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On the Minds of Investors

What are the impacts of the April 2nd tariff announcements?

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> **The short-term economic impacts of tariffs tend to be stagflationary. Some of the one-time increase in tariffs may hit U.S. businesses' bottom line, while some may be passed on to the end consumer, raising prices.**

On April 2nd, President Trump announced much higher than expected tariff rates on imports from around the world, **on top of previously announced measures.**

What happened with tariffs?

- On April 2nd, the President issued an Executive Order based on a "national emergency" including two main tariff announcements: 1) **10% universal tariff** on U.S. imports with the goal of raising revenue (going into effect April 5th) and 2) **Higher tariff rates on 25+ of the country's biggest trading partners** based on their trade deficit with the U.S. (going into effect April 9th).
  - These "reciprocal" tariffs were much higher than expected, ranging from tariffs of an additional 34% on China (for a total tariff increase of 54%pts this year), 20% on the European Union, 24% on Japan, 26% on India and higher tariffs on Southeast Asia.
  - Canada and Mexico were spared this round, as a separate USMCA discussion continues.
- These announcements **added to previous tariffs**: 25% on non-USMCA compliant goods from Mexico and Canada (10% on Canadian energy and 10% on potash), additional 20% on China, 25% on steel and aluminum and 25% on imported autos and auto parts.
- We estimate that this brings the **average effective tariff rate to 25%** [1], an early 1900 high.

What happens now?

- **Additional sector-specific tariffs** may still be forthcoming (on semiconductors, pharmaceuticals and certain critical minerals).
- The **duration of these tariffs** will matter for the growth outlook. The 10% universal tariffs are likely to be permanent given the revenue raising goal, but the additional tariffs are likely to be the start of a negotiation with individual trading partners and could come down over time.
- **Trading partners may decide to retaliate** with their own tariffs on U.S. exports and U.S. companies (including services like technology).
- **Fiscal and monetary policy responses** will be key. U.S. additional tax cut discussions are likely to be accelerated and fiscal stimulus overseas can increase further (especially in Europe and China). Central banks (including the Fed) are likely to focus on responding to the growth hit by lowering rates more than the inflationary impact. Some EM central banks may decide to devalue their currencies to maintain export competitiveness (led by China).

What are the economic and market impacts?

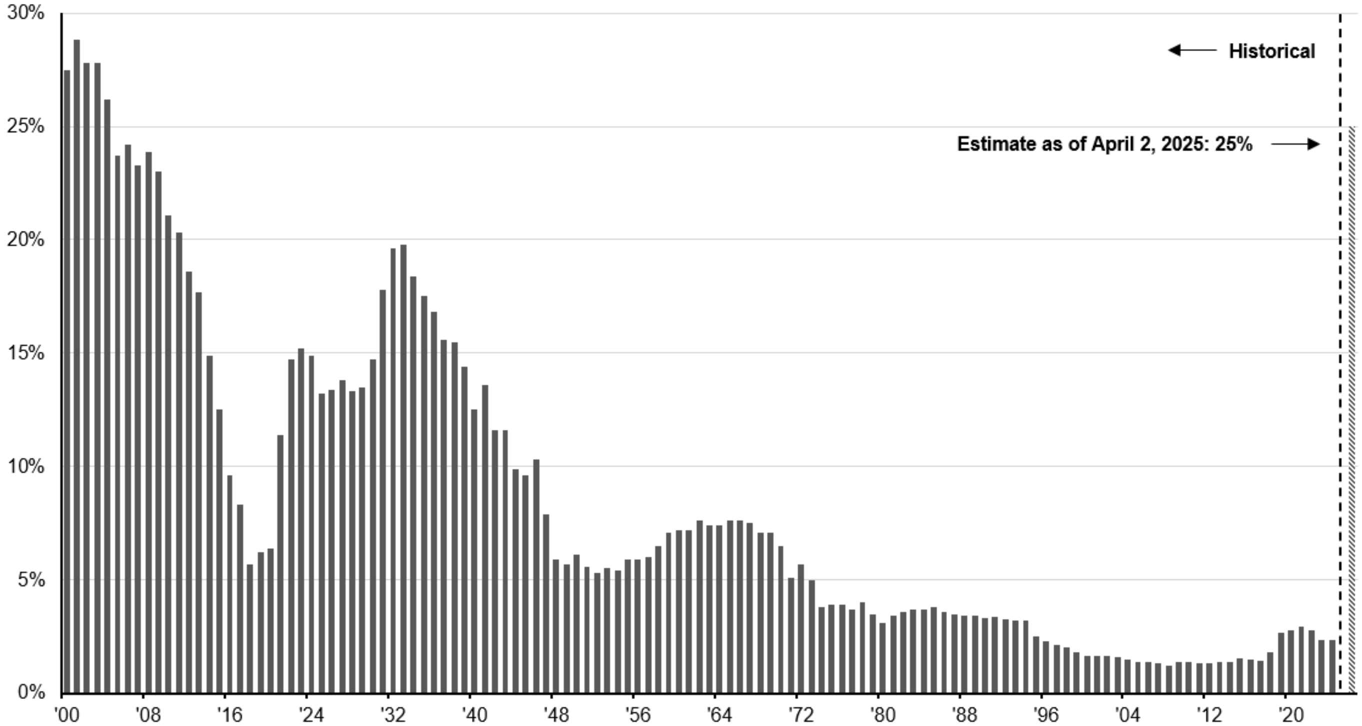
- **The short-term economic impacts of tariffs tend to be stagflationary.** Some of the one-time increase in tariffs may hit U.S. businesses' bottom line, while some may be passed on to the end consumer, raising prices. Important business decisions (investment and hiring) may be postponed or canceled and consumers may pull back on bigger purchases. 1Q growth was already looking soft and further softening in 2Q will depend on the duration of tariffs.
- Previously, recession risk had increased due to policy uncertainty and may increase further depending on the duration of these tariffs.
- The extent to which global companies and economies are hit will depend on their policy responses and the external vs. domestic focus of specific companies.

What's the investing playbook amid the trade turmoil?

- **Multiple defenders needed to cushion portfolios from shocks:** Core bonds can help during growth shocks, with the U.S. Aggregate index up 3% year-to-date. Other diversifiers are needed when inflation and fiscal concerns take the lead again, with real assets (infrastructure, real estate), gold, certain hedge funds and hedging strategies are top of mind. "Safe haven" currencies like the Japanese Yen, Swiss Franc and even the Euro can strengthen further.
- **Diversify equity exposure:** After two years of concentrated U.S. equity performance, expectations are high and portfolios are concentrated exactly in the previous winners. So far this year, investors have been rewarded for being diversified, with value outperforming growth by 1,000bps and international outperforming the U.S. by 1,100bps (biggest since 1989). Companies with lofty valuations and low quality continue to be the most vulnerable.
- **Active management to separate winners and losers**: Companies and sectors will be impacted unevenly. Companies that are domestically oriented, services-oriented and have higher pricing power are likely to fare better.

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



Source: Goldman Sachs Investment Research, United States International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average U.S. tariff rate includes the latest tariff announcements, even if they are not fully in effect yet. Estimates about which goods are USMCA compliant come from Goldman Sachs Investment Research. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Forecasts are based on current data and assumptions about future economic conditions. Actual results may differ materially due to changes in economic, market, and other conditions. Data are as of April 2, 2025.

[1] Our estimates are based on tariffs on China being added on top of existing tariffs, which were 11% as of January 2025.

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