

THE MARKETS IN MELTDOWN: TRADING ON TARIFFS!

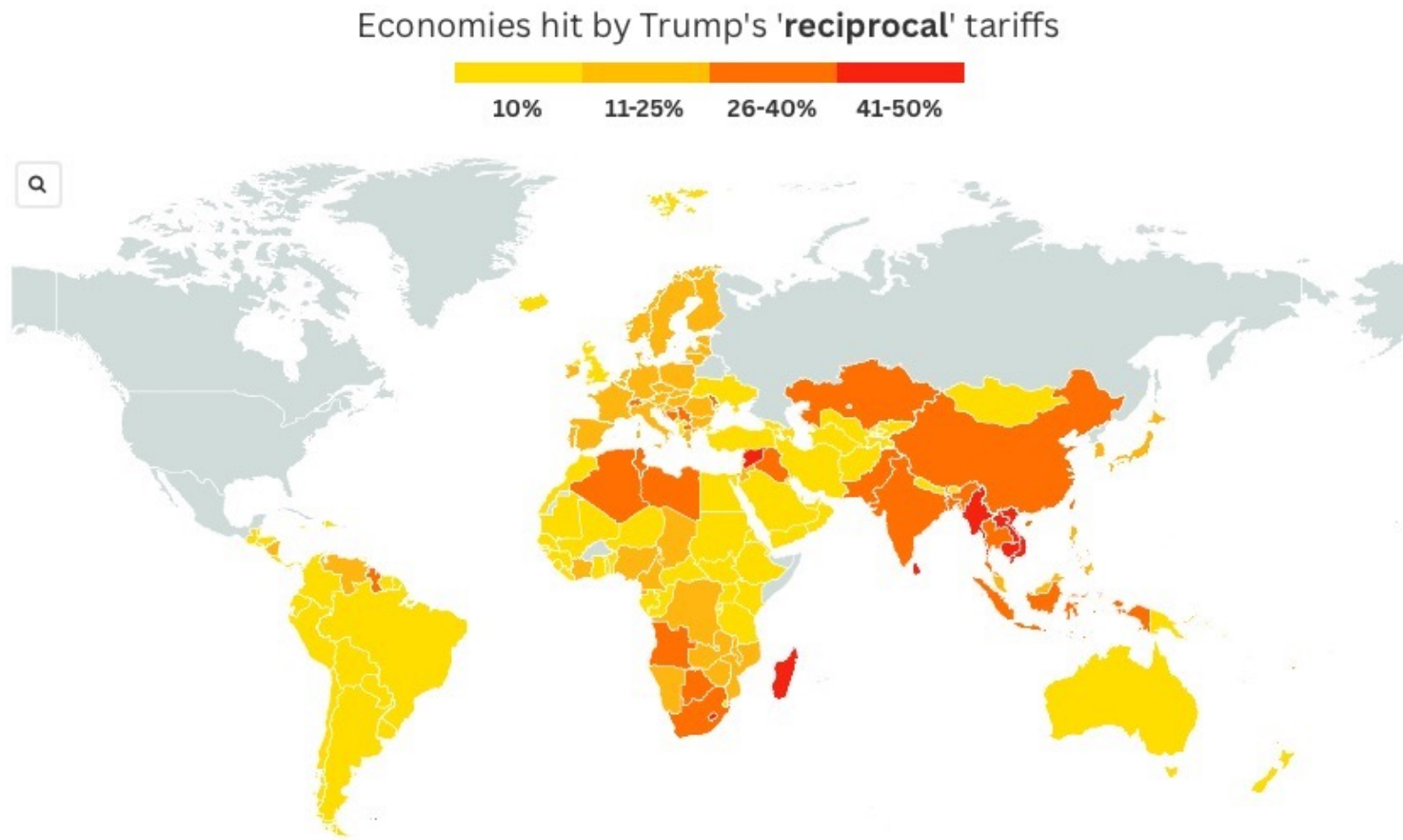
In search of investment serenity!



THE LEAD IN...

- I was boarding a plane for a trip to Latin America late in the evening last Wednesday (April 2), when I saw the tariff news announcement. Coming after three days where the market seemed to have found its bearings (at least partially), it was clear from the initial reactions in markets across the world that the breadth and the magnitude of the tariffs had caught most by surprise, and that a market markdown was coming.
 - Not surprisingly, the markets opened down on Thursday and spent the next two days in that mode, down by 10% or more by close of trade on Friday.
- I wrestled with all of the emotions that come with a market meltdown, including confusion, denial and panic, and tried to make sense of what had happened and more importantly of what is coming.
- That thinking is still a work-in-progress but as in prior crises, I find that putting even unfinished thoughts down on paper is healthy, and perhaps a critical component to finding your way back to serenity.

THE TARIFF SURPRISE



Aswath Damodaran

THE MARKET EFFECT: US EQUITY INDICES

<i>Date</i>	<i>Dow 30</i>	<i>S&P 500</i>	<i>NASDAQ</i>
1/1/25	42544	5881.63	19311
2/1/25	44545	6040.53	19627
3/1/25	43841	5954.5	18847
3/28/25	41584	5580.94	17323
3/31/25	42002	5611.95	17299
4/1/25	41990	5633.07	17450
4/2/25	42225	5670.97	17601
4/3/25	40546	5396.52	16551
4/4/25	38315	5074.08	15588
% Change: 1/1 - 3/28	-2.26%	-5.11%	-10.29%
% Change: 3/31-4/4	-7.86%	-9.08%	-10.02%



REGIONAL BREAKDOWN

Sub Region	# firms	Market Capitalization (in millions of US dollars)			\$ Value Change (in millions)		% Change In Market Cap	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Africa and Middle East	2,551	\$5,334,918	\$5,246,507	\$4,877,037	-\$88,410	-\$369,470	-1.66%	-7.04%
Australia & NZ	1,666	\$1,815,999	\$1,785,253	\$1,639,610	-\$30,746	-\$145,643	-1.69%	-8.16%
Canada	2,533	\$2,965,748	\$3,046,768	\$2,868,014	\$81,021	-\$178,754	2.73%	-5.87%
China	7,810	\$16,150,691	\$16,968,797	\$16,706,026	\$818,106	-\$262,771	5.07%	-1.55%
EU & Environs	6,000	\$15,348,935	\$16,817,881	\$15,643,898	\$1,468,946	-\$1,173,983	9.57%	-6.98%
Eastern Europe & Russia	369	\$154,086	\$163,942	\$157,666	\$9,855	-\$6,275	6.40%	-3.83%
India	4,732	\$5,186,256	\$4,823,116	\$4,709,328	-\$363,140	-\$113,789	-7.00%	-2.36%
Japan	3,979	\$6,187,938	\$6,395,679	\$5,963,572	\$207,741	-\$432,107	3.36%	-6.76%
Latin America & Caribbean	1,202	\$2,087,214	\$2,265,705	\$2,161,909	\$178,491	-\$103,796	8.55%	-4.58%
Small Asia	10,109	\$6,901,775	\$6,650,338	\$5,811,894	-\$251,437	-\$838,444	-3.64%	-12.61%
UK	1,131	\$3,389,898	\$3,622,209	\$3,358,384	\$232,311	-\$263,826	6.85%	-7.28%
United States	5,888	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%
Global	47,970	\$125,847,068	\$124,655,769	\$115,510,518	-\$1,191,299	-\$9,145,251	-0.95%	-7.34%

THE PAIN ACROSS SECTORS (US)

Sector	# firms	Market Capitalization (in millions of US dollars)			\$ Value Change (in millions)		% Change In Market Cap	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Communication Services	306	\$5,783,283	\$5,391,124	\$4,932,901	-\$392,159	-\$458,222	-6.78%	-8.50%
Consumer Discretionary	567	\$7,118,413	\$6,137,994	\$5,639,734	-\$980,419	-\$498,260	-13.77%	-8.12%
Consumer Staples	290	\$3,501,647	\$3,541,351	\$3,459,945	\$39,704	-\$81,407	1.13%	-2.30%
Energy	289	\$2,254,178	\$2,379,664	\$2,040,848	\$125,486	-\$338,815	5.57%	-14.24%
Financials	1,095	\$8,667,830	\$8,677,965	\$7,764,724	\$10,135	-\$913,241	0.12%	-10.52%
Health Care	1,239	\$6,042,609	\$6,222,917	\$5,781,671	\$180,307	-\$441,246	2.98%	-7.09%
Industrials	760	\$5,316,921	\$5,141,924	\$4,670,566	-\$174,996	-\$471,358	-3.29%	-9.17%
Information Technology	715	\$17,719,282	\$15,382,691	\$13,598,400	-\$2,336,592	-\$1,784,291	-13.19%	-11.60%
Materials	274	\$1,113,140	\$1,111,741	\$999,497	-\$1,399	-\$112,244	-0.13%	-10.10%
Real Estate	251	\$1,507,174	\$1,530,424	\$1,432,634	\$23,249	-\$97,789	1.54%	-6.39%
Utilities	99	\$1,299,096	\$1,351,749	\$1,292,234	\$52,653	-\$59,516	4.05%	-4.40%
All firms	5,888	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%

SMALL VS LARGE CAP STOCKS (US)

		Market Capitalization (in millions of US dollars)			\$ Value of Change (in millions)		% Change In Market Cap	
Market Cap on 12/31/2024	# firms	31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Bottom decile	335	\$44,381	\$38,891	\$36,303	-\$5,489	-\$2,589	-12.37%	-6.66%
2nd decile	338	\$78,312	\$68,878	\$63,605	-\$9,434	-\$5,273	-12.05%	-7.66%
3rd decile	337	\$129,485	\$113,961	\$104,227	-\$15,524	-\$9,733	-11.99%	-8.54%
4th decile	337	\$221,499	\$193,800	\$174,864	-\$27,699	-\$18,936	-12.51%	-9.77%
5th decile	337	\$384,744	\$352,918	\$316,345	-\$31,826	-\$36,573	-8.27%	-10.36%
6th decile	337	\$677,407	\$606,401	\$543,724	-\$71,006	-\$62,677	-10.48%	-10.34%
7th decile	337	\$1,203,732	\$1,121,900	\$1,013,419	-\$81,833	-\$108,481	-6.80%	-9.67%
8th decile	337	\$2,205,140	\$2,054,241	\$1,861,489	-\$150,899	-\$192,752	-6.84%	-9.38%
9th decile	337	\$5,130,944	\$4,929,571	\$4,496,070	-\$201,373	-\$433,501	-3.92%	-8.79%
Top decile	337	\$50,193,805	\$47,330,294	\$42,944,684	-\$2,863,511	-\$4,385,610	-5.70%	-9.27%
All firms	3,369	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%
Lowest 5 deciles (Smallest)	1,684	858,420	768,448	695,344	-\$89,973	-\$73,104	-10.48%	-9.51%
Highest 5 deciles (Largest)	1,685	59,411,028	56,042,406	50,859,386	-\$3,368,622	-\$5,183,020	-5.67%	-9.25%



VALUE VS GROWTH: THE PE EFFECT

Earnings to Price on 12/31/24	# firms	Market Capitalization (in millions of US dollars)			\$ Value Change (in millions)		% Change In Market Cap	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Lowest (Highest PE)	333	\$224,128	\$201,771	\$175,975	-\$22,357	-\$25,795	-9.98%	-12.78%
2nd decile	333	\$822,891	\$799,401	\$694,140	-\$23,491	-\$105,261	-2.85%	-13.17%
3rd decile	333	\$1,026,590	\$936,093	\$828,657	-\$90,497	-\$107,437	-8.82%	-11.48%
4th decile	334	\$5,708,460	\$4,723,751	\$4,210,991	-\$984,709	-\$512,760	-17.25%	-10.85%
5th decile	333	\$18,619,099	\$16,879,945	\$15,063,733	-\$1,739,154	-\$1,816,212	-9.34%	-10.76%
6th decile	333	\$12,148,244	\$11,947,447	\$11,205,445	-\$200,797	-\$742,002	-1.65%	-6.21%
7th decile	334	\$9,547,569	\$9,041,287	\$8,303,970	-\$506,282	-\$737,317	-5.30%	-8.15%
8th decile	333	\$5,191,296	\$5,195,469	\$4,688,034	\$4,173	-\$507,435	0.08%	-9.77%
9th decile	333	\$5,217,969	\$5,337,568	\$4,776,288	\$119,600	-\$561,281	2.29%	-10.52%
Highest (Lowest PE)	334	\$1,751,385	\$1,739,917	\$1,598,810	-\$11,468	-\$141,107	-0.65%	-8.11%
All firms	5,888	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%
Lowest 5 deciles EP (Highest PE)	1,666	26,401,168	23,540,961	20,973,496	-\$2,860,207	-\$2,567,465	-10.83%	-10.91%
Highest 5 deciles EP (Lowest PE)	1,667	33,856,463	33,261,688	30,572,547	-\$594,775	-\$2,689,142	-1.76%	-8.08%

SAFETY TEST: DEBT BURDEN EFFECT

Debt to EBITDA	# firms	Market Capitalization (in millions of US dollars)			\$ Value Change (in millions)		% Change In Market Cap	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Lowest (Highest PE)	240	\$6,867,808	\$5,722,261	\$5,148,080	-\$1,145,547	-\$574,181	-16.68%	-10.03%
2nd decile	240	\$13,170,839	\$12,331,404	\$11,127,617	-\$839,435	-\$1,203,787	-6.37%	-9.76%
3rd decile	240	\$10,327,086	\$9,648,176	\$8,776,927	-\$678,910	-\$871,249	-6.57%	-9.03%
4th decile	240	\$7,635,314	\$7,215,607	\$6,570,725	-\$419,706	-\$644,883	-5.50%	-8.94%
5th decile	241	\$5,882,110	\$5,884,678	\$5,471,731	\$2,568	-\$412,948	0.04%	-7.02%
6th decile	240	\$4,066,605	\$4,133,598	\$3,804,619	\$66,993	-\$328,979	1.65%	-7.96%
7th decile	240	\$2,534,101	\$2,443,530	\$2,221,919	-\$90,571	-\$221,612	-3.57%	-9.07%
8th decile	240	\$2,511,844	\$2,560,458	\$2,391,947	\$48,614	-\$168,512	1.94%	-6.58%
9th decile	240	\$1,257,888	\$1,252,518	\$1,153,509	-\$5,370	-\$99,009	-0.43%	-7.90%
Highest (Lowest PE)	241	\$487,322	\$434,220	\$395,377	-\$53,102	-\$38,843	-10.90%	-8.95%
All firms	5,888	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%
Five lowest deciles (Least debt)	1,201	43,883,157	40,802,126	37,095,079	-\$3,081,030	-\$3,707,047	-7.02%	-9.09%
Five highest deciles (Most debt)	1,201	10,857,761	10,824,325	9,967,371	-\$33,436	-\$856,954	-0.31%	-7.92%

RETURN TO DIVIDENDS?

<i>Debt to EBITDA</i>	# firms	<i>Market Capitalization (in millions of US dollars)</i>			<i>\$ Value Change (in millions)</i>		<i>% Change in Market Cap</i>	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Dividend paying	2,633	\$43,808,764	\$41,579,883	\$37,865,152	-\$2,228,882	-\$3,714,731	-5.09%	-8.93%
Non-dividend paying	3,256	\$16,514,846	\$15,289,691	\$13,748,030	-\$1,225,156	-\$1,541,661	-7.42%	-10.08%
Buyback stocks	3,726	\$51,583,988	\$48,750,233	\$44,217,149	-\$2,833,756	-\$4,533,084	-5.49%	-9.30%
No-buybacks stocks	2,163	\$8,739,622	\$8,119,341	\$7,396,033	-\$620,282	-\$723,308	-7.10%	-8.91%

THE MOMENTUM TRADE REVERSED?

% Price change in 2024	# firms	Market Capitalization (in millions of US dollars)			\$ Value of Change (in millions)		% Change In Market Cap	
		31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Bottom decile	549	\$40,861	\$43,983	\$39,877	\$3,122	-\$4,106	7.64%	-9.34%
2nd decile	549	\$525,838	\$534,438	\$478,641	\$8,600	-\$55,798	1.64%	-10.44%
3rd decile	549	\$1,224,755	\$1,109,287	\$977,987	-\$115,468	-\$131,300	-9.43%	-11.84%
4th decile	550	\$3,348,507	\$3,258,251	\$2,980,392	-\$90,256	-\$277,859	-2.70%	-8.53%
5th decile	489	\$5,800,565	\$5,794,639	\$5,319,328	-\$5,925	-\$475,312	-0.10%	-8.20%
6th decile	609	\$5,402,715	\$5,393,148	\$4,981,550	-\$9,566	-\$411,599	-0.18%	-7.63%
7th decile	550	\$11,348,934	\$11,136,319	\$10,369,219	-\$212,615	-\$767,100	-1.87%	-6.89%
8th decile	549	\$15,746,937	\$14,899,981	\$13,443,798	-\$846,956	-\$1,456,183	-5.38%	-9.77%
9th decile	549	\$10,781,395	\$9,634,561	\$8,634,581	-\$1,146,834	-\$999,980	-10.64%	-10.38%
Top decile	550	\$5,714,299	\$4,762,878	\$4,113,855	-\$951,421	-\$649,023	-16.65%	-13.63%
All firms	5,493	\$60,323,611	\$56,869,573	\$51,613,181	-\$3,454,037	-\$5,256,392	-5.73%	-9.24%
Lowest 5 deciles (Worst performers)	2,686	10,940,525	10,740,598	9,796,225	-\$199,927	-\$944,374	-1.83%	-8.79%
Highest 5 deciles (Best performers)	2,807	48,994,279	45,826,887	41,543,003	-\$3,167,392	-\$4,283,884	-6.46%	-9.35%



WITH THE MAG SEVEN IN FOCUS..

	Market Capitalization (in millions of US dollars)			\$ Value of Change (in millions)		% Change In Market Cap	
% Price change in 2024	31-Dec-24	28-Mar-25	4-Apr-25	12/31/24 - 3.28/25	3/31/25-4.5/25	12/31/24 - 3.28/25	3/31/25-4.5/25
Apple Inc.	\$3,785,304	\$3,273,310	\$2,829,858	-\$511,995	-\$443,452	-13.53%	-13.55%
NVIDIA	\$3,288,762	\$2,675,948	\$2,301,164	-\$612,814	-\$374,784	-18.63%	-14.01%
Microsoft	\$3,133,802	\$2,815,993	\$2,675,044	-\$317,810	-\$140,948	-10.14%	-5.01%
Alphabet	\$2,323,530	\$1,890,793	\$1,786,628	-\$432,738	-\$104,165	-18.62%	-5.51%
Amazon	\$2,306,888	\$2,042,394	\$1,812,212	-\$264,494	-\$230,183	-11.47%	-11.27%
Meta	\$1,478,113	\$1,461,263	\$1,278,814	-\$16,851	-\$182,449	-1.14%	-12.49%
Tesla	\$1,296,351	\$847,713	\$770,131	-\$448,637	-\$77,582	-34.61%	-9.15%
Mag Seven	\$17,612,751	\$15,007,413	\$13,453,850	-\$2,605,338	-\$1,553,563	-14.79%	-10.35%
Mag Seven with Tesla	\$14,838,287	\$12,698,437	\$11,404,906	-\$2,139,850	-\$1,293,532	-14.42%	-10.19%
Mag Seven without Tesla	\$13,541,937	\$11,850,724	\$10,634,775	-\$1,691,213	-\$1,215,949	-12.49%	-10.26%



OTHER MARKETS: US TREASURIES

<i>Date</i>	<i>3-month</i>	<i>2-year</i>	<i>5-year</i>	<i>10-year</i>	<i>20-year</i>	<i>30-year</i>
12/31/24	4.37%	4.27%	4.48%	4.58%	4.86%	4.78%
3/28/25	4.33%	3.91%	4.11%	4.27%	4.65%	4.64%
3/31/25	4.32%	3.89%	4.09%	4.23%	4.62%	4.59%
4/1/25	4.32%	3.85%	4.03%	4.17%	4.56%	4.52%
4/2/25	4.32%	3.89%	4.07%	4.20%	4.58%	4.54%
4/3/25	4.31%	3.68%	3.88%	4.06%	4.51%	4.49%
4/4/25	4.28%	3.66%	3.84%	4.01%	4.44%	4.41%
Change: 12/31 - 3/28	-0.04%	-0.36%	-0.37%	-0.31%	-0.21%	-0.14%
Change: 3/28- 4/4	-0.05%	-0.25%	-0.27%	-0.26%	-0.21%	-0.23%



OIL, GOLD AND BITCOIN!

<i>Date</i>	<i>Oil</i>	<i>Gold</i>	<i>Bitcoin</i>
12/31/24	\$74.64	\$2,633.47	\$84,353.00
3/28/25	\$73.63	\$3,085.46	\$82,549.00
3/31/25	\$74.74	\$3,123.98	\$82,549.00
4/1/25	\$74.95	\$3,114.33	\$85,169.00
4/2/25	\$70.14	\$3,134.05	\$82,486.00
4/3/25	\$65.58	\$3,114.13	\$83,102.00
4/4/25	\$63.38	\$3,037.34	\$83,844.00
Change: 12/31 - 3/28	-1.35%	17.16%	-2.14%
Change: 3/28- 4/3	-13.92%	-1.56%	1.57%

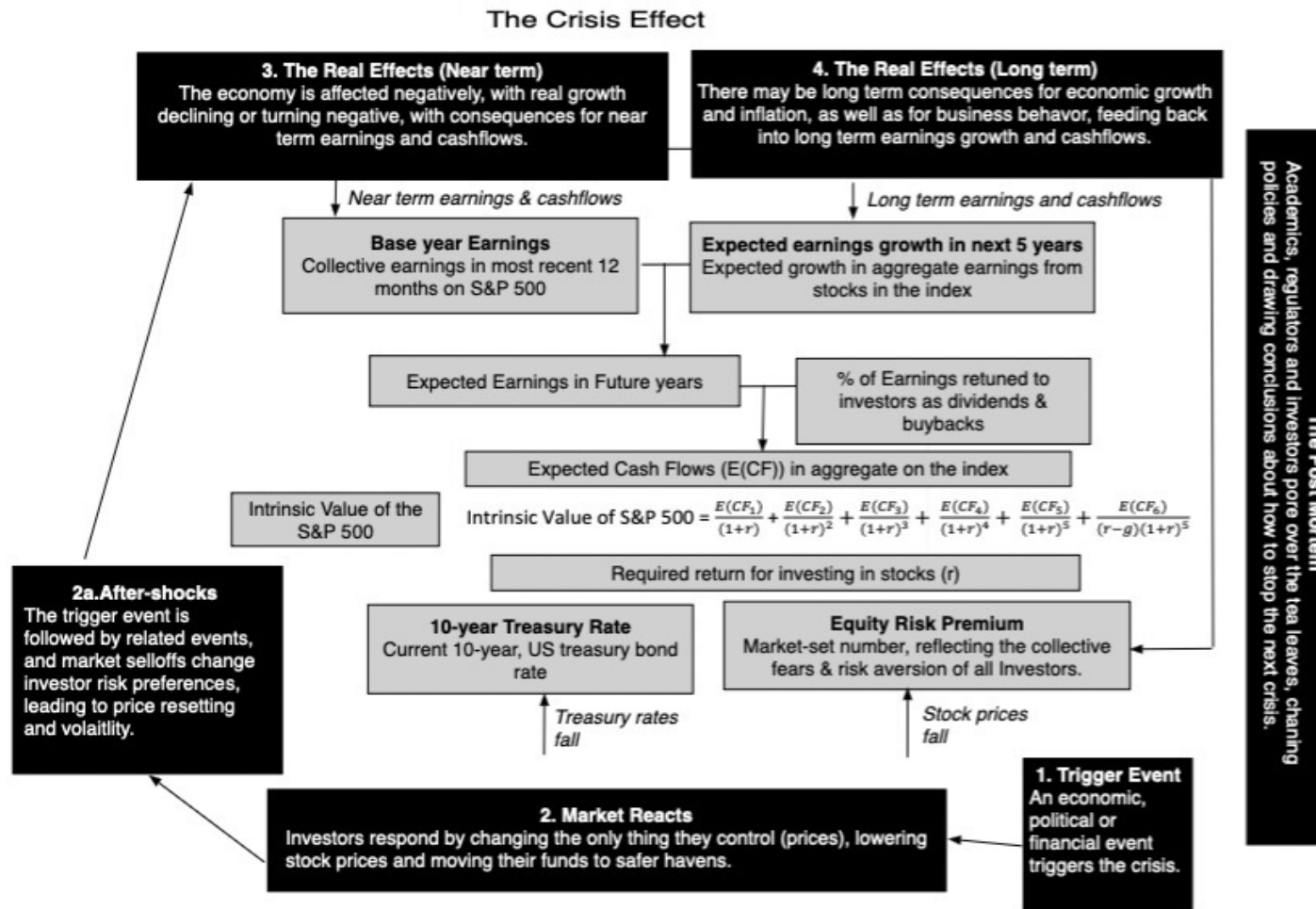


THE MARKET DIAGNOSIS (AN EARLY ONE)

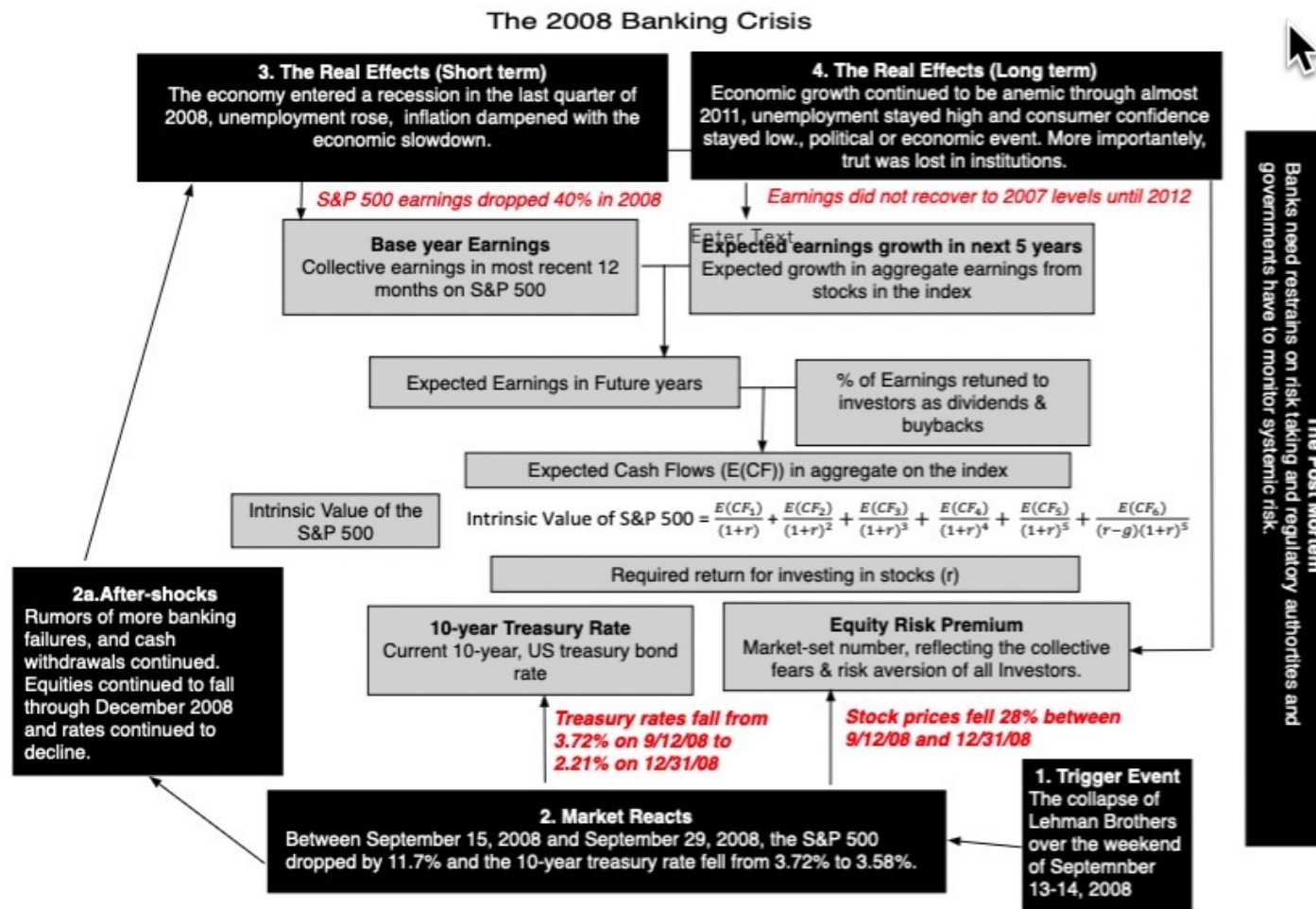
- It is still early in the process, but looking at the market carnage on Thursday (April 3) and Friday (April 4), the dominant theme that emerges is of a marking down of equity values to reflect a fundamental change in the global economic order.
- While there was undoubtedly some panic selling on Friday, the flight to safety has not been as pronounced as you would expect it to be, when you lose \$9 trillion in equity value in two days.
 - Treasury rates are down by only 0.26% in those two days
 - There is little difference between the stock performance of safer (lower PE, higher dividend paying) stocks and riskier (higher PE, money-losing, non-dividend paying) stocks.
 - At least so far, this does not look like a momentum-trade reversal, where the biggest winners of last year are being sold off.



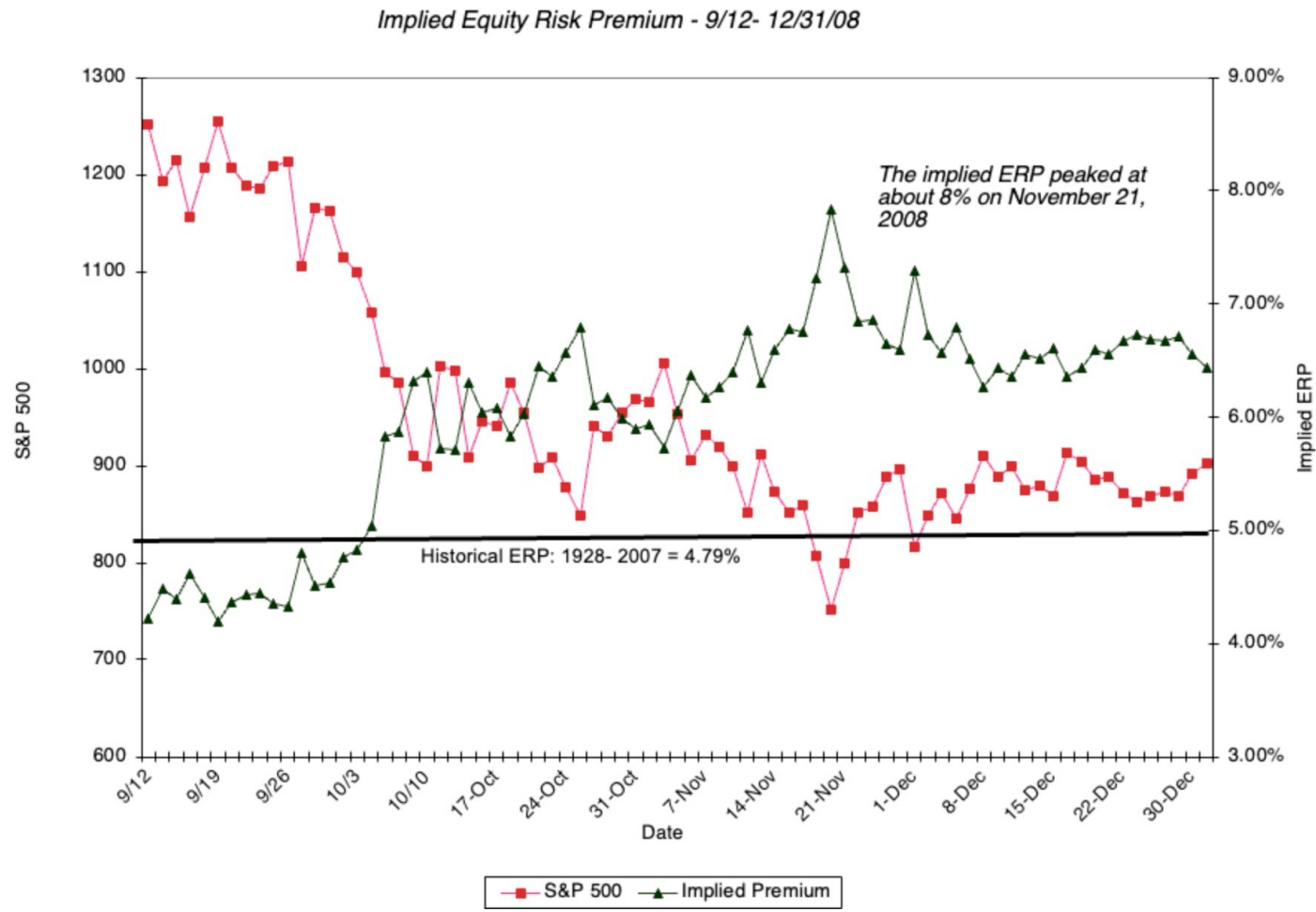
THE CRISIS CYCLE



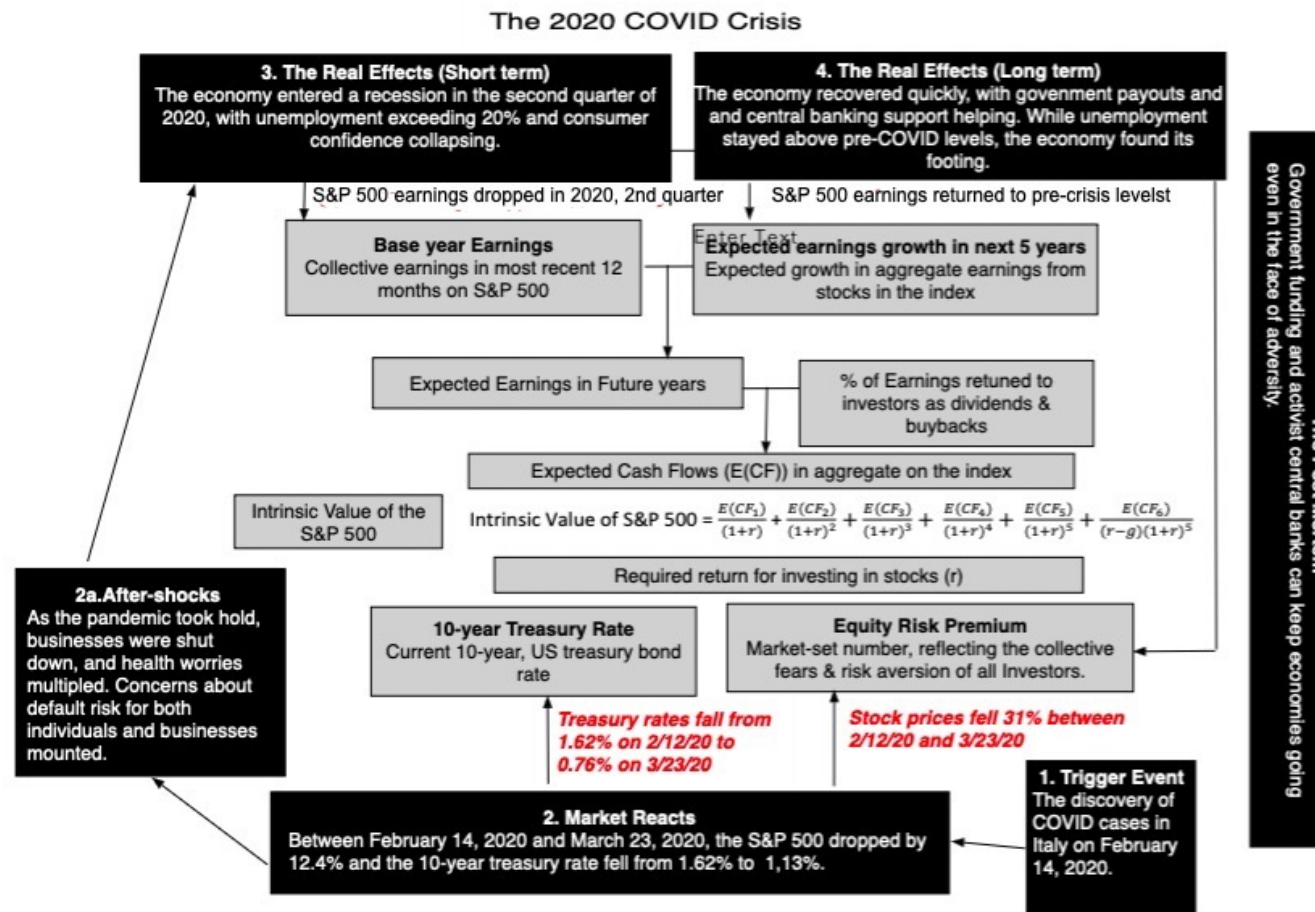
THE 2008 BANKING CRISIS



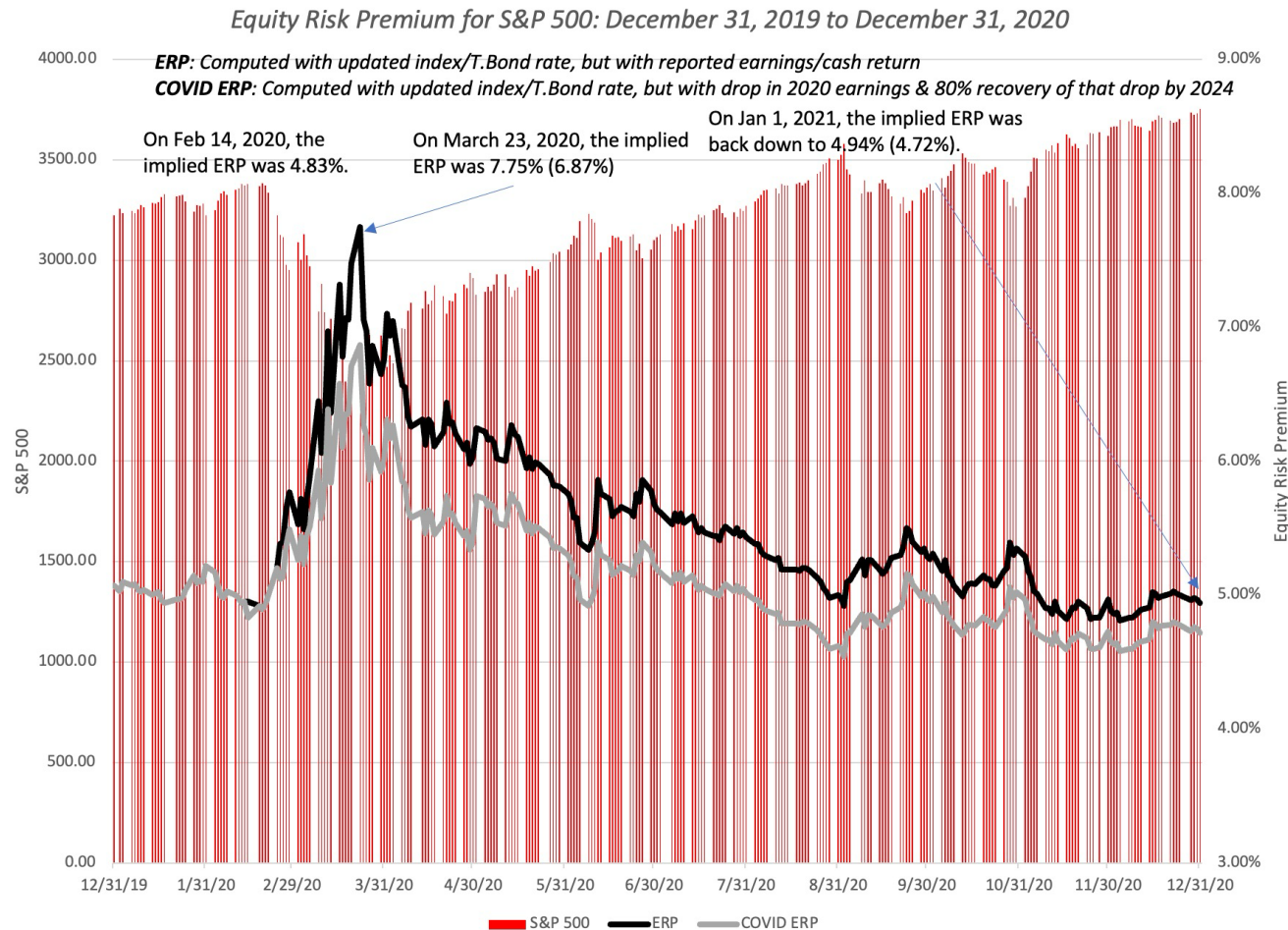
AND EQUITY RISK PREMIUMS



THE 2020 COVID CRISIS



AND EQUITY RISK PREMIUMS

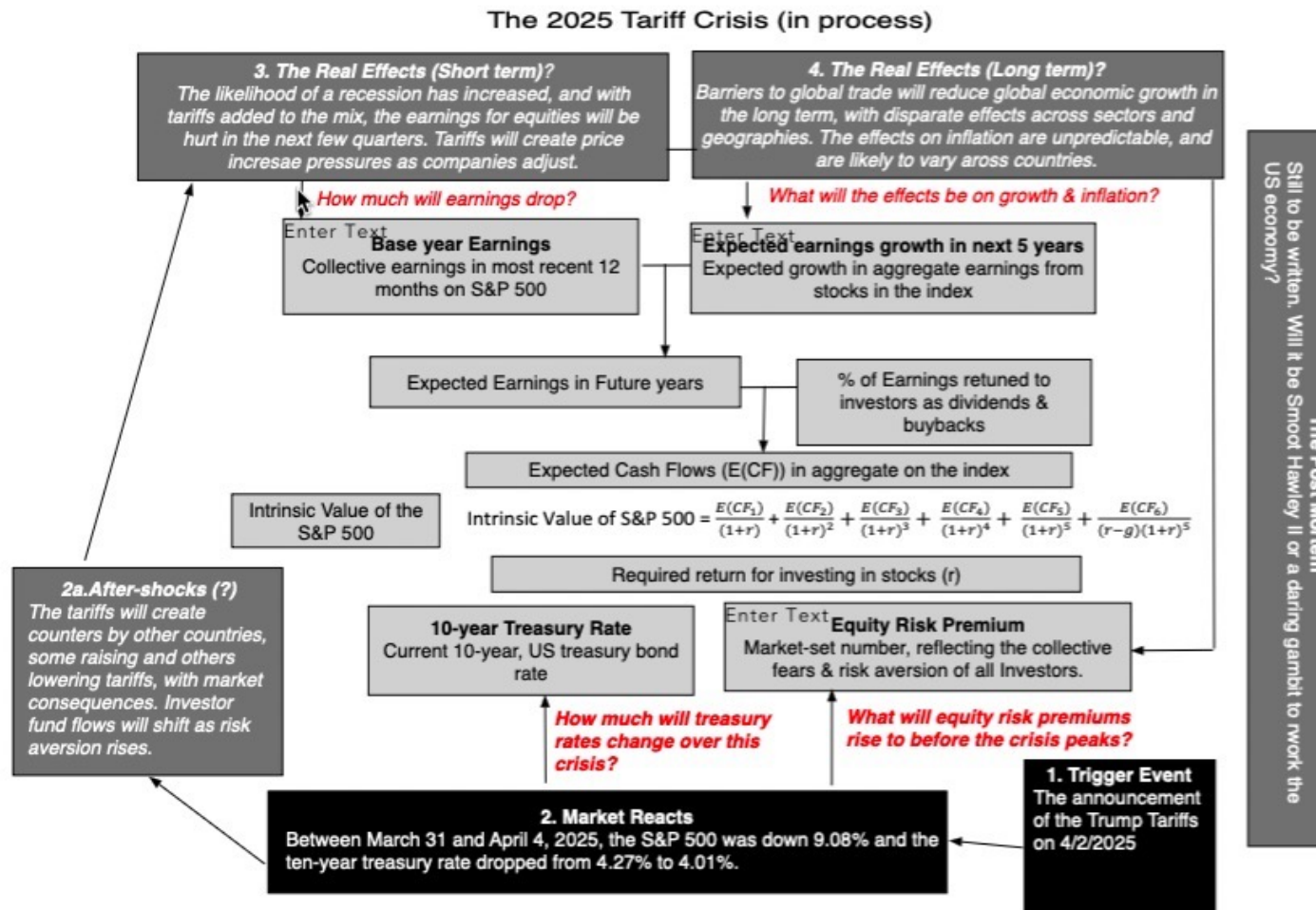


THE PROBLEM WITH POST MORTEMES

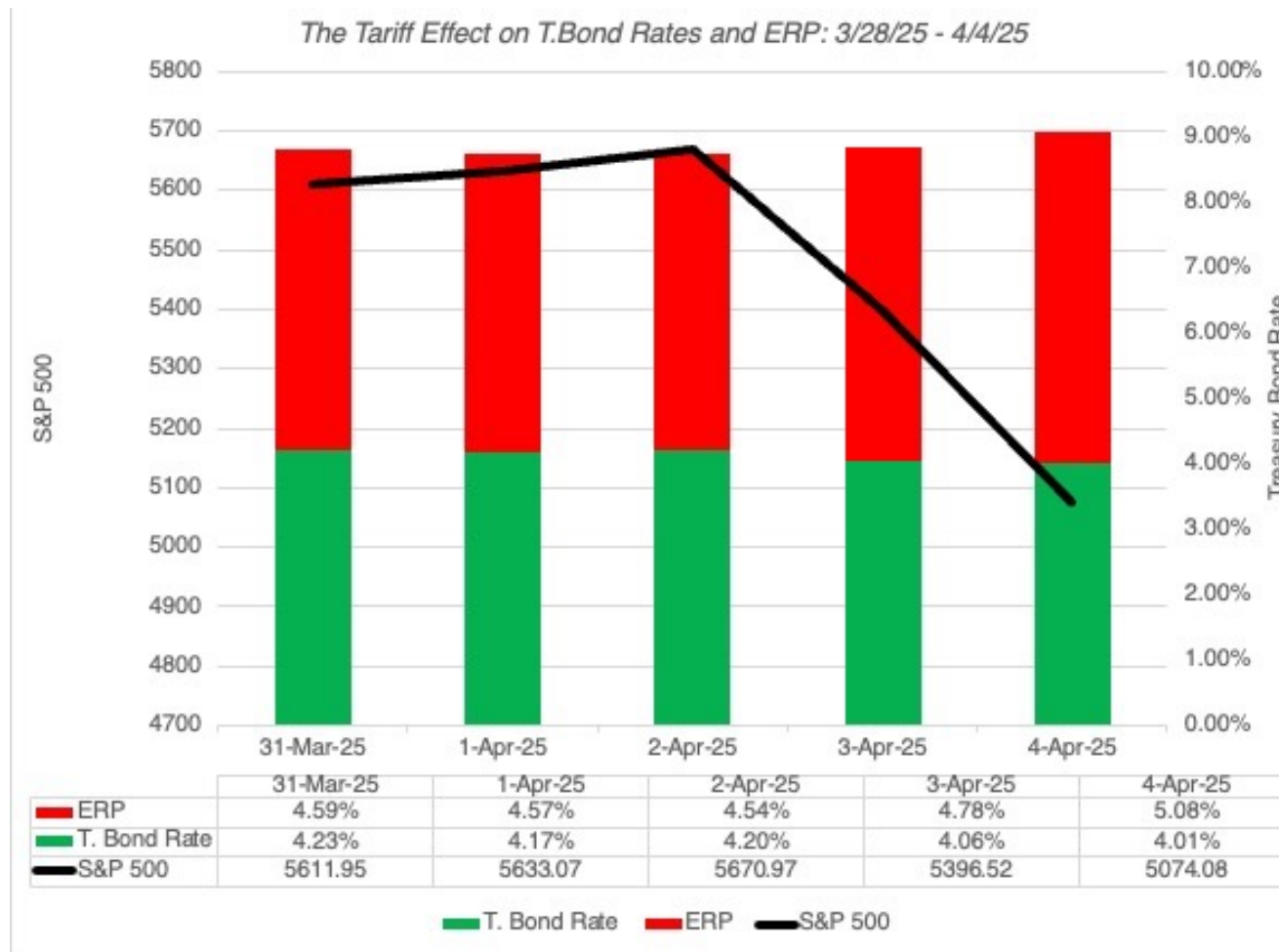
- For investors: The lesson that many investors get out of looking at past crises is that markets come back from even the worst meltdowns, and that contrarian investing with a long time horizon always works. While that may be comforting, this lesson ignores the reality that the fact that a catastrophe did not occur does not imply that the probability of it occurring was always zero. Markets assess risks in real time.
- For regulators: To the extent that crises expose the weakest seams in markets and businesses, regulators often come in with fixes for those seams, mostly by dealing with the symptoms, rather than the causes.
- For researchers: With the benefit of hindsight, regulators weave stories about crises that are built around their own priors, by selectively picking up data items that support them.



THE TARIFF CRISIS (IN PROCESS)



THE ERP SO FAR...



THE REST OF THE STORY?

- After shocks: The tariff story will have after shocks, with both negatives (other countries imposing their own tariffs, and the US responding) and positives (countries dropping tariffs and the US resetting). Those after shocks will create more market volatility, and if history is any guide, there is more downside in the near term.
- Real economy (near term): In the near term, the real economy will slow down, with the only plus being that while tariff-related price increases are coming, a cooling down in commodity and housing prices will dampen inflation.
- Real economy (long term): Global economic growth will slow, and the US, as the world's largest economy, will slow with it.



THE EXPERTS ARE COMING.. IN THREE GROUPS!

- **"I told you so"** group, eager to tell you that this is the big one, the threat that they have spent a decade or more warning you about. They will of course not let on that if you had followed their advice, you would have been invested in cash for the last decade, and even with a market crash, you would not be made whole again.
- **"Knee jerk contrarians"**, arguing that stock markets always come back, and that every market dip is a buying opportunity.
- **"I cannot decide"** group, who will present every side of the argument, conclude that there is too much uncertainty right now to either buy or sell, but to wait until the uncertainty passes. There are elements of truth in all three arguments, but they all have blind spots.



WHAT'S BEST FOR YOU...

- **Cash needs and time horizon:** If you are or will soon be in need of cash, to pay for health care, buy a home or pay tuition, you should take the cash out now.
- **Macro views:** As you can see, the effects on markets and the real economy will depend on how you see the tariffs playing out, with the outcomes ranging from an **open trade war** (with tariffs and counter tariffs) to a **partial trade war** (with some countries capitulating and others fighting) to a **complete clearing of the air** (where the tariff threat is scaled down or put on the back burner). This is less about economics and more about game theory, where an expert poker player may be better positioned to forecast what will happen than an economic think tank.
- **Investment philosophy:** I have long argued (and teach a class to that effect) that every investor needs an investment philosophy, **attuned to his or her personal make up**. That philosophy starts with a **set of beliefs** about how markets make mistakes and corrects them, and **manifests in strategies** designed to take advantage of those mistakes.



MY RESPONSE

- **Daily ERP:** As in prior crises, I will continue to monitor the equity risk premiums, treasury rates and the expected return on stocks every day until I feel comfortable enough to let go.
- **Revalue companies in my portfolio and act on that value:** While I was comfortable with the companies in my portfolio on March 28, viewing them as under valued or at least not over valued enough to merit a sell, the tariffs may have an significant effect on their values, and I plan to take them in batches, starting with my big tech holdings (the Mag Five, since I did sell Tesla and most of my Nvidia holdings) and working through the rest.
- **Buy value:** There are companies that I believe are great companies but are priced so highly by the market that I think of them as sub-standard investments and choose not to invest. During a crisis, where investors often sell without discrimination, there companies can become buys, and I have to be ready. Since buying in the face of a market meltdown can require fortitude that I may not have, I have been scouring my list of great companies, revaluing them with the tariff effects built in, and putting buys at limit prices below those values.
- **Go back to living:** I plan on living my life, enjoying life's small pleasures, like a Yankee win or taking my dog for a walk, to big ones, like celebrating my granddaughter's birthday in a couple of days.

