**QUARTERLY REVIEW & OUTLOOK** **Q1-2025**

*"Tariff policy beneficiaries are always visible, but its victims are mostly invisible. Politicians love this."*

*-Walter E. Williams*

The recent talk and implementation of tariffs has caused significant volatility in equity and fixed income. The Trump Administration believes Tariffs will help working class people by protecting them with high wage jobs and a renewed manufacturing emphasis. Tariffs raise the cost of imported goods, aiming to protect domestic industries by making foreign products less competitive. U.S tariffs have had the ability to generate revenue, about $89 billion was generated in 2023 from custom duties. Whether this is true or not, the Trump Administration believes they have maximum leverage right now because the United States is the deficit Country. China, for example, only buys 1/5 of the goods from us that we buy from them. The Administration believes China's economic leverage is like a weak poker hand, they are holding "a pair of twos". In fact, the U.S buys more goods from almost all countries. Nearly 20% of Canada's GDP relies on exporting to the U.S. Only 1.7% of U.S Gdp is exported to Canada. This is the calculation of this Administration and though, in their minds, China is only holding a "pair of twos", is the Administration's hand truly better? They think so.

Will this tariff strategy work? Willingly or not, many countries have decided to come to the negotiating table such as Japan, South Korea, Taiwan and others. If the current Administration is going to continue down this path, they have limited time to do so. This is why all of this is happening so quickly now. Their calculation is that they need to act immediately because if they lose the 2026 mid-term elections, everything will grind to a halt. However, the speed and intensity of these actions are causing financial stress as equity and bond markets respond. The Administration seems to have some guardrails as they recently backed off and gave a 3-month extension to countries to negotiate. Tariffs targeted at China were allowed to proceed.

Tariffs are certainly a high-risk game. They can raise prices for consumers, ignite inflation and move the Country toward a recession. China has, initially, escalated tensions which threaten an all-out trade war. Europe is also fighting back with counter measures. The stock market recently dropped precipitously because of these worries of uncertainty. Add to this the DOGE cuts to government employees and budgets, shutting down the border which can affect available workers in the U.S for specific industries, modernizing the Federal Government's antiquated computer systems, tensions with Iran and, whether you support these moves or not, this is the recipe for head-spinning chaos. The U.S has to roll-over trillions of dollars of U.S debt this year. This debt was financed years ago with very low interest rates. The Administration would like to reissue this debt in 2025 at as low a rate as possible. Certainly, trade wars and tariffs can slow down an economy short-term and put downward pressure on interest rates, helping this refinancing problem. However, it's not given that the bond market will cooperate.

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Is this upheaval over? Well, we've had the initial shock to the system, possibly culminating in the media such as Jim Cramer, calling for an '87 crash on April 7. The market did not crash that day, and several days later when the President delayed tariffs, the markets rallied. It's possible that we've reached maximum panic on a short-term basis, allowing markets to calm down and calmer heads to prevail, though we could see heightened volatility as we vacillate between the possibility of a recession and the announcement of positive news on reaching trade agreements. A few months of peace would be welcomed; however, these longer-term issues with China won't go away any time soon. The Administration needs to find as much money as possible to help with the U.S untenable debt situation but also to fund their big tax cuts which are coming soon. Volatility could become the norm as they attempt to do so many significant things in a compressed timeframe.

Please reach out any time with questions or to discuss your portfolio further.

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