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Tariffs, DOGE, and the Market Decline

Being a “disruptor” is considered an advantage in the technology world. Think about Uber and how it changed the travel industry. On a recent trip to San Francisco, I noticed several billboards for A.I. or artificial intelligence, Waymo self-driving vehicles, and many new technologies that will change how we do things in the future.

What we are learning is that being a “disruptor” in government does not carry the same aura as it does in the tech world. Tariffs and DOGE (the Department of Government Efficiency) are two things that have brought much uncertainty and anxiety to the markets.

Most economists believe that tariffs will increase prices and inflation as the tariffs on imported goods will be passed onto U.S. consumers. The counter argument is that tariffs will increase domestic manufacturing as companies build plants in the U.S. to avoid the tariffs. While this may happen, it can take many years for it to occur.

For example, the Intel plant being built in New Albany, OH began construction in July 2022. It was slated to open this year and is now expected to open in 2030. These plants will take time to completed and it will be years before they have an impact on the economy.

The second policy issue making the markets uneasy are the government jobs and departments being slashed by DOGE. While there is widespread agreement the federal deficit needs to be reduced, this approach has brought uncertainty and layoffs to the 3 million workers in the federal work force.

As families become more concerned about their job situation, they are likely to pull back on spending and large purchases. This will have a dampening effect on the economy and ripple though many industries. Consumer spending represents more than 60% of GDP (Gross Domestic Product). Simply, a reduction in consumer spending is a negative for the U.S. economy.

The reaction by the markets has been swift and ugly with the S&P 500 down almost 15% for the year. Market declines tend to occur much more swiftly than market advances, making the current market drop even more unsettling. It has been our experience that riding through these unexpected events has usually been the better move.

Looking back to the stock market crash of 1987 or the financial crisis of 2008-2009, selling turned out to be the wrong move. Markets can change direction quickly. It is very difficult to determine when to reinvest.

Will tariffs be short-lived or the new normal? No one knows and this is one of the reasons the markets are so volatile. A possible silver lining is that most of these new policies can be altered or reversed to give more clarity to the markets.

What should an investor, retiree, or a growing family do? First, try not to panic or make drastic changes to your long-term plan. Having the right asset allocation and enough cash for short-term needs is the best way to get through these difficult times. This does not mean there will be no pain or downside to your investments in the short term.

As a firm, we have been rebalancing portfolios to take some gains from stocks and increasing our exposure to more predictable CDs and bonds.

We are here to answer any questions or concerns you might have about your job situation, portfolio, or overall outlook. We are using our experience from the past 30 years to help guide our clients through these markets, to be prudent stewards of your assets, and to continue to reach your long-term goals.

Best regards,

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