Morgan Stanley

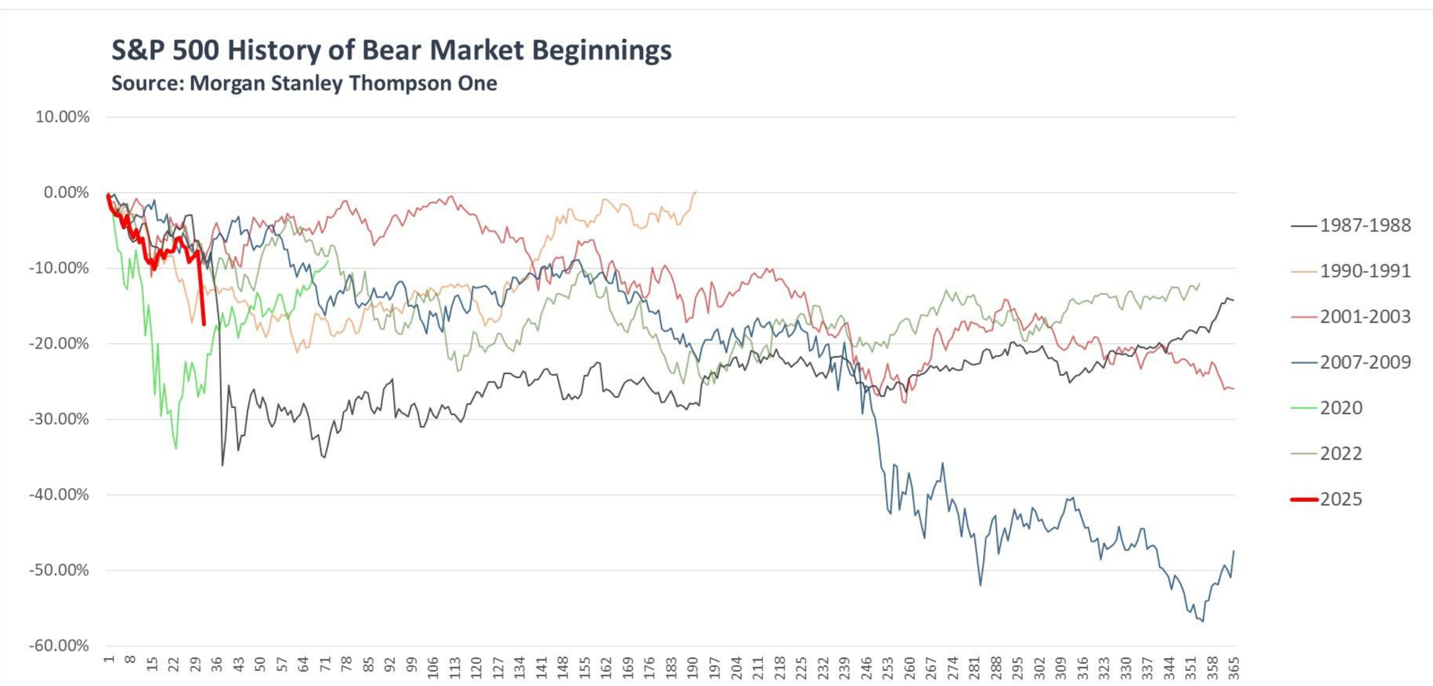
The Caruso-Colonna Group at Morgan Stanley
April 2025 Supplement – Bear Markets, the Tariffs Edition

Our Mission:
To Gain and Maintain Financial Freedom

One week into 2025's second quarter, global equity markets are in a rapid sell-off. Investors are grappling with the fallout of the Trump Administration's tariff policies. This April supplement will: 1) review prior bear markets and the potential urge to 'go to cash;' 2) discuss tariffs; 3) provide our thoughts about how investors should react to the situation.

1. Bear Markets – A Historical Recap: The graph we prepared below shows the beginnings of six prior S&P 500 bear markets and the 2025 correction. The 2025 correction may be a full 20% decline bear market by time you read this. This is a refresher on what caused prior declines (1):

- 1987: No uniform consensus; computerized trading thought to be a key contributor
- 1990: Desert Storm, the first Gulf War
- 2001: Dot.com bubble and 9/11
- 2007: Financial crisis and housing bubble
- 2020: COVID-19
- 2022: Rapid interest rate increases to quell inflation

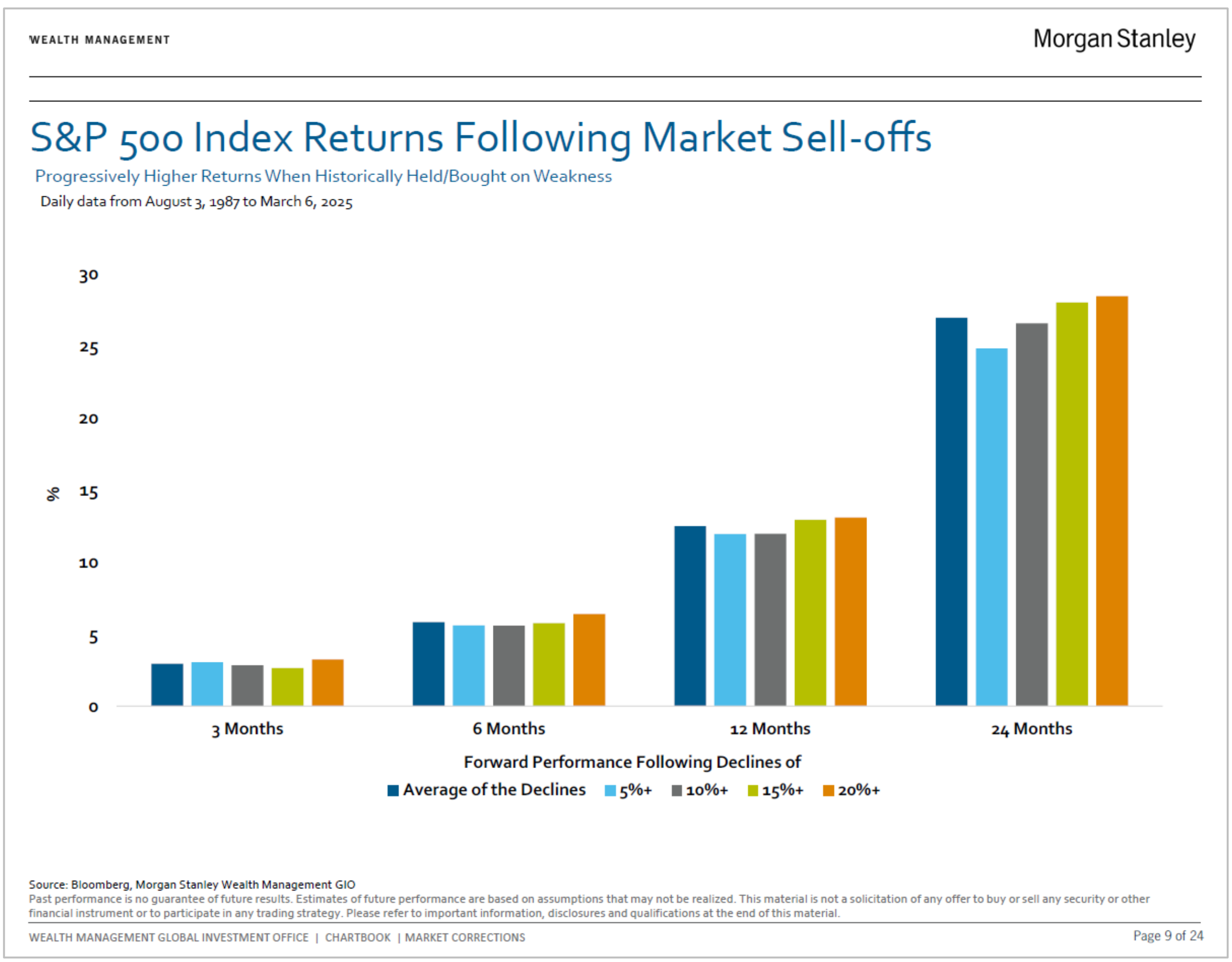


The beginnings of the 2025 sell-off look typical with respect to prior bear markets. The 2020 COVID bear market still had the most rapid decline of them all, declining more than 30% in less than thirty trading days.

We have already fielded calls and emails asking, ‘what should I do?’ Should I ‘go to cash?’ We cannot suggest strongly enough the need to resist the ‘go to cash’ urge. In 2020, we shut down commerce almost completely. This seems more disruptive to us than the current tariff debate.

Data since 1987 gives evidence as to why ‘going to cash’ has often been a poor decision. This chart shows 3, 6, 12, and 24 month returns of the S&P index after the index declined 5%, 10%, 15% and 20%. In every period following a given decline, the index experienced positive returns. Two years after every correction, the index experienced returns of about 25%.

The problem with trying to time the downside of a bear market is that one locks in a loss. Then one is guessing on when to ‘get back in.’ Missing just the first six to twelve months of a market recovery can be costly in missed returns. We urge people to resist this temptation.



2. Tariffs: The current tariff situation is fluid. Things seem to be changing by the hour which adds to market timing difficulty. We have read reports of nations approaching the United States seeking to negotiate their own trade deals or eliminate their tariffs on US exports entirely.

The desire of individual nations to negotiate their own trade deals affirms to us they value access to America's consumers. Tariffs are likely punishing for most, but we think overseas trading partners face greater challenges and will push to negotiate more favorable terms.

On Saturday April 05, 2025, Elon Musk said he hopes for 'zero tariffs' between the US and Europe. (2) We are not sure how widely this view is held within the current administration. Mr. Musk's influence though is well understood. We hope his wish becomes a reality.

We may be wrong, but we do not believe these tariffs are immutable. Politicians have egos and are acutely aware of public sentiment. Market and business pressures may force this administration and other nations to seek to develop alternative solutions to trade imbalance issues.

3. How to React: We already partially discussed this above. Resist the urge to 'do something' that may prove to be deleterious later. Keep emotions under control and understand where you fit in the spectrum of investors. We view investors broadly in three groups and their reactions to this situation will vary. These include:

1) Young Investors with Years Until Retirement: If you have a lot of career time ahead of you, we think you should welcome bear market corrections. See them as an opportunity to add to your investments at lower prices. Increase your monthly investments if you can do so. Maintain your emergency fund and budget carefully.

2) Investors Close to Retirement: Financial planning is more critical. Revisiting financial plans is important to help ensure that retirement income projections are still on track. If your plans are not as solid as you wish, you may need to revisit your retirement targets. Strive to take advantage of market weakness as your career continues.

3) Retirees: Utilize a cash reserve strategy to keep up to two years or more of current income needs out of equity markets in short term fixed income instruments. This helps to ensure that one is not forced to sell equities in a down market to raise cash for current income. One should consider this as a core retirement income management strategy.

For all groups, stay focused on investment quality. Spend less time focused on cable and internet news. Keep your eyes on the investment and financial horizon, not the choppy waves buffeting the boat. Budget more carefully. Control current spending. Ensure you have an adequate emergency fund. Consider delaying major spending plans for a time until the worst turmoil has passed. Talk to us if you are anxious or apprehensive.

We closed our regular April newsletter saying we anticipate more volatility this year. We wrote that before last week's selloff escalated. So far, we have been correct.

Investors were scared and fearful in 2020. Remember that in 2020 we did not merely raise taxes on global commerce, *we shut down global commerce*. Air travel stopped. Stores, restaurants, factories, churches, hair salons, and more were forced to close. Hospitals halted elective procedures. Supply chains were extraordinarily snarled. We are still feeling the supply chain effects of the COVID shutdowns. We got through it and America enjoyed one of the most robust COVID recoveries of all nations.

In Conclusion:

1. Make no panicky or emotionally fueled financial or investment decisions.
2. Understand the fluidity of the tariff situation. Do not assume anything is permanent.
3. Adjust your personal actions based on your current situation.

Like the sailor, remember that we cannot control the wind, but we can set our sails accordingly.

(1) Sources: Wikipedia, Investopedia, 4/6/25
(2) *Musk says he hopes for 'zero tariffs' between US and Europe*, Reuters, 4/6/25

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