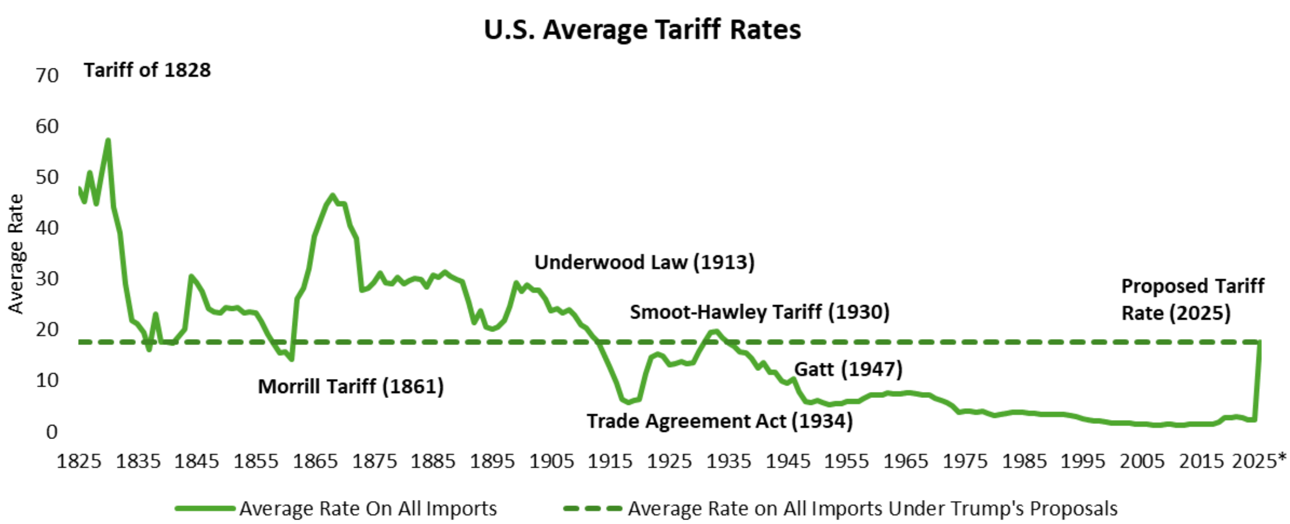
WHAT ARE TARIFFS?

In simple terms, a tariff is a tax placed on goods when they cross national borders, with the most common being an import tariff paid by the importer. Tariffs are used toward many potential goals, including generating revenue; protecting domestic industries, consumers, and national interests; and influencing negotiations with other nations.

Tariffs are nothing new—they have been used for centuries. For example, the US implemented tariffs shortly after the Constitution's ratification to help fund the government. However, tariffs have become a less important source of revenue for governments, particularly for developed nations, despite their recent resurgence in the US. According to the Congressional Budget Office (CBO), the US brought in $77 billion in tariffs in 2024, accounting for 1.6% of federal revenue. Since the 1960s, tariffs have not made up more than 2.0% of total revenue and were equivalent to 0.2-0.4% of gross domestic product (GDP).



Source: Tax Foundation, Syntrinsic

TRUMP'S TARIFF POLICIES IN 2025

President Trump and his administration have implemented several tariffs, resulting in an unpredictable environment for investors and considerable market volatility. The administration has ascribed a broad set of goals to tariffs, relating to domestic manufacturing, trade, pursuing non-trade goals such as relating to immigration, revenue generation, and more.

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Current tariff strategy is a component of a reciprocal policy aimed at reducing the US trade deficit with various nations, particularly China, Mexico, and Canada. Advocates of this reciprocal tariff policy contend that it fosters fairness in trade for the United States and safeguards domestic industries, aligning with President Trump's "America First" initiative. However, potential drawbacks of the reciprocal tariff policy include the risk of violating World Trade Organization (WTO) regulations and an increased likelihood of initiating trade wars.

The following is a high-level summary of tariffs imposed or planned to date. (Information here regarding tariffs was up to date as of the time of writing; the situation changes frequently, and some facts may have been overtaken by events.)

- A **25% tariff on all imports from Canada and Mexico**, which were effective as of March 4, 2025, with the notable exception of a **reduced 10% tariff applied to Canadian energy resources**, such as crude oil and natural gas.
- Initially, a **10% tariff was imposed on all imports from China** on February 4, 2025; however, this has since been **escalated to a 20% tariff**, effective March 4, 2025.
- Furthermore, President Trump **has expanded Section 232 (national security-related) tariffs to encompass additional steel and aluminum products, at a 25% level.** The exemptions that were previously granted to specific countries under these tariffs have been revoked. The revised tariffs on steel and aluminum took effect on March 12, 2025.
- Additionally, a proposal for a **25% tariff on all automobile imports** was introduced, with the implementation delayed by one month to allow the "big three" domestic automakers—Ford, General Motors, and Stellantis (formerly Chrysler)—adequate time to prepare.

The tariff situation is fluid and ever evolving. The President frequently adjusts these tariffs based on the reactions and strategies of other nations regarding the trade policies implemented. For instance, when other countries retaliate with their own tariffs or trade barriers, Trump's administration often responds by modifying the existing tariffs (see steel and aluminum as discussed above, for example)—either increasing or decreasing them—creating a dynamic negotiation environment.

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This ongoing back-and-forth showcases not only the complexity of international trade relations but also the strategic maneuvering that defines economic policy under his leadership. Each adjustment reflects a broader goal of attempting to influence global trade practices.

IMPLICATIONS OF TARIFFS ON THE U.S. ECONOMY

In general, tariffs on imports tend to be inflationary for both individuals and businesses, although who bears the brunt is determined by whether businesses absorb the higher costs or pass them on to consumers. Should inflation increase, this will likely lead to interest rates remaining higher for longer, as the Federal Reserve would be more likely to delay and/or reduce rate cuts. This leads to higher borrowing costs across the economy which can negatively impact economic growth.

In a vacuum, tariffs can protect domestic industries in the short-term by making them more competitive on a relative basis. However, other countries can retaliate, leading to trade wars, friction with other countries, and increases in protectionist policies which can lead to lower growth and possibly a recessionary scenario. Domestic businesses and consumers can also adapt, such as by shifting the goods they sell and buy. Businesses may see a reduction in profits and/or raise prices, and sellers of non-tariffed goods may even see an opportunity to raise prices as well.

Currently, market participants are grappling with significant declines attributed, at least in part, to uncertainties surrounding tariffs. On March 10, 2025, the S&P 500 experienced a decline of 2.7%, resulting in a loss of $1 trillion in market value and a fall of 9% from the February peak. Goldman Sachs estimates that a five percentage-point increase in tariffs can lead to a reduction of approximately 1-2% in S&P 500 earnings per share.

Year-to-date, the CBOE Volatility Index (VIX), which measures the expected volatility of the U.S. stock market over the next 30 days, has increased by over 23%. This increase is primarily driven by tariff-related uncertainties, which contribute to investor apprehension regarding a potential recession. The VIX is often referred to as the "fear gauge," reflecting market sentiment and indicating the extent to which investors anticipate fluctuations in the market. As of March 17’s close, the VIX stood at 20.5, with the threshold of 20 often deemed indicative of a high-volatility market environment. The VIX is far from the levels .

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seen during past market crises, having reached a record high of 82.7, on March 16, 2020, a few days after COVID-19 was declared a national emergency.

Amid investor uncertainty and recession fears, the performance of mega-cap stocks, particularly the so-called "Magnificent Seven," has declined year-to-date as investors shift away from high-growth technology stocks towards more defensive assets. This reduction in the market value has contributed to a broadening of the sources of return U.S. equity market, as well as the global equity market, with the primary drivers of past returns (large US stocks) giving way to other market segments (including European markets). Additionally, President Trump's remarks regarding a "period of transition" for the American economy have intensified market apprehensions.

Given the volatility and uncertainty of the situation, it is difficult to act tactically to reduce risk or add returns. Remaining diversified, including globally and across industries remains a wise course of action.

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