

2025

INVESTMENT OUTLOOKS



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Rethinking the Art of the Deal: Update to our 2025 Outlook

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Update to our 2025 Outlook

Investor Takeaways:

1. **Policy Missteps Fuel Stagflation Risk:** The use of tariffs as the central economic lever signals the end of globalization's deflationary benefit, increasing the risk of stagflation, slower growth amid rising global prices.
2. **U.S. Market Stability in Question:** Price action remains abnormal. The recent rise in the spread of Treasury yields over swaps, a 4% depreciation in the dollar and sharp equity volatility suggest eroding investor confidence in the U.S. as a financial "safe-haven" due to erratic tariff policy guidance.
3. **Navigating the Uncertainty:** We continue to advocate for resilience-focused strategies—protecting purchasing power, maintaining flexibility, and using volatility as a source of opportunity.

Rethinking the Art of the Deal

As some market commentators suggest that, Trump's 'sledgehammer' approach to implement a revamp of global trade policy to address 'fair trade' has been nothing short of chaotic and tangled versus thoughtful in its implementation. They argue, markets participants have reached a point where they are calling into question the "full faith and credit" of the U.S. financial system.

Since April 2's so-called 'Liberation Day,' the U.S. 10-year Treasury yield has risen from 4.0% to 4.5%, a move directly counter to what Treasury Secretary Bessent had aimed to achieve. The S&P 500 fell as much as 15%, coming close to our key support level of 4,800 (now at 5,300), while 30-year U.S. Treasury yields topped 5%, dramatically widening the

spread over US 30-year swaps, a highly unusual and telling dislocation. Meanwhile, the U.S. dollar has weakened by 4%.

The recent price action is not just a wake-up call—it's a loud and clear signal: U.S. capital markets, particularly Treasuries, have lost some of their luster as a bedrock of safety, while Washington looks to implement its version of 'fair trade' policy. It is coming at a real cost—the loss of investor confidence.

In such a chaotic market, driven by unpredictable decisions, investors are understandably paralyzed, searching for shelter and rotating capital elsewhere.

We are by no means political analysts. However, in our view, if Washington truly wants to achieve 'fair trade' and simultaneously deal with China, it must shift from isolating individual trade partner relationships to "building a platform of integrated military, economic, and technological collaboration across the West."¹ Markets are likely to reward that kind of strategic clarity, capacity and alliance building.

Tariffs have now become the primary tool to "engineer" fair trade. With that, the deflationary benefit of globalization—a tailwind for decades—may now have passed. What remains is potentially more inflation relative to growth at least in the intermediate period. As a result, we've increased the odds towards a trade-induced period of stagflation—lower global growth and persistently higher prices.

This leaves our near-term forecast for the S&P 500 between 4,800 and 5,800. While markets have another 90 days to gain further clarity on U.S. trade policy, the

¹ [Underestimating China: Why America Needs a New Strategy of Allied Scale to Offset Beijing's Enduring Advantages](#). Kurt Cambell, Rush Doshi, May/June 2025, Foreign Affairs

deadweight loss from increased tariffs—borne by both consumers and producers—raises the likelihood of multiple knock-on effects: pressure on corporate profit margins, a temporary spike then slowdown in consumer spending, and supply chain disruptions constraining business investment.

Our 2025 outlook continues to prioritize three core themes: resilience, purchasing power protection, and embracing volatility as an opportunity. If tariffs remain the policy of choice to drive nations toward renegotiated trade deals, more policy missteps are likely, and portfolios should be positioned accordingly.

In this environment, **positioning matters more than prediction**. Investors should prioritize **resilience**, favoring assets that preserve purchasing power, offer pricing power, and maintain intrinsic value through volatility. We believe portfolios should lean into **real assets**, hold **short-duration income**, own **low debt-to-GDP government paper**, include **select equities with fortress balance sheets**, and monitor **opportunistic allocations where dislocations have outpaced fundamentals**.

The next 90 days will be pivotal—but regardless of the headlines, the case for **resilient, adaptable portfolios** has never been stronger.