On The Mark

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Shifting Trade Winds

Key Takeaways

- U.S.–China trade **tensions eased with a 90-day tariff pause** and a "reset" in the relationship between the two countries.
- Tariffs are significantly reduced during the pause, lowering the drag on economic growth and **reducing the risk of recession**.
- This episode of trade drama is a great example of why investors **avoid reacting to the headlines and stay focused** on the long term.

Fading Headwinds

U.S. trade policy has shifted dramatically over the past few weeks. In early April, the U.S. and China appeared headed for a full-blown trade war, with tariffs on Chinese goods reaching 145% and wartime rhetoric coming from both governments.

However, after successful meetings in Geneva, the two countries agreed to a 90-day pause in tariffs, marking a significant pivot in tone and direction. The pause eases economic strain on both sides and opens the door for a more permanent, comprehensive agreement down the road.

While short on specifics, the announcement signaled that both countries prefer negotiation over escalation. Trump described the pause as a "full reset," with the U.S. lowering tariffs from 145% to 30% and China reducing theirs from 125% to 10%. Some targeted tariffs remain in place, particularly on steel, aluminum, and chemicals that can be made into fentanyl.

Economic Implications

The reduction in tariffs on China, alongside a newly announced deal with the UK, lowers the risk of a U.S. recession and eases inflationary pressure. Tariffs tend to raise production costs for U.S. companies, forcing them to rewire supply chains to remain competitive. This can be very costly, crowding out other corporate investments like hiring additional workers or upgrading machinery. In many cases, the uncertainty and constant changes in trade policy can be more damaging than the tariffs themselves.

The dynamic for inflation is more straightforward; tariffs increase the cost of imported goods. Companies can respond in one of three ways: They can absorb the cost and reduce their margins (which they don't like to do), push the cost back onto suppliers (which can be hard to do), or pass it on to customers in the form of higher prices (which they tend to do).

Thankfully, the U.S. economy appears strong enough to weather these challenges. First-quarter GDP data showed solid consumer spending and strong business investment, particularly in artificial intelligence. The April inflation report showed price increases coming in below expectations, particularly in goods, which were expected to rise due to higher tariffs. Still, it's too early to tell what lasting impact even reduced tariffs might have on the economy.

Most importantly, this is a tariff pause, not a trade deal. Big issues – like intellectual property, tech transfer, and supply chain security – have yet to be negotiated. But the outlook is more stable than it was just weeks ago.

What Investors Should Do

This month's dizzying trade headlines are a good reminder to focus on what matters: staying invested, staying diversified, and sticking with a long-term plan. The trade winds may shift overnight, but your investment approach shouldn't.

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