Reliability Matters! Tariff Tumult Market Scorecard (So Far)

By Vineer Bhansali | April 9th, 2025

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The past few days in the markets have brought forth *the* fundamental question of portfolio construction and asset allocation: in periods of stress and volatility, how can one keep a portfolio resilient? Anyone can throw money at the stock market and look like a genius when it is on a bull tear. But what does one do to stay invested and perhaps even invest more when there is a massive selloff like we just witnessed? Of course, there will be some losses when markets turn with the speed and intensity that we saw in the first week of April. But can asset allocation and diversification help reduce the losses at the total portfolio level? We ask therefore: How did different assets stack up between April 1, 2025 (the day before “liberation day”) and April 7, the Monday after a restless weekend for all?

Here are the results (all data taken from Bloomberg close for relatively simple, low-cost ETFs, ETNs and funds, all of which are investable, though I make no recommendations here for any particular investment. For most of these assets (the ETFs), one can also get the holdings in real -time to get full transparency and maybe even replicate it on their own!

ARKK: -11.54% , EEM: -10.88% , QQQ: -10.36% , ACWI: -10.12% , SPY: -10.08% , AQRIX: -8.71% , IBIT: -8.35% , AQMIX: -4.82% , GLD: -4.82% , BKLN: -2.94% , LQD: -1.84% , TLT: -1.57 , AGG: -0.77% , BIL: +0.07% , VXX: +45%

As we can see, many of the recent retail favorites (ARKK, QQQ) were, not-surprisingly, down 10% or more, since the stock market is down that much and they are mostly stock funds. ACWI is the global stock market index, and despite some outperformance coming out of Europe earlier this year, it has also gotten hurt quite badly. Cross-country diversification obviously also did not work too well. What might be more surprising to digital asset bulls is that the Bitcoin ETF (IBIT) is down almost the same as the stock market. Even GLD (Gold ETF) is down 4.82% though I suspect that the recent selloff was mostly technical not fundamental, and a weakening dollar should help gold.

Most surprisingly, the bond market ETFs (AGG, TLT, LQD, BKLN) are also down. One could justify why credit sensitive funds like LQD would be down (it holds investment grade corporate credit), and BKLN (holds bank loans). But TLT down as much as it is? TLT is the Treasury bond ETF which holds long duration Treasurys. Aren't Treasurys the safe place to be when the stock market crashes? Yes and no. When deflation is an issue Treasurys do well. But when geopolitics and potentially inflation are an issue, and the US debt is being financed by foreigners who are on the receiving end of tariffs, the market fears that Treasurys will be sold. Or maybe not bought in the primary auctions. Who will finance the massive budget deficit? My take is that there are four main reasons why Treasurys are not acting like risk-mitigators: (1) The fear that tariffs will be inflationary reduce the attractiveness of fixed income securities with long horizon, (2) the marginal buyers of Treasurys who are mostly foreigners might go on a "buyers'" strike, (3) increasing interest rate and bond volatility might reduce the attractiveness of long duration Treasurys, whose price volatility is proportional to the duration times long term volatility of yields, (4) there is no liquidity in the market for longer duration Treasurys, at least for now. Another round of QE from the Fed could be in the making.

But not all Treasurys are alike. Shorter duration, cash-like Treasurys as in the ETF TBIL (Treasury Bills that yield almost 4% and have no equity or duration risk), returned 0.07% over the period in question. A small amount of interest accrual for the week when almost everything else is sinking. I am still net positive on Treasurys out to the 3 year maturity. Beyond that not so sure unless the Fed shows its hand.

So much for diversification with assets, there are few safe harbors in this storm. What about fancier strategies like "trend-following"? The AQR trend-following fund (AQMIX) is down 4.82% over this period, and so is their "risk-parity fund AQRIX (down 8.71%). That firm has been on the record arguing that options based tail hedging does not work (see here and here), and that they prefer "Trend over Put". Investors are right to be confused given that firms like AQR are considered experts in quantitative risk mitigation – should you buy only what they are selling? While we agree with some of their long run return computations, their relevance for episodes like the present is dubious.

> "More importantly, there should be room for every risk mitigation tool in investor portfolios. Why would an investor not use a tool when it is available?"

So, the standout asset that actually provided risk mitigation at least in this round?

Tail Hedging!

As an example look at the VXX short term ETN. I have no position in this ETN but it is possibly the simplest long volatility retail product available. VXX ETF simply buys VIX futures and rolls them. VIX futures are based on the VIX index which is a measure of options volatility. Normally the VIX term-structure is positively sloped, i.e. shorter expiry VIX futures have lower price than longer expiry VIX futures. So anyone who keeps buying a VIX futures contract normally "bleeds" money due to the negative roll-down on the VIX curve. This is why the VXX, over long periods of time loses money (like a good insurance policy should! When was the last time you or I calculated the net total return over many years on our home or auto insurance?). But right now the VIX curve is inverted and buying longer term VIX futures "rolls-up". For example, while the spot VIX is hovering around 50, the VIX futures for December 2025 is only at 23. To me this is a "positive carry, positive protection" investment if the current tumult continues. Of course, more sophisticated active tail hedging strategies are possible to increase both the performance and reduce the drag of hedging.

Bottom line: Yes, it costs money to buy tail hedges, and most of the time you lose money on an insurance policy. But it is reliable! And like insurance, you pay up front but it pays back when you need it. Isn't that the whole point of having insurance?

"As we have been saying for years, when reliability matters, there is no substitute for a clean, simple pure options-based hedge. For proper portfolio construction, hedging is part of doing business."

The cost of hedging is thus the cost of doing business. In periods like we are currently in -- i.e. huge uncertainty, fat and flat tails, and path-dependency of outcomes -- this reliability is essential. Yes, portfolios can sometimes be made resilient by using diversifying and (mostly) uncorrelated assets like bonds and bitcoin and gold, and they should definitely be part of every portfolio, but history keeps showing us that there really is no substitute for the reliability that one gets from options-based tail hedging. The reason is simple – an option is a risk-transfer contract. To show that you can get something for free, some purveyors will keep pushing their latest version of a "secret sauce" based product that produces protection with no cost. Don't be sold.

Important Disclosures

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