



PPA Insights

Market Monday: “Tariff Talk: Got Sales Tax?” Market Update and Strategy Call | Episode 4



Week of: April 7, 2025

Every Monday morning, our team meets to discuss current economic and market conditions and how that relates to our portfolio management process. Our **April 7, 2025** meeting was especially timely as **tariffs** went into effect in a big way on **April 2**. The markets plunged into bear market territory as a result. The team discussed this sudden turn and future implications of tariffs on the market and economy going forward.

We hope you enjoy this summary of our ongoing discussions. Thank you!

Quick Recap

The team discussed the impact of trade deficits and tariffs on the economy, with a focus on the potential consequences for various countries and industries. They also analyzed the current economic situation, including market volatility, consumer sentiment, and the potential for further market decline. The conversation concluded with a discussion on potential investment opportunities and strategies for navigating the uncertain market landscape.

Key Points

- We are still defensive and are overweight gold as a lower risk option in the models.
- We still favor international and small cap stocks.
- Valuations are coming down and US stocks are looking better than they did a week ago.
- Keep in mind these **three points** as we navigate this current market:
 1. 50 years of stock market history suggests when consumer confidence is down and at lows we are seeing now, the average market rebound over the next 12 months has been +24%.
 2. VIX and VVIX spiked to 1-year highs last week, way outside of normal ranges. This is indicative of a “knee-jerk” reaction from last week’s tariff announcements. We expect elevated volatility levels to continue but will eventually settle down.
 3. Consider how the effect of tariffs can be compared to a 2-3% sales tax based on current GDP levels and that seems manageable.

Next Steps

- Finish percentages on the models and work on rebalancing this week.
- Analyze PE ratios for potential investment opportunities.
- Monitor Warren Buffett's investment activities for potential market insights.

Trade Deficit vs Fiscal Deficit

The team discussed frustration over the lack of explanation regarding the negative impact of trade deficits, particularly with Vietnam. We argued that a trade deficit is different from a fiscal deficit and should not be addressed in the same manner. We also questioned the protectionist approach (charging a tariff on foreign goods to make them more expensive and thereby protect purchases of domestic goods), citing examples of other countries' economic strategies and the potential consequences of restricting imports. The team emphasized the need for a clear understanding of the tariffs and implications around the trade deficit.

Market Volatility and Investor Sentiment

The team discusses the current economic situation, comparing it to previous crises and expressing concern about its impact. One thought raised was hedge fund managers' margin calls have significantly contributed to the market drop (because investors have to sell to meet the margin demand), while retail investors have remained relatively stable. The group debates the potential for further market decline and whether retail investors will follow suit. Insights were shared from a recent lunch event, where the presenter was interested in buying as tariff talks continued but hesitated to enter the market immediately, suggesting there was too much uncertainty at the time until clarity on tariffs could be provided.

Tariffs, Tariffs, and More Tariffs

The team discussed the three kinds of tariffs: **revenue, reciprocal, and protective**. Revenue being those that focus on replacing lost tax revenue; protective being those that intend to make domestic goods more attractive; and reciprocal, which is simply a tariff charged by one country to another when it is already paying a tariff on its exports. To level the playing field so similar tariffs are paid across borders. And in this case, we are talking about reciprocal tariffs. Which the market may be overreacting thinking reciprocal tariffs are one-sided, but they actually aren't because the US is already paying export tariffs.

Consider Tariffs as a Sales Tax – Overreaction?

The group discussed thinking of tariffs as sales tax. For example, if US GDP is 29 trillion (obtained from the latest GDP report), and the US consumer spends roughly 70% on goods and services, then 20 trillion is at play here. Take into account that \$400-\$600 billion is projected in revenue from the tariffs and that works to 2-3% sales tax (400/20,000 or 600/20,000). Also, considering that average sales tax across the country ranges from 2% to 10%, a 2-3% sales tax does not seem all that bad. So, investors may be overreacting to tariffs on the recent headlines.

The administration might also shift focus to other policies to help offset potential price impacts from tariffs. Such as tax cuts, deregulation and lowering fiscal spending. It was also discussed that additional revenue from tariffs could be used to help offset tax cuts and other incentives.

Manufacturing PMI and Energy Prices Impact

The group continued their discussion by talking about the recent slowdown in manufacturing despite resilience in the jobs market. Upcoming data releases were also discussed, including CPI and PPI, along with the potential impact on those reports from energy prices as supply/demand

adjusts from new policy initiatives. Concerns about the profitability of energy companies at current oil prices was also discussed, such as the break-even price of oil in order for companies to remain profitable. Implications for share prices of various energy companies was also discussed. It was suggested that potential increases in drilling activities could stabilize oil prices.

Economic Impact on Inflation, Growth and Jobs

The team shifted their discussion to the current economic situation on inflation, growth and jobs. The jobs market remains strong and resilient, which has helped and should continue to fuel growth, despite the uncertainty and psychological factors affecting consumer sentiment at this time. Case in point, the unemployment rate has remained consistent in the 4% range. The group also discussed the potential effects of tariffs on jobs and inflation, highlighting a presentation from the first Trump term that showed inflation was held in check while growth was steady from 2017-2020, even while tariffs were in effect. However, there was concern about the intensity of the tariff talk in the current situation compared to 2017 where it was not as aggressive back then, and only with one country (China).

Tariffs and Data Center Investments

The group talked about concerns with the potential recession and its effect on data centers, if perhaps spending on artificial intelligence initiatives and datacenter construction will halt. The general consensus was that it would not. The group also discussed the impact of tariffs on various countries and how that could potentially affect the tech industry, including China and Vietnam. They acknowledged that the situation is complex and difficult to control. The conversation then shifted back to data centers, specifically with an idea to invest in construction companies that build datacenters. The group agreed to consider that as a potential focus area, as a third leg or “trifecta” to the artificial intelligence trade we have in place currently between existing positions in power generation and tech companies. The group also discussed the potential of a sector-focused ETF on companies that build data centers.

Market Volatility, Sentiment, and Investment Opportunities

The group continued to discuss the current market volatility and uncertainty around recent tariff announcements. They noted that consumer sentiment is bearish but also recognize potential buying opportunities as stock prices drop. It was highlighted that when consumer sentiment is low like we are seeing now, historical market data going back 50 years shows several consistent and significant rebounds from market lows in subsequent 12 month periods.

Looking Ahead

The team discussed plans to hopefully rebalance portfolios this week and also agreed to monitor for bargain-hunting investors entering the market. They also discussed Warren Buffett's strategy of having significant cash reserves and potentially looking for investment opportunities during market fear.

As always, we encourage open dialogue regarding your portfolio and financial goals. Should you have any questions or wish to discuss recent market developments in more detail, please don't hesitate to reach out.

Thank you!

Sincerely,

Lee

Lee R. Johnson, Jr., CFA, MBA
Chief Investment Officer
Professional Planning Associates, Inc.
190 North Independence Mall West, Suite 602
Philadelphia, PA 19106
www.proplanners.org

Founder and Owner
Valor Asset Management™

Disclosures:

Investment adviser representative offering securities and advisory services offered through Cetera Advisors LLC, a broker dealer and a Registered Investment Adviser. Member FINRA/SIPC. Cetera is under separate ownership from any other named entity.

Professional Planning Associates is a separate entity from Cetera Advisors.

Valor Asset Management is a separate entity from Cetera Advisors.

Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.

The views stated in this note are not necessarily the opinion of Cetera Advisors LLC and are not intended to provide specific advice or recommendations for any individual, product or strategy, or as an offer to buy or sell any securities mentioned herein. The content is for general information only and is subject to change. It contains the current research and opinions of the investment team and is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

A trade deficit, also known as a negative balance of trade, happens when a country spends more on foreign goods and services than it earns from selling its own. For example, if a country imports \$100 worth of goods and services and exports only \$80 worth, it has a trade deficit of \$20.

The balance of trade is the difference between a country's exports and imports of goods (and sometimes services) over a specific period, often a year. The formula is exports – imports. When a country's exports exceed its imports, it's said to have a trade surplus, meaning more money is coming into the country than going out. Conversely, if a country's imports exceed its exports, it has a trade deficit, meaning more money is going out of the country than coming in.

A fiscal deficit occurs when a government's total spending exceeds its total revenue (excluding borrowing) within a specific period, typically a fiscal year. This shortfall is often financed by borrowing, leading to increased national debt.

A tariff is a tax charged by a government on foreign goods imported from other countries, often expressed as a percentage of the value of the import.

Reciprocal tariffs are import duties imposed by a country in response to the tariffs placed on its exports by another country. They are designed to create a level playing field in international trade by ensuring that both trading partners impose similar tariff rates on each other's goods.

A revenue tariff is a tax on imported goods primarily designed to generate income for the government, rather than to protect domestic industries, although it can have some incidental protection.

A protective tariff is a tax on imported goods designed to make them more expensive than domestically produced goods, thereby shielding domestic industries from foreign competition and promoting local production. One example of protective tariffs is in the 1990s, the US imposed a 127% tariff on Chinese-manufactured paper clips to support domestic paperclip manufacturers.

A margin call usually happens when markets drop. It is a demand from your broker to deposit more money or securities into your margin account to bring its equity up to a minimum level, because it has dropped below the required margin.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Rebalancing may be a taxable event. Before you take any specific action, be sure to consult with your tax professional.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Inflation is the rate of increase in prices over time across the general level of goods and services in an economy, leading to a decrease in the purchasing power of money.

Gross Domestic Product (GDP) is the total monetary value of all finished goods and services produced within a country's borders during a specific period, typically a year. Economic growth refers to an increase in the size of a country's economy over a period of time. The size of an economy is typically measured by the total production of goods and services in the economy, i.e. the Gross Domestic Product (GDP).

The Purchasing Managers' Index (PMI) is a key economic indicator derived from monthly surveys of private sector companies, providing insights into the health of the manufacturing and services sectors. A PMI reading above 50 indicates expansion, while below 50 suggests contraction.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a basket of consumer goods and services. It's a key indicator used to track inflation and understand changes in the cost of living.

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output, providing a gauge of inflation from the perspective of producers rather than consumers. In other words, it is a measure of wholesale inflation, while the Consumer Price Index measures the prices paid by consumers.

The Volatility Index, or VIX, created by the Chicago Board Options Exchange (CBOE), is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. It is based on options of the S&P 500® Index, considered the leading indicator of the broad U.S. stock market.

The VIX Volatility Index, or VVIX, measures the *volatility* of the VIX. In other words, VVIX is how much the VIX changes over time. Using a physics analogy, the VIX is like velocity and VVIX is like acceleration.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Precious metal investing involves greater fluctuation and potential for losses.

Cetera does not offer direct investments in gold (commodities). Commodities are volatile investments and may not be suitable for all investors.

The price earnings ratio, also known as P/E ratio, P/E, or PE, is the ratio of a company's share (stock) price to the company's earnings per share. The ratio is used for valuing companies and to find out whether they are overvalued or undervalued.

IMPORTANT NOTICE: The information contained in this electronic mail message (and any attachments) is confidential and privileged and is intended for the named addresses/recipients to whom it is addressed. If the person receiving this communication is not the intended recipient, please note that any dissemination, distribution, or publication of this communication is prohibited by law. If you have received this transmission in error, please notify the sender immediately and delete all copies received. Please be aware that email communication may not be secure, and we do not guarantee the confidentiality or integrity of this transmission.