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Think Strategically

2025 One Quarter Down Navigating Uncertainty: Trump's Tariffs and the Historical Lessons they Echo

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One-Quarter Down, Three to Go

As the first quarter comes to a close, market volatility remains a key theme, driven by the introduction of new tariffs and ongoing concerns about inflation. A significant 25% tariff on all non-U.S.-made automobiles has been introduced ahead of a broader announcement of reciprocal tariffs, which will take effect **on April 2**. While this announcement may clarify, trade uncertainty will likely persist, with additional retaliatory actions and negotiations looming in the coming weeks.

Although the U.S. economy is less dependent on trade than some other nations, the impact of these tariffs will still dampen growth and push up inflation of goods.

We must all evaluate all the available information on how these measures and other actions are impacting the economic and investment sentiment, one of the valuable metrics we have been tracking is the economic forecast of the U.S. economy produced by the Federal Reserve Bank of Atlanta, the GDPNow which forecasts the U.S. economic growth, and when President Trump's terms began the GDPNow for the first quarter published on January 31, 2025, was at 2.90% GDP and by the last report on March 28, 2025, it has fallen to -2.80% decreasing 196.55% in 67 days these measures seem to be derailing the economic expansion.

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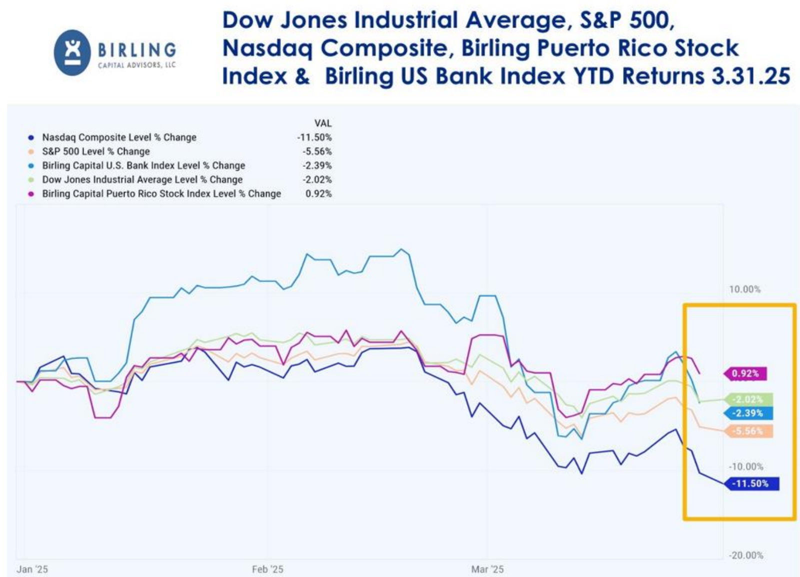
GDPNow 1Q25

Date	GDPNow 1Q25	Change
1/31/2025	2.90%	Initial Forecast
2/3/2025	3.90%	34.48%
2/5/2025	2.90%	-25.64%
2/7/2025	2.90%	0.00%
2/14/2025	2.30%	-20.69%
2/19/2025	2.30%	0.00%
2/28/2025	-1.50%	-165.22%
3/3/2025	-2.80%	86.67%
3/6/2025	-2.40%	-14.29%
3/7/2025	-1.60%	-33.33%
3/17/2025	-2.10%	31.25%
3/18/2025	-1.80%	-14.29%
3/26/2025	-1.80%	0.00%
3/28/2025	-2.80%	55.56%

As we highlight the impact of these measures, it's essential to reflect on market performance and adjust our strategies accordingly. The initial months of 2025 have been marked by significant volatility, reminiscent of the dramatic events of early 2020.



Performance of Key Indices YTD ranked from worst to best as of March 31, 2025:

- Nasdaq Composite: -11.50%.
- S&P 500: -5.56%.
- Birling U.S. Bank Index: -2.39%.
- Dow Jones Industrial Average: -2.01%.
- Birling PR Stock Index: 0.92%.

However, corporate profits continue to rise, job growth remains strong in the private sector, the Federal Reserve is cautious about interest rate hikes, and pro-growth policies may be on the horizon. With multiple potential outcomes, a V-shaped stock market rebound seems unlikely. A balanced approach between growth and value investments is recommended, with particular opportunities in the healthcare and financial sectors, which are less affected by tariff uncertainty and present attractive valuations. Financials could also benefit from pro-growth policies.

New Tariffs and Immediate Impact

Last week, the U.S. Trump administration unveiled a 25% tariff on all auto imports. These tariffs will take effect on April 3, initially targeting fully assembled vehicles and will expand to include auto parts by May 3. This move has weighed heavily on shares of automakers, parts suppliers, and the stock markets of countries heavily involved in automobile manufacturing, such as Germany and South Korea.

The permanence of these tariffs remains uncertain, with the President suggesting they may be negotiated. If they stay in place, they could drive foreign manufacturers to relocate production to the U.S., potentially boosting domestic investment in the long run. However, the tariffs will likely lead to increased consumer prices in the short term as automakers pass on the costs.

Since roughly half of the 16 million cars sold in the U.S. last year were imported, the automotive sector is expected to experience disruption. Secondary effects could also include higher prices for used vehicles, repairs, and insurance. Interestingly, rental car companies saw their stocks rise last week, as they are expected to benefit from higher fleet values when selling used vehicles at elevated prices.

What's Ahead: Tariff Reciprocity and Sector-Specific Measures

The auto tariffs are part of a broader strategy involving reciprocal tariffs, set to take effect on April 2. Next Wednesday, President Trump is expected to unveil a sweeping new trade strategy centered around a concept he calls **"tariff reciprocity",** which seems to be the cornerstone of Trump 2.0's economic agenda. These measures will be implemented on a country-by-country basis to align with the tariff levels of trading partners. Some countries may receive reductions or exemptions, especially if they have fewer barriers to U.S. products. Additionally, other sectors, such as lumber and pharmaceuticals, may also face new tariffs. Rather than focusing solely on tariff symmetry, the new framework will target nations with significant trade surpluses with the United States.

Early details suggest that the U.S. plans to increase tariffs on imports from approximately 15 countries and trade blocs, including China, the European Union, Mexico, Vietnam, Taiwan, Japan, Canada, Switzerland, South Korea, South Africa, Cambodia, Malaysia, Thailand, Indonesia, and India.

As of 2024, the United States experienced trade deficits with each of the 15 specified countries and trade blocs, with a collective trade deficit of approximately $1.2 trillion.

A phased rollout is expected, giving affected nations a window to enter negotiations with Washington. The message is clear: the U.S. is preparing to recalibrate its trade relationships—and tariffs are the chosen tool. This approach suggests that while there may be immediate impacts, the tariffs could be more targeted than initially feared. Nonetheless, uncertainty will likely remain as global reactions and negotiations unfold.

The Continuing Uncertainty
Markets have always struggled with uncertainty, and the current economic climate is no exception. The Economic Policy Uncertainty Index has spiked to its highest level since the early days of the pandemic. With the trade situation evolving and headlines changing rapidly, it is challenging for investors to fully understand the impact of these shifting policies.

While the April 2 announcement may clarify, it's unlikely to resolve all questions. As other countries retaliate or seek to negotiate, trade policy uncertainty will persist, likely through the second quarter and beyond.

What We Do Know: Positive Economic Fundamentals
Despite the uncertainty, the fundamental drivers of market performance remain largely supportive:

1. **Corporate Profits**: Profits are rising, with S&P 500 earnings estimates indicating more than 10% growth for the year, well above the historical average.
2. **Strong Job Growth**: Unemployment remains low, and the private sector continues to add jobs at a healthy pace. The modest government layoffs are unlikely to significantly impact the overall employment trend.
3. **Federal Reserve Stance**: The Fed is adopting a wait-and-see approach, with no immediate interest rate hikes on the horizon. Inflation concerns may keep rates on hold, but the risk of aggressive tightening, which typically ends bull markets, remains low.
4. **Potential Policy Shift**: The administration may soon pivot toward pro-growth policies, such as tax cuts and deregulation, which could bolster economic expansion and support the ongoing recovery in manufacturing.
5. **Credit Market Stability**: Credit spreads remain narrow, indicating that the bond market isn't signaling an imminent economic downturn. Financial conditions are generally supportive, with rising loan demand adding to the positive outlook.

Portfolio Strategy Amid Uncertainty
While trade uncertainty may prevent a quick, V-shaped stock recovery, ongoing economic and earnings growth suggest market pullbacks could present opportunities. A balanced portfolio approach favoring growth and value stocks remains advisable. This year, international equities, value stocks, and healthcare sectors outperformed, and that trend may continue if trade tensions ease. However, a more aggressive trade war could strengthen the U.S. dollar and weigh on global growth, leading to a rotation back toward U.S. assets. Healthcare and financials, in particular, are less exposed to tariff risks and could benefit from favorable valuations and potential pro-growth policies. Financials may also benefit from policy shifts that stimulate economic growth. Ultimately, a diversified portfolio will be essential for navigating the twists and turns ahead, with fixed-income investments providing a buffer against volatility in the equity markets.

The Final Word: Trump's Tariffs: A Modern-Day Echo of Past Economic Failure
If history has taught us anything, protectionist policies do not lead to prosperity but economic ruin. The Trump administration's current trade policies echo past failures, yet the stakes are even higher in today's interconnected world.

The **Fordney-McCumber** and **Smoot-Hawley** tariffs of the 1930s provide stark reminders of the destructive potential of protectionist measures. These tariffs exacerbated the economic collapse during the Great Depression by reducing global trade and triggering retaliatory measures from other countries. Today, Trump's tariffs threaten to do the same—on a global scale.

The historical parallels are alarming as we face rising tensions in international trade and the growing threat of escalating trade wars. If these tariffs persist and trade wars escalate, we risk another economic catastrophe that could rival the **Great Depression**. The trade policies from the past have shown that while they may offer short-term benefits to specific industries, the long-term costs are far greater, impacting global trade, consumer prices, and, ultimately, economic stability.

Counterpoint to Trump's Tariffs:

- **Economic Disruption:** Introducing tariffs will increase consumer prices and disrupt global supply chains. For example, tariffs on steel and aluminum imports have raised production costs for industries reliant on these materials, pushing up consumer prices. This reflects the long-standing economic theory that tariffs act as a hidden tax on consumers and create inefficiencies in the market. Tariffs can hinder economic growth and lead to reduced consumption and production.
- **Retaliatory Measures:** In response to U.S. tariffs, trading partners have implemented their own tariffs, affecting U.S. exports. This tit-for-tat escalation can reduce export opportunities for U.S. businesses, particularly in sectors like agriculture and manufacturing, where international markets are essential. The global economic interdependence in today's world makes such actions particularly harmful, as they ripple across borders, affecting the economies of other countries and, ultimately, U.S. businesses.
- **Impact on Global Trade:** The interconnectedness of global supply chains means that trade policies, especially tariffs, can have far-reaching consequences. Global markets are not isolated; disruptions in trade flow affect other nations, causing financial uncertainty and lower productivity. In today's increasingly interdependent world, tariffs could reverse the gains of free trade agreements and international partnerships, slowing global economic growth.
- **Historical Perspective:** Historical evidence highlights the damaging effects of protectionist policies. The **Smoot-Hawley Tariff Act** of 1930, which imposed high tariffs on thousands of imported goods, is often cited as a major factor in deepening the **Great Depression**. A similar dynamic could unfold today, with tariffs acting as a catalyst for global economic turmoil. If countries impose barriers on international trade, the resulting decrease in trade activity can lead to a downward spiral of reduced investment, bankruptcies, and job losses.

In conclusion, while tariffs may seem like a straightforward solution to trade imbalances or unfair practices, the lessons of history warn against their long-term economic costs. The Fordney-McCumber and Smoot-Hawley tariffs serve as reminders of how protectionism can backfire, leading to stagnation and decline. Today's global economy is far more interconnected than it was in the 1930s, and the risks posed by such policies are even greater. It is essential to approach trade relations with caution and foresight, understanding that escalating trade wars can have far-reaching consequences for all nations involved.

Two Views from CEO's on the same issue: The president firmly believes that there are imbalances in the way trade operates, and he has a strong point of view that he wants to level the playing field aggressively, according to David Solomon, CEO of Goldman Sachs.

"I don't think the average American consumer... changes what they're going to do because they read about tariffs. But I do think companies might. Uncertainty is not a good thing, Jamie Dimon, Chairman & CEO of JPMorgan Chase".

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