April 4, 2025

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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