On The Mark

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April 2025 Special Edition

Liberation Day

Key Takeaways

- **Tariffs:** The Trump administration unveiled 10% baseline tariffs on all imports, with higher tariffs on 60 countries, pushing the effective U.S. tariff rate to 22%.
- **Economic & Market Impact:** As trade deals are negotiated and companies adjust to the new operating environment, we expect higher costs, supply chain disruptions, and increased market volatility.
- **Our Guidance:** Stick to your long-term plan. Volatility will likely be higher for a while, trade policy uncertainty will eventually abate, and we expect pro-growth policies later this year.

What We Know

President Trump announced sweeping new tariffs, fulfilling a central campaign promise to overhaul U.S. trade policy. The measures include a 10% baseline tariff on all imports, effective April 5, 2025, and higher "reciprocal" tariffs on about 60 countries with large trade imbalances, effective April 9, 2025.

The hardest hit includes Vietnam (46%), China (34% on top of existing levies), Taiwan (32%), and Europe (20%). With these changes, the effective U.S. tariff rate will jump to approximately 22% – its highest level since 1910. For China, the total rate could reach above 60%.

While the headline numbers are aggressive, the Trump administration has suggested the tariffs are a starting point for negotiation, not a fixed policy. Treasury Secretary Scott Bessent privately told lawmakers the tariffs represent a "cap," allowing room for adjustments if trading partners make concessions. The impact on global trade relations is uncertain, and retaliatory actions from affected nations seem likely, with Canada, China, and Europe all preparing countermeasures.

Our View

While the tariff details are now clear, the economic impact remains uncertain. The immediate effects are likely to be:

Lower Economic Growth: The new tariffs will raise production costs, especially for industries reliant on imported goods, which could lead to higher consumer prices. Many businesses may be unable to pass these costs on, therefore squeezing profit margins and slowing investment. Supply chain disruptions could also hinder production, further slowing economic growth.

Market Volatility: The new tariffs create uncertainty, causing investors to reassess the impact on corporate earnings. Higher costs and potential profit margin reductions may lead to lower earnings projections. This, combined with ongoing trade tensions, fuels investor anxiety and contributes to market fluctuations.

Looking ahead, retaliatory tariffs from major trading partners are likely. The first-quarter earnings season, which starts with banks on April 11 ,2025, will provide more insight into how businesses respond. If corporate guidance becomes more cautious, we could see downward earnings revisions, leading to potential equity market pressure and multiple contractions in price-to-earnings.

What Investors Should Do

Expect continued volatility. Negotiations take time, but deals eventually get done, and companies eventually adapt to the operating environment. Right now, we're likely at peak uncertainty on trade policy, and as more details emerge, that uncertainty will gradually subside.

Focus on your investment plan. Long-term investment plans are designed to withstand corrections, bear markets, and recessions. But you have to stick to the plan. If you feel compelled to make changes, consider strengthening your portfolio through diversification and risk management strategies. We encourage investors to avoid emotional reactions to short-term market swings. Sticking to the plan can be challenging, but it is the most important thing to do as an investor.

Keep a long-term perspective. While the tariff policy has introduced short-term disruptions, other pro-growth policies—including deregulation, infrastructure spending, and tax cuts—are expected later this year. These could serve as tailwinds for economic growth, but we need to navigate this period of uncertainty first.

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