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Tariff Announcements Market Reactions: *Are Things Different This Time?*

Less than a month ago we published a short piece titled *"Fast and Furious versus Slow and Calm: Recent Market Volatility and How We Think Investors Should Respond."* In that article, we summarized our thoughts about what was, at the time, the latest from the Trump administration on tariffs, and the market's swift, negative reaction. In light of the broad, significant tariffs President Trump revealed on April 2, 2025, and the stock market's swift plunge into correction/bear market territory over the subsequent days, we offer this update to help investors think about where to go from here.

WHAT JUST HAPPENED?

To recap what happened, on April 2, 2025, President Trump imposed a minimum 10% tariff on every import from every country (including items we cannot produce here in the U.S., such as coffee and bananas), with higher rates determined by a formula[1]. That formula, which you may have seen by now, divides the trade deficit the U.S. has with a given country—i.e., the value of the goods the U.S. exports to that country minus the value of the goods imported from that country—by the value of those imports, then takes half of that (this dividing by two is what President Trump means by "discounted tariffs"). Higher tariffs were imposed on automobiles, steel and aluminum, and certain other items. For some perspective, tariffs in the U.S. have not been anywhere near this level since the 1930s[2].

Over the next two days, the U.S. stock market plunged. The Dow Jones Industrial Average fell 9.22%, the S&P 500 lost 10.51%, and the NASDAQ shed 11.43%. We offer theories as to why later in this article.

> *"While volatility in the market can be unsettling, it's essential to stay focused on the long term.*

1 Goods imported from Canada and Mexico under the USMCA are exempted, but non-USMCA compliant goods will have a 25% tariff, except non-USMCA compliant energy and potash, which will have a 10% tariff. https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/
2 JP Morgan Guide to the Market, March 31, 2025

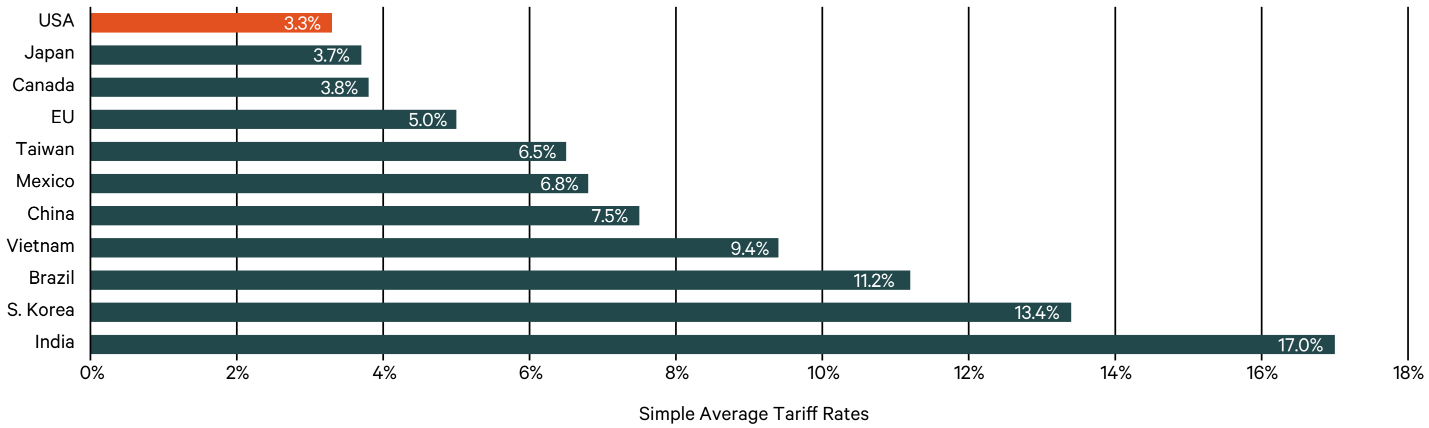
Why Impose Tariffs, and Why This Way?

Generally speaking, governments impose tariffs to protect domestic industries, some of which may be seen as critical to the economy or national security, to encourage local production, generate revenue for the government, reduce reliance on imports for strategic reasons, or respond to other countries' trade policies.

Prior to the tariffs now being imposed, U.S. tariffs were lower, on average, than what its major trading partners placed on U.S. exports, so there was arguably room for Trump to nudge tariffs higher[3].

FIGURE 1: SIMPLE AVERAGE TARIFF RATES
U.S. & Top 10 Trading Partners

The U.S. simple average tariff rate across all imported goods is low at 3.3% compared to its top 10 trading partners. Major economies like the EU (5.0%), China (7.5%), and India (17.0%) maintain higher tariffs on imports. Among these key trading partners, tariff rates vary widely due to different trade policies and economic structures.



Data presented is as of March 31, 2025. Data is obtained from First Trust and World Trade Organization and is assumed to be reliable. 2023 data (latest available). Simple Average Tariff Rates – The average of all tariff rates applied to imported goods, calculated without weighting for trade volume.

However, many were surprised by the size of the tariffs imposed, especially on China, India, Japan, Taiwan, and Vietnam. Most had hoped for no universal tariff, and many are disappointed there were no carve-outs for specific industries. Goods that comply with the U.S.-Canada-Mexico Agreement are not being impacted by tariffs today.

THE LONG-TERM PERSPECTIVE

Why Did the Stock Market React So Negatively?

While the stock market and the real economy are not the same thing, the market does, in general, reflect expectations for future earnings growth. Surveys of companies' plans for capital expenditures indicate uncertainty was increasing even before the April 2nd announcement, leading CEOs to sit on their hands and wait for more clarity.

3 Tariffs 2025 FTP (First Trust Portfolios, LP)

Incentives to Invest Decline, and Prices are Likely to Go Up

Businesses have little incentive to commit to building new factories when the administration has stated these tariffs might be negotiated down. Why be brave and invest right now? A more prudent course is to wait. That's a problem for investors hoping for long-term economic growth, as the seeds of growth must be planted years before new sales and earnings are generated.

By imposing universal tariffs, the Trump administration's stated goal is to incentivize companies to manufacture everything in the U.S. by raising prices on imported goods. That, in theory, would create more U.S. jobs, but one must also consider the implications. The U.S. unemployment rate is low, and immigration (legal or otherwise) is not increasing; thus, it is unclear where the workers needed to fill such jobs would come from.

Importantly, U.S. workers would have to be paid U.S. wages to make many of the goods we typically import—t-shirts, spatulas, and so on. That would push prices for those items far above what U.S. customers are accustomed to paying. Consider that wages can be 10x-20x higher in the U.S. than in developing countries—for example, the minimum wage for garment workers in Bangladesh is roughly $113 per month, compared to roughly $2,000 per month at the low end for the U.S. garment industry[4].

This is another reason the stock market reacted so negatively. If businesses have to pay higher prices to import goods, or to manufacture them in the U.S., they will have to either accept lower profit margins, which is bad for earnings, or raise prices for consumers, which is typically bad for sales unless consumers are price-insensitive.

WHAT MIGHT HAPPEN NEXT? SOME POSSIBLE SCENARIOS

The U.S. stock market and the U.S. economy did not crater when the first Trump administration imposed tariffs in 2018. However, we caution against making projections based on that experience as the tariffs imposed last week are quite different. At this point—and we emphasize that this is all very much in flux—we see at least six possible outcomes from the tariffs, and **combinations of two or more are likely:**

1. ***Inflation and possibly stagflation*** – If the tariffs remain in place for more than a month or two, consumer prices are likely to rise, as imported goods will cost more and goods produced in the U.S. have higher input costs. While price increases may be a one-time thing, and thus inflation would not keep rising, price *levels* would be permanently higher. Unless manufacturing can ramp up quickly, customers will pay more for imports or buy less. Neither would increase U.S. GDP, and a stagnant economy with rising prices is the definition of stagflation.

4 *https://blog.dol.gov/2024/04/30/waging-the-fight-for-a-living-wage and https://www.bls.gov/oes/2023/may/oes516021.htm*

2. ***Retaliation*** – U.S. importers may ask exporters to lower their prices to reduce the impact of the new tariffs, but doing so would reduce profits for overseas businesses that may already operate on slim margins. Thus, some countries are likely to respond to these tariffs by imposing higher tariffs on U.S. goods. President Trump has warned that he will raise U.S. tariffs even higher on countries that retaliate in this way, and tariff wars tend to hurt both parties.

3. ***Possible recession*** – The tariffs imposed during the first Trump administration did not stop the U.S. stock market and the economy from thriving. However, those tariffs were narrowly targeted and not nearly as punitive as they are this time. Many economists now see a much higher probability of a U.S. recession[5].

4. ***Negotiation*** – This is definitely a possibility. However, it may not remove the uncertainty that is now putting a chill on capital expenditures. Other countries know that any reduction in tariffs they might negotiate could be taken away.

5. ***Recalibration*** – Many companies will see higher input costs and will look for ways to cut costs elsewhere, or accept lower margins as they may not be able to increase prices to offset higher costs; consumers are already exhausted by high prices, especially low-income households. Fortunately, many U.S. firms are financially healthy and have historically high margins.

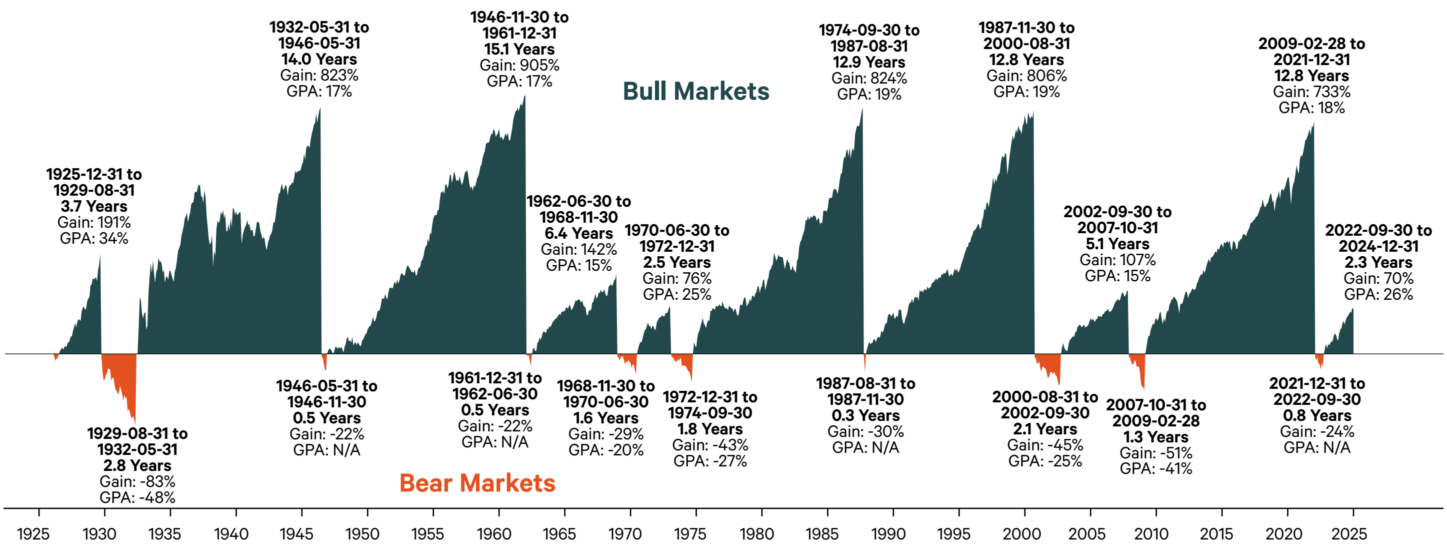
6. ***U.S. isolation*** – Seeking to offset a loss of U.S. sales, other countries may reduce tariffs or even negotiate free trade agreements with each other to expand their markets.

WHAT DO WE RECOMMEND AND WHAT OPPORTUNITIES DO WE SEE?

The volatility seen over the past few months, most notably last week, is admittedly unsettling. Under these circumstances it is essential to stay focused on the long term and remind ourselves that we have been through difficult times in the markets before, and bear markets end. We are likely to see more volatility in the days and week ahead, but the market's long-term trend has always been to move higher. In fact, great opportunities often emerge when investors are feeling most pessimistic.

5 https://www.bloomberg.com/news/articles/2025-04-03/economists-say-trump-s-tariffs-boost-uncertainty-recession-odds?cmpid=BBD040625_SUNNL&utm_medium=email&utm_source=newsletter&utm_term=250406&utm_campaign=sundaynl

FIGURE 2: HISTORY OF U.S. BULL AND BEAR MARKETS FROM 1925 - 2024

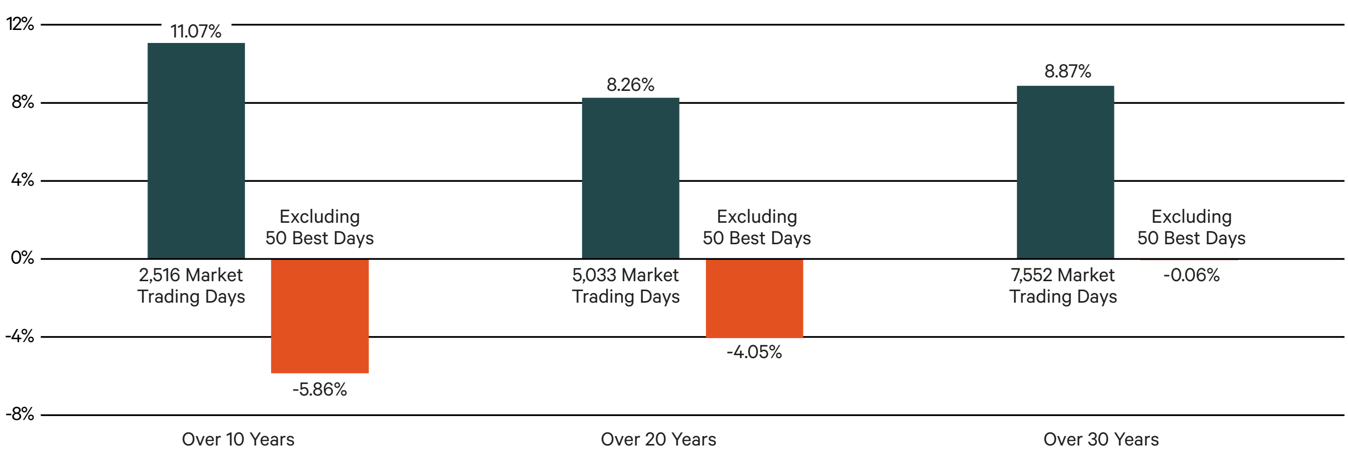


Data presented is as of March 31, 2025. Data is obtained from S&P Dow Jones Indices and Ned Davis Research and is assumed to be reliable. Data is based on S&P 500 Total Returns. Bull markets are defined from the lowest close reached after the market has fallen 20% or more to the next market high. Bear markets are defined from the last market high prior to the market closing down at least 20% to the lowest close after it's down 20% or more. ***Past performance is no guarantee of future results.***

To meet this moment, we offer four considerations:

1. ***Stay the course.*** This can be extremely difficult, as it is natural to feel a need to do something. But history shows bailing out means missing out. We have said it before but it is certainly worth repeating; pulling out of the market, then trying to gauge when to jump back in is never advisable. Recoveries are often as swift and steep as the declines that preceded them, and in the long run, missing the best days in the market can make a huge difference.

FIGURE 3: AVERAGE ANNUAL RETURN OF THE S&P 500® INDEX
Periods Ended December 31, 2024



Data presented is as of December 31, 2024. Data is obtained from Ned Davis Research and is assumed to be reliable. ***Past performance is no guarantee of future results.***

2. ***Diversify.*** Diversification is criticized when a handful of stocks or a couple of sectors are powering the market forward but we are seeing its benefits today. Bonds have performed well, and international markets have provided a much-appreciated respite from turmoil in U.S. equities. Alternative investments, such as those in private markets, have also provided a reduction in volatility.

FIGURE 4: ASSET CLASS RETURNS
2010 through 2024

2010–2024																	
Ann.	Vol.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
Large Cap 13.9%	Small Cap 20.6%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 25.0%	Comdty. 8.9%
Small Cap 10.3%	EM Equity 17.9%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	Small Cap 11.5%	DM Equity 7.0%
REITs 9.4%	REITs 16.8%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Alloc. 10.0%	EM Equity 3.0%
Asset Alloc. 7.2%	DM Equity 16.5%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	High Yield 9.2%	Fixed Income 2.8%
High Yield 5.9%	Comdty. 16.1%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 8.1%	REITs 2.8%
DM Equity 5.7%	Large Cap 15.1%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	Comdty. 5.4%	High Yield 1.8%
EM Equity 3.4%	Asset Alloc. 10.4%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Cash 5.3%	Cash 1.0%
Fixed Income 2.4%	High Yield 9.4%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	REITs 4.9%	Asset Alloc. 0.6%
Cash 1.2%	Fixed Income 4.7%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	DM Equity 4.3%	Large Cap -4.3%
Comdty. -1.0%	Cash 0.9%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%	Fixed Income 1.3%	Small Cap -9.5%

Data presented is as of March 31, 2025. Data is obtained from Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's and, J.P. Morgan Asset Management and is assumed to be reliable. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg U.S. Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg U.S. Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2009 to 12/31/2024. The "Asset Allocation" portfolio is for illustrative purposes only. ***Past performance is no guarantee of future results.***

3. ***Be selective.*** Focus on strong, high-quality companies via bottom-up, fundamental research that can identify companies that may lead a market recovery while avoiding those more likely to be left behind.

4. ***Utilize other tools within your financial plan.*** It is always important to remember that volatile times can represent opportunities for action and can be a great time to add value to your overall financial plan. Strategies such as Roth IRA conversions, tax loss harvesting, and estate minimization strategies may be options that you can discuss with your Wealth Advisor.

Financial markets are remarkably resilient, even in the face of bleak developments such as the COVID pandemic, the Global Financial Crisis, and the dot-com bust. This time feels different to many because the damage is self-inflicted, rather than coming from an exogenous event. Also, mercurial policy moves by the Trump administration mean foreign investors are unlikely to view the U.S. as favorably as they have in the past. As the saying goes, trust takes a long time to build but can be destroyed in an instant.

However, strong businesses figure out a way to survive and even thrive in difficult times. Those that adapt become stronger and can make attractive long-term investments, and we believe there are opportunities in every dark moment. As the Stoic philosopher and Roman emperor Marcus Aurelius said, “The impediment to action advances action. What stands in the way becomes the way.”

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