

## **Keeping Tariffs in Perspective**

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Tariffs and the subject of a trade war have made many news headlines again since the Trump administration took office for a second term. The threat of extensive tariffs on Canadian, Mexican, and Chinese goods, as well as retaliatory tariffs being imposed by our historic trade partners have prompted much uncertainty amongst investors and volatility across markets. While some tariffs have gone into effect, others have been delayed, causing even further uncertainty.

Tariffs can be concerning because they represent taxes on goods imported to the U.S. which companies often pass on to the consumer in the form of higher prices. This inflationary pressure is particularly noticeable in sectors heavily reliant on international trade, such as electronics, automobiles, and household goods. This is made worse if other countries retaliate with their own tariffs, sparking an escalating trade war.

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However, it's important to keep this round of tariffs in perspective. Firstly, the U.S. has a long history of using tariffs dating back to the Industrial Revolution, often with the goal of protecting domestic industries, especially when they involve important or sensitive sectors such as technology and national security. In theory, free trade works well when each country can focus on what it does best, selling its products and services to benefit all nations. While this fuels global economic growth it leads to some industries moving to lower labor cost countries. There is a theory that tariffs can keep jobs in the U.S. However, the fact is that innovation and technology overwhelmingly are the cause of job loss NOT trade with other countries. In either case, the pendulum has swung back toward protectionist policies, with President Trump's renewed focus on using tariffs as a key policy tool.

Secondly, the previous round of tariffs during the first Trump administration was used as a negotiating tool, resulting in the United States-Mexico-Canada Agreement (USMCA) and a trade deal with China. For the administration, tariffs are often used as a negotiating tactic for policy objectives beyond protecting American industries, such as a means of negotiating with other countries to impose border control, prevent the influx of illegal drugs, and to raise government revenue.

Thirdly, market reactions to tariff announcements can prove to be more dramatic than their actual economic impact. This is especially true if tariffs are short-lived or if deals are reached. One reason for this is that markets are forward-looking, and the economic impact from initiatives such as tariffs is likely already reflected in current market prices. When these expected developments come to pass, the effect on markets may be muted. One period offering perspective on this issue is President Trump's first term in office. Beginning in 2017, the administration eyed China as a target and, by 2018, began imposing tariffs across a range of products. The next couple of years saw back and forth trade discussions that eventually led to an agreement, though pre-existing tariffs remained in place. Despite all this uncertainty in the market, both China and the U.S. posted higher cumulative returns than the MSCI World ex USA Index over the four years of Trump's term.

### **Staying Invested in a Diversified Portfolio is The Best Way to Weather Market Volatility**

We understand that market swings are never pleasant. It's important to remember, however, that investing is not about a single day, week, month, or even a year, and maintaining a long-term approach remains one of the most effective strategies for navigating market volatility. Furthermore, while technology stocks have struggled and the S&P 500 is experiencing its worst daily declines this year, other sectors, like bonds and international investments, have performed well over the past several months reminding investors of the importance of a balanced portfolio. When faced with uncertainty in the headlines, remember that your thoughtfully constructed and well-diversified portfolio is about achieving financial goals over years and decades, and we're here to remind you of this and to help support you through uncertain times.