Special Report **March 2025**

What is the Latest on Tariffs?

On March 4, 2025, the Trump administration confirmed that new tariffs would be placed on our nation's largest trading partners (Mexico, Canada, and China). Previously, the administration had used threats of tariffs as leverage for improved trade arrangements and to address immigration and drug trade policy objectives. Effective immediately, new 25% tariffs are placed on all goods imported from Canada and Mexico, with a 10% tariff carve out for Canadian energy imports. The Trump administration also announced an additional 10% tariff rate on imported goods from China on top of the 10% tariff announced in February. Strategas Research Partners estimates that the combined new tariffs equate to a $150 billion annual tax increase, representing 0.5% of annual GDP, and that the average effective U.S. tariff rate jumps to 7% from 2%. The new tariffs come at a time when the U.S. economy has exhibited fresh signs of slowing while decelerating inflation trends have started to wane.

Canada and China have already announced retaliatory tariffs on certain U.S. products, which will impact industries of the U.S. economy with significant business and trade in both countries, such as automobiles, apparel, energy, technology, and agriculture. Canada, Mexico, and China represent the largest trading partners of the U.S., comprising over 40% of the source of imported goods. A similar 25% universal tariff threat looms for the European Union and other major exporters with a target date for implementation of April 2, 2025.

While much remains unknown about the expected duration and impact of the administration's new tariff policies and the potential for further escalation, economic growth risks and public policy uncertainty have increased. As a result, market volatility is likely to remain high and corporate earnings growth could be adversely impacted.

Market Reaction

In recent days, markets have been reacting to both weaker economic data and the threat of new tariffs. The S&P 500 is off 5.5% from its mid-February highs, while the tech-heavy Nasdaq is off 8% over the past two weeks. Yields on the 10-year U.S. Treasury are down about 35 basis points (0.35%) over the same time period while the U.S. Dollar index (DXY) is down about 2.5% year-to-date. In addition, the market is now pricing in three cuts to the federal funds rate this year, which is up from just one cut a few weeks ago. The impact on inflation, consumer activity and business investment remain to be seen.

Our Thoughts

We remain long term investors but continue to monitor any short-term events that could challenge the assumptions that underlie our capital market assumptions or change the trajectory of long-term returns. We are actively monitoring the rapidly evolving developments coming out of the new administration and will be in touch should conditions warrant.

Please feel free to reach out to your relationship manager if you have any questions.

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