Friday 4 April 2025

Accompaniment and focus in the face of current market volatility

Good morning all,

Donald Trump's recent announcements of new US trade tariffs have generated a strong reaction in global markets.
We are going through a period of high volatility, already reaching levels of 40%, typical of 'panic' situations and uncertainty as to how markets will react in the coming days, weeks or even months.

The S&P500 has fallen by -8.25% so far this year and as of today (4th April 2025), futures indicate a further 3-4% decline.

In this scenario, two types of behaviour are likely to occur:

1. Clients who panic, be influenced by media noise and the herd effect may consider selling positions, suspending contributions or adjusting their risk profile towards more conservative options.
2. Clients and prospects who identify a great opportunity, recognizing that these times of sharp correction are ideal to invest at low prices, especially in emerging markets with a weakening dollar and falling global equities.

We don't have a crystal ball. We don't know whether this correction will last a month, six months or a year. But we do know one very important thing: The companies we invest in are solid, resilient and will adapt to this new reality, as they have done time and time again through history.

The decisions we make today are key to our financial future.

In 20, 30 or 35 years' time (when we are retired), we will have very little care about what Trump did or did not do, or whether there was a 20 or 30% drop in 2025. What will make a difference will be our ability to act with vision and discipline at times like this.

We already know the golden rules in these contexts:

1. Don't panic and don't let the herd effect take over.
2. Do not make changes that could materialise in losses.
3. Do not suspend contributions: Today the market is 'on sale'.
4. Take advantage of the context to contact each client: suggest increases, new contributions, review objectives.
5. Stay invested: When the storm passes, they will thank us for it.

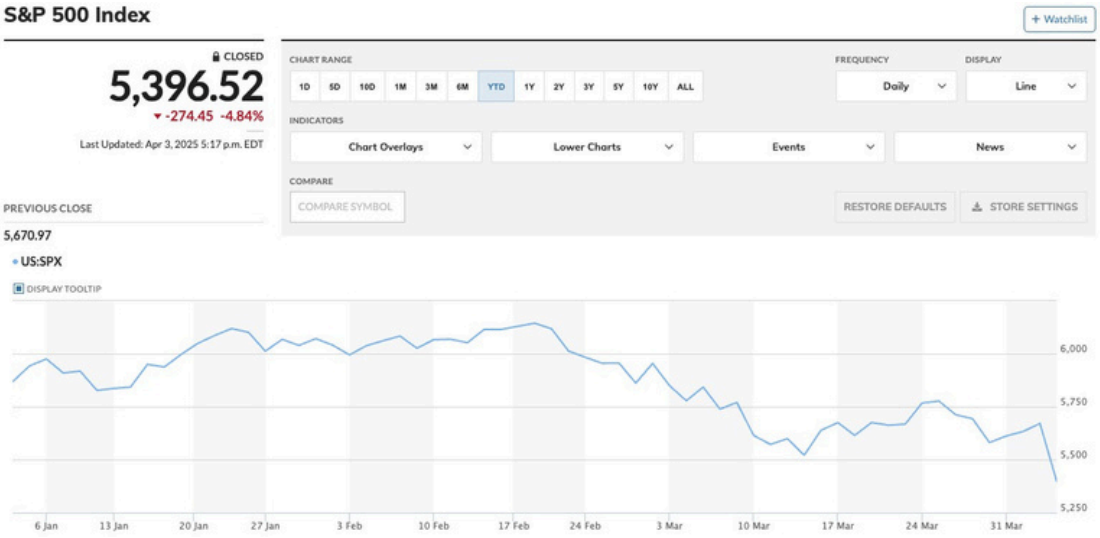
Let us be proactive. Let's take control of this opportunity.

Tools such as the S&PIP 500 are specifically designed for times of high volatility and can make a big difference to the future performance.

From our side, you can count on the full commitment of the team to accompany you, to inform you and to be present in this process. We have deep confidence in what comes after each stage of instability: New opportunities and growth.

Best regards

Rodrigo Raffo
EXCO Member - Head of Latam Sales & CMO Dominion



Overview

President Trump declared the 2nd of April as "Liberation Day", which signalled a seismic shift in US trade policy. On the campaign trail we saw President Trump's affinity for Tariff's with him labelling the word "the most beautiful word in the dictionary" and that he sees tariffs as a way of achieving multiple objectives: the playing field with trade partners, raising government revenue and boosting domestic manufacturing.

Announcement

Overnight we saw the instigation of a 10% base tariff for every country (regardless of the trade position with the US) along with reciprocal tariffs which looked to target those countries which were considered to have been taking advantage of the US either through large trade imbalances or applying high tariffs to the import of US products. Notable examples where we have seen an increase in effective tariff rates are China (34%) and the European Union (20%), while the UK received the minimum applicable tariff of 10%. The list was extensive, covering all of the US's major trading partners and their perceived tariff and non-tariff trade barriers. It's important to highlight that the new tariff rates will be additive to any pre-existing tariffs, so in the case of China the new 34% tariff will be in addition to the earlier 20% tariff rate which means the effective tariff rate on Chinese goods coming into the US will be 54%.

These tariff rates were above market participants forecasts – the full list can be seen below:

Reciprocal Tariffs

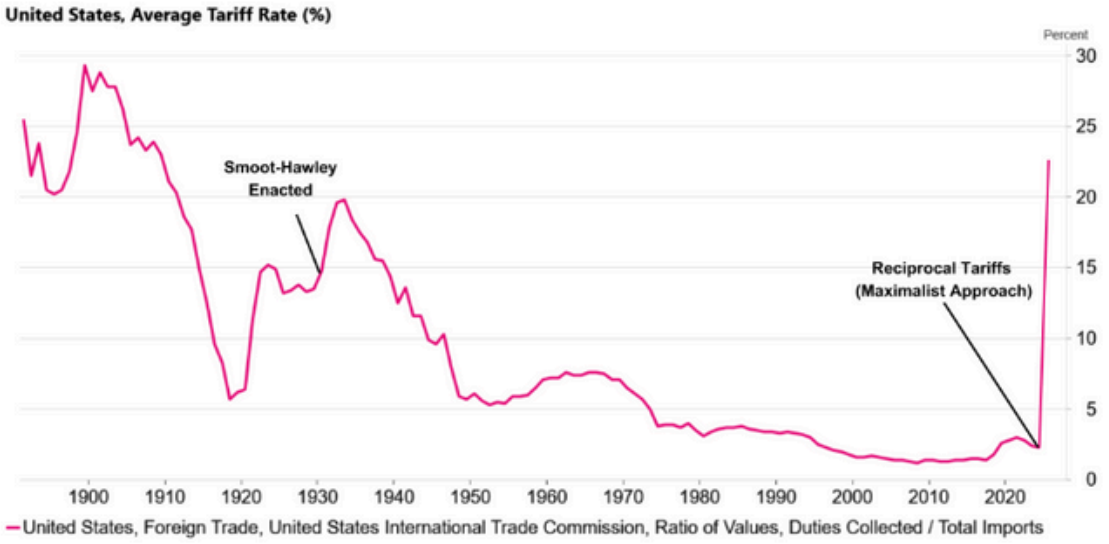
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

Impact

The impact of this will have far reaching effects. It's likely that this will challenge global growth over the short term and optimism amongst business and consumers will be dampened. Whilst the impact and response from other countries is still unknown, a model of the potential impact of tariffs from the NY Fed puts the hit to GDP growth in the US at 2.3% and an increase in inflation at 1.5%.
The chart below shows the average tariff rate for the US over time, with an estimate of the change in tariffs after last night's announcement:



Source: US International Trade Commission, Macrobond

In the immediate aftermath of the announcement we have seen and equities selling off and government bond yields falling. As of 11:00 this morning, US Futures are indicating a fall of around 3.4%, European stocks are down around 2.3% and the UK is down about 1.2%. It remains to be seen how US companies will respond and whether this is just a short-term challenge, however it will take time for the market to fully assess the impact of last night's announcement.

Overall, in our view this worsens the growth and inflation mix for major economies, however the backdrop prior to the announcement has been characterised by strong earnings growth, a robust consumer and low leverage in both the consumer and private sector. It is rare that a recession is caused by government policy error, but this announcement has increased the odds of recession, whilst still not being our base case.

Message: Confidence, Strategy, and Long-Term Vision

Markets have shown increased volatility in recent days, driven by President Donald Trump's recent announcements regarding potential new trade tariffs. We understand that this type of news can generate concern, but we want to share a clear message: our portfolios are designed to navigate these cycles with strength and resilience.

In this context, it's important to remember three key best practices:

Stay invested: Exiting the market during periods of stress can mean missing out on the strongest recoveries.
Avoid changes to your risk profile: Decisions should be based on long-term goals, not short-term volatility.
Trust in diversification: Our portfolios are built to face different scenarios with balance and discipline.

We continue to monitor the global context closely, and as always, we remain available to discuss your investments.

Thank you for your continued trust.

DOMINION Team