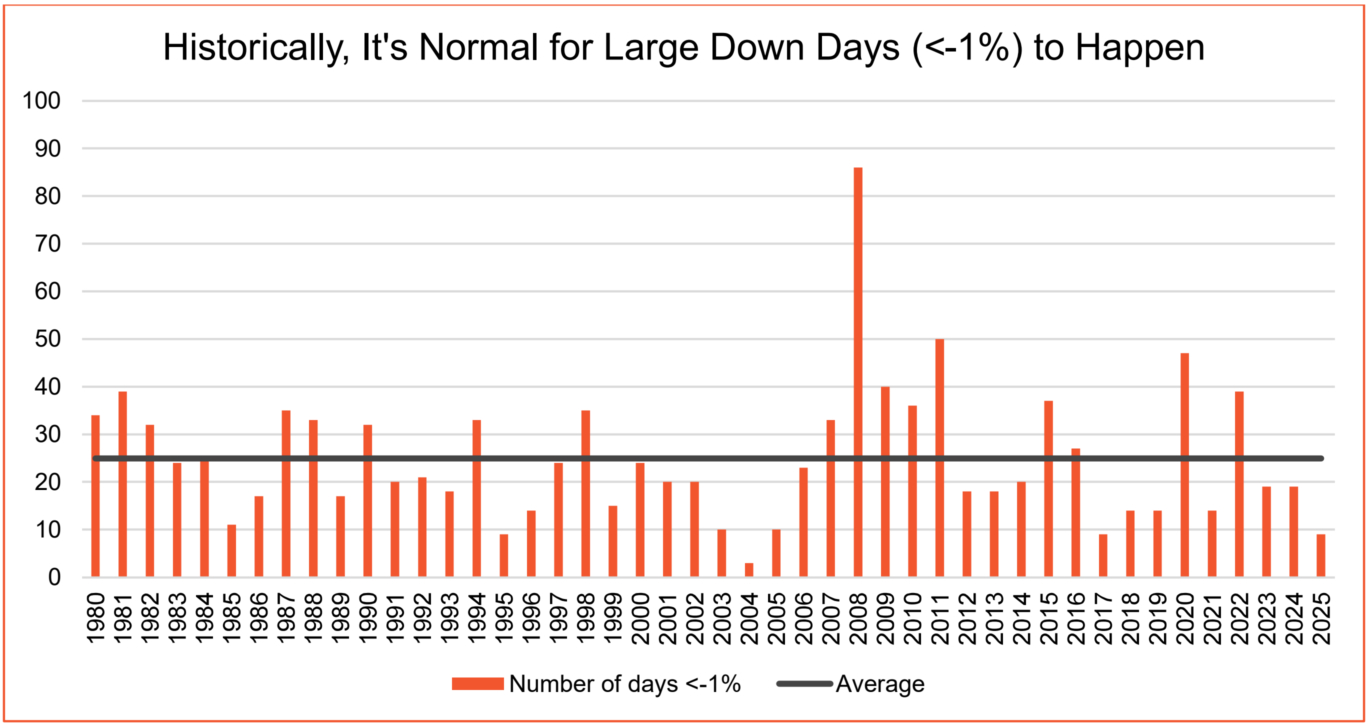
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Investment Implications: Market volatility, as characterized by both big gains and big losses, is a regular feature of investing in Equities. Investors should be prepared for these fluctuations and understand that long-term success depends on remaining disciplined and staying invested through both the ups and downs. Maintaining a diversified portfolio and focusing on long-term goals is essential for managing the emotional impact of market swings.



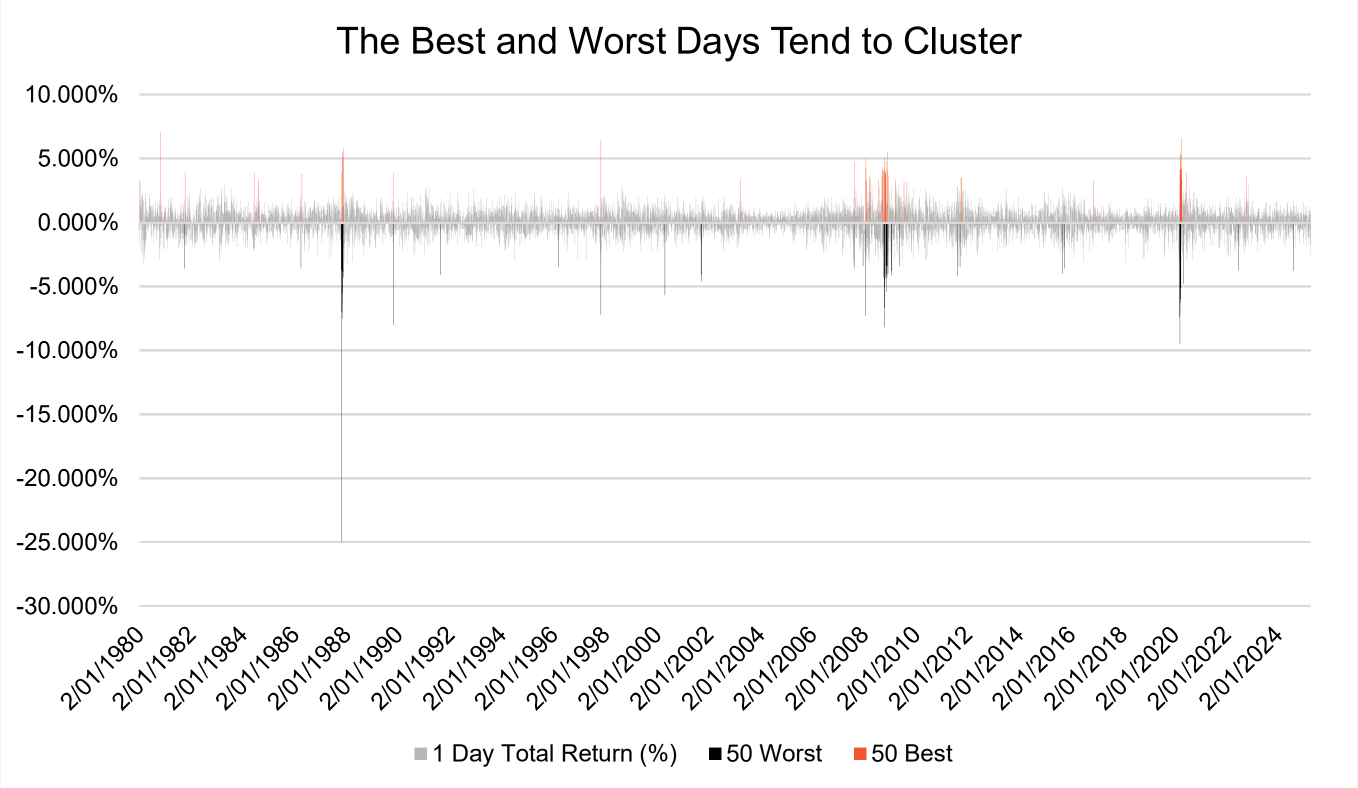
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Investment Implications: The scatter of data points emphasises the importance of a long-term investment approach, as trying to predict or time short-term market movements is challenging and often not a reliable strategy. Investors should focus on long-term trends and avoid making decisions based on the performance of a single year or short-term fluctuations. The inherent randomness in the market's year-to-year returns underscores the value of staying invested through market volatility, rather than attempting to react to yearly performance swings.



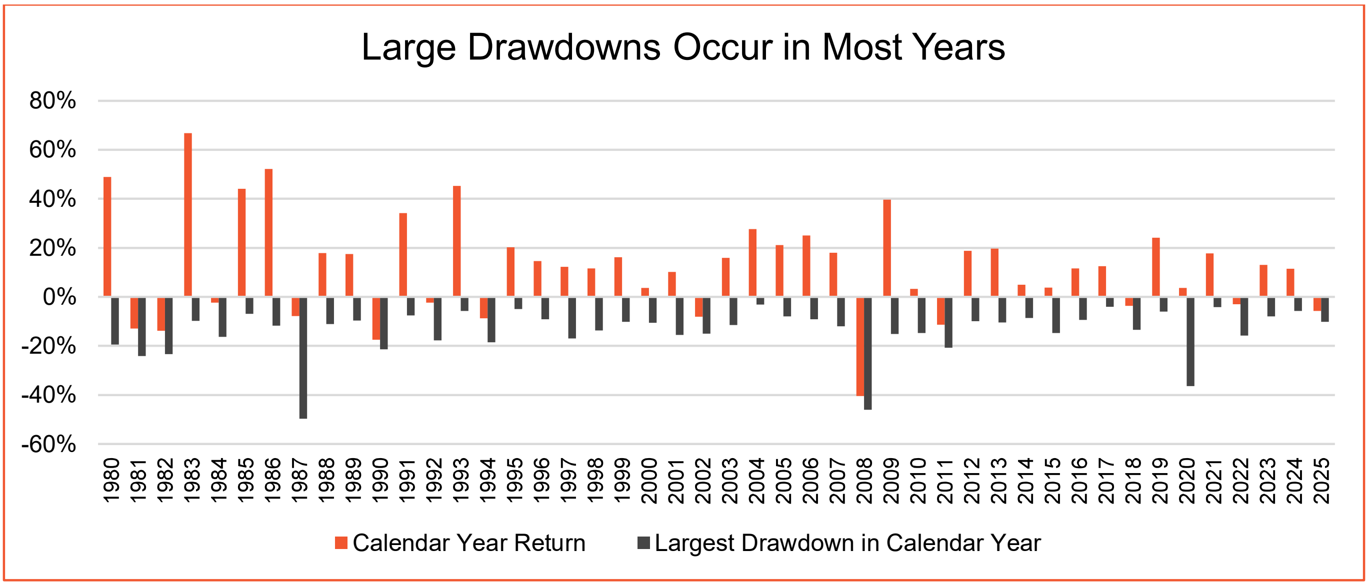
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Focus on the Long Term: Despite daily fluctuations, the stock market has historically rewarded long-term investors. Staying disciplined through volatility allows you to benefit from the market's upward trajectory over time. Keep your focus on your long-term financial goals, not on daily market movements.



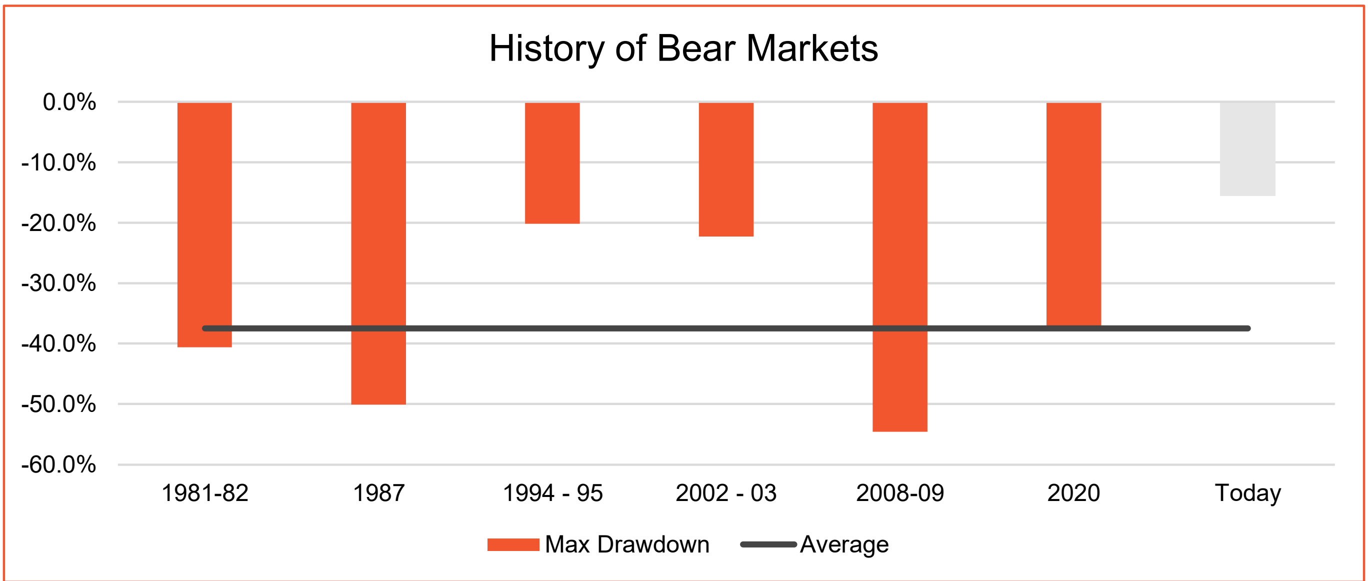
S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Volatility Cluster: It's well known that missing the best or worst days in a market can greatly enhance or diminish total portfolio returns. The chart above outlines the daily returns for the All Ordinaries since 1980, with the 50 largest 1-day rises and falls in colour. The ability to miss the large falls and still participate in rallies is a difficult proposition, with large movements of both directions typically occurring around the same periods.



S&P/ASX All Ordinaries Accumulation Index (Jan 1980 – April 2025)

Understanding Annual Returns and Drawdowns in Stocks: The ASX/S&P All Ordinaries annual returns reflect the total percentage change in the index over a full calendar year (not including dividends), highlighting overall market performance, while the largest intra-year drawdowns represent the most significant declines from peak values within that year.



S&P/ASX All Ordinaries Index (Jan 1980 – April 2025)

Today's drawdown does not meet the definition of a Bear Market, however we have included it for reference against historic Bear markets.

Investment Implications: The data from previous bear markets serves as a reminder of the potential for significant downside risk and volatility in the stock market. However, it also reinforces the importance of staying disciplined and adhering to a long-term investment strategy. By weathering bear markets, investors can take advantage of the eventual recovery during bull markets and capture the broader market's long-term growth.