April 3, 2025

Weekly Market Commentary

The Beginning (Tariffs)...

By Michael Crook, Chief Investment Officer

Yesterday, President Trump announced:
- A 10% baseline tariff on all imports, effective April 5th,
- "Discounted reciprocal tariffs" on a number of additional nations, including 24% on Japan, 20% on the EU, and an additional 34% tariff on China, resulting in a base of 54% on Chinese imports, effective April 9th.
- 25% tariffs on all foreign-made autos as of midnight last night, and
- Exemptions for Canada and Mexico from the reciprocal tariff regime, but it is believed they will still be subject to 25% "fentanyl" tariffs.
- Energy, gold, lumber, copper, pharma, and semiconductors are all exempt.

It is hard to overstate the magnitude of these tariffs. Markets pretty much responded as expected. As of Wednesday evening, at 7:30 pm, S&P 500 futures are down 3.4% and Nasdaq futures are down 4.4%. Treasury yields are down slightly, and the US traded sideways after a period of sharp volatility.

Reciprocal Tariffs

The Trump administration says that reciprocal tariff rates reflect foreign tariffs on American goods combined with non-tariff barriers like currency manipulation or regulatory constraints designed to restrict American imports. The administration claims to have calculated the overall tariff amount, and the reciprocal tariff on each country is half of what they calculated.
For example, the Trump administration says that Israel charges the US a 34% tariff, so as of April 9th, the tariff on imports from Israel will be 17%. However, many questions remain about implementation. Israel just announced it was taking all tariffs on imports from America to zero. Does this mean the US will drop its tariff on Israel to zero, to 10%, or to some other number due to the somewhat amorphous non-tariff barriers? How did they come up with the reciprocal tariff rates in the first place?

It appears (somewhat speculative, but the numbers add up) that reciprocal tariffs are just our trade deficit with a country divided by that country's exports to us. The US has a $7.4bn trade deficit with Israel, and imports from Israel total $22.2bn. 7.4/22.2 = 33%. The implication is that all deficits should be zero – which isn't something that any economist I am aware of believes should be the case.

What happens next?

As the title suggests, we see yesterday's announcement as the beginning, not the end, of tariff policy:
- If the past is prologue, half of what I'm writing will change in the next 24 hours. For example, while I was drafting this article (Wednesday evening), CNBC reported that gold, lumber, copper, pharma, steel, aluminum, energy, and semiconductors would all be exempt,

- We expect stock and bond market volatility will remain high since tariff policy can (and probably will) change at any moment – President Trump has "modification authority" to change them at any time,
- Tariffs represent a headwind to economic growth. If the tariffs are implemented as announced, they will amount to $660bn (approximately 25% rate on $3.3tr of goods) or 2.2%,
- Tariffs will also likely push inflation higher. JP Morgan estimates[1] they will add 2% to CPI this year,
- A combo of lower growth and higher inflation creates a quandary for the Fed. They can be accommodative (lower rates) to support growth or hawkish (raise rates) to tamper with inflation. Right now, we'd place our bet on Powell ignoring tariff-induced inflation.

We're not making any changes to our portfolio positioning this morning, but the tariff announcement is a significant macroeconomic shock. We'll know a lot more about the mid-term impact when we see how the Trump administration responds to countries that retaliate and those that acquiesce. If it appears likely that these policies will be sustained, we are likely to become more defensive in our positioning as they could push the US economy close to recession by the end of the year.

[1] Daily Economic Briefing, April 3, 2025

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