

# MARKET SIGHT LINES



## Trade Policy Clarity, Economic Uncertainty: The Investment Implications of President Trump's "Liberation Day"

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Since Inauguration Day, uncertainty surrounding trade policy has unsettled the markets. Investors have not responded well to what has often appeared to be an “on-again/off-again” approach to tariffs, with many expressing a clear preference for stable, predictable policy. Perhaps in response to this, the Trump administration recently provided more clarity around its [motivation and methodology](#) for the new tariffs being imposed this month. Still, by implementing these tariffs, economic uncertainty has increased meaningfully – both in terms of their potential effects and the risk of retaliation, with even broader negative implications. In this week's Sight|Lines, we briefly review the administration's motivations and methods, potential economic disruptions, and the implications for investors.

### **THE TAKEAWAY: CLARITY HELPS, BUT INVESTORS MUST ASSESS UNCERTAINTY**

Despite clearer trade policies and tariffs, investors must still navigate the economic uncertainty and its investment implications. In summary:

- While the U.S. has a services trade surplus, our goods trade deficit has grown in recent decades.
- The trade deficit is seen to be the result of unfair practices like subsidies, currency manipulation, and other non-tariff barriers that have historically disadvantaged U.S. industries.
- The administration [calculates the tariffs](#) implied by these practices, saying the tariff "can be proxied by computing the tariff level consistent with driving bilateral trade deficits to zero."
- More generally, the goals of the trade policy include *Economic Growth and Job Creation*, *Leveling the Playing Field*, and *National Security and Economic Sovereignty*.
- The tariffs on countries viewed as having mistreated the U.S., like China, are the most extreme.
- Certain trade partners have seen some relief, including Mexico, Canada, and the UK.
- That said, a 10% tariff has been imposed on many smaller trading partners.
- From a top-down investment perspective, we must assess the economic implications of these changes, including a slowdown in GDP, higher inflation, and weaker equity earnings and markets.
- From a bottom-up investment perspective, we must now take into consideration country and company implications of the tariffs and potential retaliation, as there will be winners and losers.

## IN-DEPTH: POLICY CLARITY HELPS, BUT INVESTORS MUST ASSESS THE IMPLICATIONS OF UNCERTAINTY AND THE TOP-DOWN AND BOTTOM-UP IMPLICATIONS OF POLICY CHANGES

Despite greater clarity on trade policies and the tariffs being implemented, investors must navigate both top-down and bottom-up implications amid rising economic uncertainty. Going deeper:

- The U.S. has a modest services trade surplus, but our goods trade deficit has grown in recent decades:
  - Overall, the trade deficit was \$917.8 billion in 2024, compared to \$98.5 billion in 1994.
- The trade deficit is seen by the Trump administration to be mainly the result of unfair practices:
  - Many larger countries have imposed tariffs and other direct charges, like a value-added tax.
  - But other practices like subsidies, currency manipulation, and other non-tariff barriers have historically disadvantaged U.S. industries.
- The administration calculates a tariff as implied by these practices that would eliminate the trade deficit:
  - The most dramatic calculation is for China, with an estimated implied tariff of 67%.
  - Note that the U.S. implemented an additional tariff of about half of that amount, or 34%.
- More generally, the administration has stated several goals when implementing this trade policy:
  - *Economic Growth and Job Creation*: Reshoring manufacturing, new U.S. Investments, job growth.
  - *Leveling the Playing Field*: Fair trade, support for domestic industries, reducing trade deficits.
  - *National Security and Economic Sovereignty*: Support critical industries, combat drug trafficking.
- Tariffs do vary, in part, based on the strength and strategic importance of our relationships:
  - Significant tariffs have been imposed on countries or regions viewed as mistreating the U.S.:
    - China 54%, Vietnam 46%, Taiwan 32%, Japan 24%, and the European Union 20%.
  - Goods meeting the USMCA rules of origin will have no tariffs, benefiting Mexico and Canada.
  - That said, a 10% tariff has been imposed on many smaller trading partners.
- From a top-down investment perspective, we must assess the economic implications of these changes:
  - A slowdown in GDP and higher inflation can lead to weaker equity markets.
- We must also consider the investment implications from a bottom-up perspective:
  - For example, we are modestly underweight China and the EU in our dynamic asset allocation guidance, in part with consideration for the implications from trade policies and tariffs.
  - The impact of trade policies will be considered in our ongoing analysis of individual companies.

### CONCLUSION

Since Inauguration Day, investors have not responded well to the apparent “on-again/off-again” approach to tariffs, which has shaken markets. This week, however, the Trump administration provided greater clarity on its [motivation and methodology](#) behind the new tariffs taking effect this month. While this transparency is welcome, the tariffs themselves introduce heightened uncertainty – both regarding their direct economic impact and the potential for broader global trade conflict. As investors, while we appreciate the clarity around policy, we must navigate the top-down and bottom-up implications of these changes. And, in addition, we must prepare for more uncertainty as countries respond to these actions, either positively through negotiation and a move toward more friendly trade relations or negatively if tariffs and restrictions escalate further.

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