ARGUS ECONOMIC COMMENTARY

May 19, 2025

Argus Coverage Companies Respond to Tariffs

The tariff environment is dynamic, to say the least. The White House has levied tariffs or threatened to levy tariffs, and often paused, postponed, or withdrawn pledged tariffs. Most recently, China and the U.S. agreed to reduce baseline tariffs to 10% for 90 days (30% in the U.S. reflecting a 20% fentanyl penalty). More than the tariffs themselves, the lack of a finished tariff infrastructure complicates business planning, staffing decisions, and capital investment.

Within this dynamic environment, companies are focused on taking actions in areas they can control and planning proactively for a range of tariff scenarios. Companies are anticipating both direct and indirect tariff impacts. Direct impacts would include higher costs for imported finished goods and components, foregone sales as a result of reciprocal tariffs in other nations, and other factors. For example, a manufacturing company would face direct impacts as it pays higher prices for imported parts.

Indirect impacts would include a slowing in business related to a broad softening in the economy. All companies likely will feel indirect impacts. A utility, for example, could begin to see a slowing in industrial and commercial kilowatt-hour sales, particularly in niches such as warehousing, trucking and rail, and other freight-related functions.

We asked Argus analysts to survey their companies for their commentary on direct and indirect tariff impacts, as well as actions these companies are taking to mitigate the challenging trade environment. Nearly every company in Argus analyst coverage has issued commentary regarding tariffs, much as (five years ago) nearly every company in coverage had something to say about the then-developing COVID-19 pandemic. Below we offer a sampling of company responses to the unfolding tariff environment across a range of sectors and industries.

We intend to update our survey on a regular basis at least until the tariff environment, in whatever shape or form, becomes a stable part of the U.S. economy.

COMMUNICATION SERVICES (Joe Bonner, CFA)

VERIZON COMMUNICATIONS INC

AT&T INC.

T-MOBILE US INC.

Managements expect that long-term supply contracts should protect them on the network infrastructure component side. All intend to pass along any tariff-induced increases in handset prices to the consumer.

META PLATFORMS INC.

Management expects Chinese retailer advertising spend to decline in response to extinguishment of the de minimis exemption, though some spend may be redirected to other geographies.

CONSUMER DISCRETIONARY (John Staszak)

CHIPOTLE MEXICAN GRILL INC.

Chipotle is diversifying its supply chain so that it relies less on Mexico to purchase avocados, for instance. In addition, the company said it could offset the impact of tariffs through higher sales and cuts to discretionary spending.

STARBUCKS CORP.

To deal with the tariffs, Starbucks is simplifying its menus and buying more Arabica beans, which are less affected by the tariffs.

NIKE INC.

Nike is making it clear what it expects from its suppliers and their workforces and notifying them that they are responsible for severance benefits.

(continued on next page)

ESTEE LAUDER COS. INC.

To reduce the negative impact of tariffs, the company is reducing the number of items it imports from China to 10% of total SKUs, from a prior 25%.

MONSTER BEVERAGE CORP.

Monster Beverage's approach to tariffs involves hedging aluminum prices, adding U.S. suppliers to its supply chain, and adjusting its pricing strategies in order to avoid price hikes.

CONSUMER DISCRETIONARY (Christine Dooley)

MATTEL INC.

Mattel CEO Kreiz said the company is taking action to mitigate against tariffs. It is raising prices, looking to diversify its supply chain, and lower its reliance on China. It estimates $270 million in extra costs this year due to tariffs. It also pulled guidance.

CONSUMER DISCRETIONARY (Chris Graja)

TRACTOR SUPPLY CO.

On the 1Q25 earnings call, the company said that more than 60% of business is from products that are manufactured, bagged, assembled, or grown in the United States. Only 12% of its business is from direct imports. Within direct imports, the company has reduced the share of imports from China from "north of 90% to currently below 70%," over the last several years. Management is on track to be closer to 50% by year-end. CEO Hal Lawton summarized his belief that an increase in tariffs "is not an existential crisis for Tractor Supply."

STANLEY BLACK & DECKER INC.

Stanley enacted a high-single digit U.S. Tools & Outdoor price increase in April. The company plans to introduce a second price increase that will become effective at the beginning of the third quarter. The company is accelerating changes to its supply chain to increase operations in Mexico and reduce tariff costs from China over the next 12-24 months. Stanley said the 2025 EPS impact from tariffs, net of price and supply-chain adjustments, is currently estimated to be negative $0.75. The earnings pressure reflects a lag in the timing of initiatives to mitigate tariffs.

CONSUMER STAPLES (Taylor Conrad)

PROCTOR & GAMBLE CO.

The tariff environment is increasing PG's input costs and pressuring export volume, especially to Canada. Management noted that it is willing to be flexible when sourcing products and materials and continues its productivity improvements. It is also considering pricing actions to offset some of the tariff costs.

PEPSICO INC.

Tariffs are increasing supply chain costs for Pepsi, primarily in the sourcing of global inputs and ingredients. The company is working to mitigate the impacts of tariffs by adjusting the source of key inputs and focusing on revenue management tactics.

CHURCH & DWIGHT CO. INC.

The company has taken actions to reduce its exposure to tariffs, including supply-chain actions like no longer sourcing Waterpik flossers from China for the U.S. market. The company is also making changes to its portfolio including shutting down or selling the Flawless, Spinbrush, and Waterpik showerhead businesses.

FINANCIAL (Kevin Heal)

MOODY'S CORP.

Moody's offered the following commentary on their recent earnings call. "While the services that Moody's provides are not directly impacted by tariffs announced to date, we do believe many businesses are being impacted by the uncertainty of impending trade's tensions, and this uncertainty in turn leads to customers delaying financing and investment. We have seen this in the first few weeks of April. We are taking a more conservative approach to guidance, given the operating environment since we issued our initial guidance earlier this year."

AMERICAN INT'L. GROUP INC.

AIG offered the following commentary on their recent earnings call. "Altogether, tariffs create uncertainty, which may lead to lower levels of transactional activity in the near term, impacting certain commercial businesses. But it is premature to predict any specific outcomes related to these emerging macro trends."

FINANCIAL (Steve Biggar)

CHARLES SCHWAB CORP.

Record-high trading levels from the volatile tariff-impacted stock market have actually been a boost for companies like Schwab.

JPMORGAN CHASE & CO.

A pause in deal-making has hurt IPO/M&A activity for brokerages, but they are along for the ride and said deals are only postponed, not canceled.

VISA INC.

CAPITAL ONE FINANCIAL CORP.

There has been plenty of discussion by credit-card issuers about how tariffs may impact spending for lower-end consumers, but noted that other than proactively planning for other sources of revenue, there is not much that they can do.

HEALTHCARE (David Toung)

INTUITIVE SURGICAL INC.

Intuitive sees a 170-basis-point impact to gross margin due to tariffs in 2025. More than half of the impact relates to the U.S.-China trade. It exports from the U.S. to China sub-assemblies of robotic surgical systems. It also imports to the U.S. from Europe endoscopes that are used on the robotic system. It also imports products it manufactures in Mexico, but most of these are in the USMCA requirements and not subject to tariffs. Intuitive indicated that to the extent that tariffs and their impact are enduring, it would consider implementation of a range of operational actions. Nonetheless, it does not expect any such actions to have a significant beneficial impact in 2025. The company does not provide adjusted EPS guidance.

STRYKER CORP.

Stryker sees an impact of $200 million in 2025, based on what has been announced and what is known. It expects to offset tariffs costs through its strong sales growth, leveraging of its manufacturing footprint, disciplined spending, and a lesser-than-expected impact from foreign exchange. Stryker has global manufacturing sites, so it is making shifts in production and sourcing to reduce tariff impact. Since revenue growth is expected to be strong in 2025, the leverage from such growth is also a partial offset to tariffs. Stryker raised its sales guidance for 2025 for organic growth to 8.5%-9.0% from 8.0%-9.0%, thus lifting the midpoint by 25 basis points. Its updated guidance for adjusted EPS, at $13.20-$13.45, which includes the $200 million impact from tariffs. The prior view was $13.45-$13.70.

HEALTHCARE (Jasper Hellweg)

MERCK & CO. INC.

Merck's outlook for 2025 includes approximately $200 million of expected costs, negatively impacting its gross margin. These are from tariffs implemented though late April by the U.S. government on imports from other countries, plus the tariffs imposed by foreign governments on the U.S., primarily between the U.S. and China, and to a lesser degree, Canada and Mexico. In the near term, the company has managed its inventory, particularly for its blockbuster drug Keytruda, such that it has on-hand inventory in the U.S. to protect its operations through all of 2025. Farther ahead, the company is working to rebalance its supply-chain strategy as it aims to move towards being able to manufacture within the U.S. for the U.S. market, in Europe for Europe, and in Asia for Asia. To this end, the company expects to spend at least $9 billion at the low end to increase its own internal manufacturing efforts, while also working with contract manufacturers in certain key areas.

ELANCO ANIMAL HEALTH INC.

Elanco's 2025 adjusted EBITDA guidance includes an estimate for a tariff net impact of $16-$20 million, almost entirely related to the tariffs imposed by the U.S. and China, and a dynamic macroeconomic backdrop. If the pharma exemption is removed, and a 5%-25% tariff is imposed, the company estimates an incremental exposure of $10-$30 million in 2025. In response to the tariffs, the company has taken some price actions in certain markets, offsetting the impact of the tariffs with price increases in China while considering the right way to respond in the U.S. in a value-based manner so as to remain competitive.

ILLUMINA INC.

Illumina expects to record $85 million in tariff-related costs in 2025, which, after its planned mitigation actions, delivers an approximate 125-basis-point reduction in the company's fiscal year 2025 operating margin and a $0.25 reduction in EPS. In response to these tariffs, the company is pursuing cost measures, pricing increases for its products, and is making changes to its supply chains, although it noted that it does not plan to make substantial changes in its manufacturing footprint. Management expects to mitigate half of the impact from tariffs in 2025, with an incremental benefit from its actions in 2026.

INDUSTRIAL (Bill Selesky)

FORD MOTOR CO.

The company estimates a net $1.5 billion reduction in earnings (EBIT), primarily resulting from increased costs associated with importing vehicles and parts from countries like Mexico and China. Ford has suspended its full-year financial guidance for 2025, citing risks, including potential supply-chain disruptions, additional tariffs, changes in international trade policies, and uncertainties related to tax and emissions regulations. Specifically, Ford is reevaluating supply chains, increasing U.S. manufacturing, pausing financial guidance, implementing cost-cutting initiatives, and making product adjustments (prioritizing certain models). In addition, Ford increased prices $2000 on the Mustang Mach-E, Maverick pick-up, and Bronco Sport due to the tariffs announced on May 7.

CUMMINS INC.

No specifics were provided by Cummins, but it announced on May 5 that it was withdrawing 2025 financial guidance due to tariffs. The tariffs are impacting components providers and supplier manufacturers, leading to potential disruptions. Specific details were not provided by Cummins on its latest conference call due to "heightened uncertainty," but as a global manufacturer, the company will feel the impact in most of its segments including Engines, Aftermarket, Components, Distribution, and Power Systems. Earlier guidance had called for revenue of -2% to +3% and EBITDA margins between 16.2%-17.2%.

GOODYEAR TIRE & RUBBER CO.

Goodyear expects higher raw-material costs due to tariffs on natural rubber and increases in production costs. The company expects a $300 million negative impact from tariffs in 2025. Goodyear implemented price increases (4% beginning on 5/1) to cover costs. On the positive side, the company expects to incur less tariff costs than peers (about 75% less) because it is less reliant on imports versus peers like Bridgestone. Additionally, it has eight manufacturing plants in the U.S., and with tariffs raising the price of vehicles, demand for replacement tires should increase, as consumers may opt to keep their existing vehicles longer.

INDUSTRIAL (Kris Ruggeri)

GE AEROSPACE

Management expects additional costs of about $0.5 billion that it plans to partially offset by optimizing operations, controlling costs, and increasing pricing.

LOCKHEED MARTIN CORP.

As a defense company, Lockheed has no exposure to China and believes that any tariff impacts will be minimal.

BOEING CO.

Management does not see a meaningful impact for component imports as over 80% of its supply is manufactured domestically. For exports, over 70% of commercial deliveries are scheduled to be shipped outside of the U.S. this year. Dozens of those have been refused by China amid the high tariffs and management is in the process of remarketing them for other buyers.

RTX CORP.

Management's initial tariff assessment projects a meaningful negative impact to the company's bottom line in the second half of the year (assuming no progress on trade negotiations). We expect some improvement to its assessment following more work on mitigation efforts and some progress in the current environment.

CSX CORP.

We believe that the company's Midwest/East Coast network is well positioned to benefit from increased manufacturing in the United States and exports from East Coast ports.

J.B. HUNT TRANSPORT SERVICES INC.

The company has some exposure to Chinese imports. It is prepared to respond as needed to meet the shifting needs of its customers, though it says customer forecasts have not changed.

OTIS WORLDWIDE CORP.

The company's tariff exposure is on new equipment in the backlog, which represents about 10% of operating income. While there will be some near-term impacts to earnings, management believes that its previous guidance remains appropriate. For new contracts, Otis will pass on higher costs from tariffs to customers.

FASTENAL CO.

Management has diversified its supply chain since COVID-19 and has flexibility to raise pricing. With 15% of its revenue from Mexico, there could be price increases on certain products.

INFORMATION TECHNOLOGY (Jim Kelleher)

APPLE INC.

Apple anticipates that it will take $900 million in tariff-related charges in its current fiscal 3Q25 (calendar 2Q25). Anticipating a prolonged trade war with China, Apple will move production to India for all iPhones destined for the U.S. market; currently, some iPhones sold in the U.S. are made in India. During the calendar first quarter, Apple expedited iPhone shipments from India to the U.S. in an effort to get ahead of the "Liberation Day" tariff announcements in early April. The company is considering raising iPhone prices, but has said it is not attributing the hike to tariffs.

NVIDIA CORP.

Export restrictions are not tariffs per se, but they are part of the trade war. In mid-April, the U.S. government informed Nvidia that it will require a license to export its H20 chips to China. Nvidia will take a $5.5 billion charge for foregone business in the company's fiscal first quarter (ended April 27, 2025) of its January 2026 year. Nvidia has experienced multiple rounds of restrictions on shipments of its products to China, beginning under the Biden Administration in 2022. The H20 chip is mature technology and far from cutting edge. However, U.S. government officials and industry watchers believe H20 clusters were used to train R1 "reasoning" models from China-based AI company DeepSeek.

CORNING INC.

Corning anticipates a $0.01-$0.02 per-share impact to 2Q25 core EPS from tariffs. Corning's globally dispersed manufacturing footprint enables the company to build products close to final customers -- which acts as a natural hedge against tariff structures. The company believes its significant U.S. footprint of advanced and innovative manufacturing facilities is driving higher demand and "More Corning." In summary, the company believes the direct impact of tariffs will be minimal. Within the United States, 90% of Corning's U.S. revenue comes from products of U.S. origin. Of that 10% remainder, the majority are USMCA-compliant, meaning tariff exempt for now. Only 1% of Corning products sold in the U.S. originate from China. Within China, where Corning operates multiple flat glass float tanks and other facilities, 80% of products sold in China are made in China or in customs-approved tax- and duty-free zones. Of the remaining 20%, 15% are made in Korea and Taiwan. Just 5% of Corning sales in China are of products made in and imported from the U.S.

FLEX LTD.

Flex has a highly diversified global manufacturing footprint, including 49% of revenue contribution in the Americas -- up from 38% five years ago. The company operates more than 35 facilities in the Americas, with over 18 million square feet of production and other capacity. More than 90% of Mexico-derived revenue is USMCA-compliant (tariff exempt for now). In EMEA, the company operates more than 35 facilities with over 11 million square feet of production and other capacity. In Asia, the company's 40-plus facilities support 19 million square feet of production. The company's unmatched global footprint enables Flex to build products locally to sell locally. When Flex does ship out of region, any tariff burden mainly falls on the OEM (original equipment manufacturer). As an EMS provider, Flex has strong contractual protection for tariff pass-throughs.

INFORMATION TECHNOLOGY (Joe Bonner)

MICROSOFT CORP.

Windows OEM and Device sales pulled forward into March quarter in anticipation of tariff impacts, which management expects to lead to a lighter June quarter.

MATERIALS (John Eade)

ECOLAB INC.

In mid-April, Ecolab, a provider of water, hygiene, and energy technology services, announced that it was implementing a 5% trade surcharge on all it services in the United States, effective May 1, 2025, to offset rising raw-materials costs due to tariffs. CEO Christophe Beck noted that Ecolab has strategically positioned itself to ensure that 90% of sales are produced close to customers, allowing the company to effectively navigate these challenges with confidence.

MATERIALS (Lexi Yates)

ALCOA CORP.

Alcoa expects continued impact of tariffs on aluminum imports from Canada. Management has noted that they are engaging with administrations and policy makers as to the negative impacts tariffs have on trade flows as well as the importance of aluminum is the U.S. economy. Management is also actively working with suppliers and logistics companies to avoid disruptions in their supply chain due to tariffs.

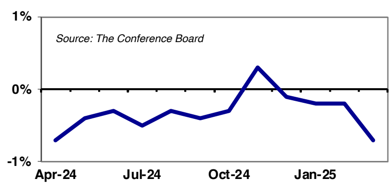
UTILITIES (Marie Ferguson)

PPL CORP.

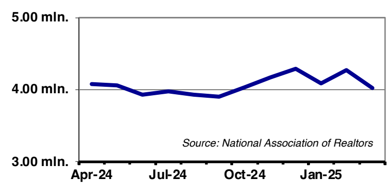
PPL President Vince Sorgi, speaking on Allentown television station WFMZ following the first-quarter earnings release, said recent tariffs introduced by President Trump are having little impact on PPL's operations. "Our team has done an excellent job managing supply-chain disruptions and constraints for several years now. About 70%-80% of our capital projects and nearly 90% of our O&M costs are labor. On top of that, most of our materials and sourced domestically, so the size of the potential impact from tariffs shrinks quickly. Bottom line, we remain well-positioned despite the current macroeconomic uncertainty."

ECONOMIC TRADING CALENDAR

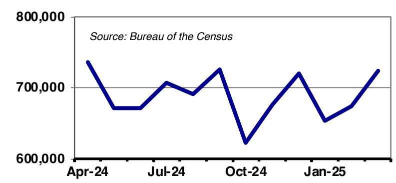
Release:	**Leading Index**
Date:	5/19/2025
Month:	April
Previous Report:	-0.7%
Argus Estimate:	0.1%
Street Estimate:	NA



Release:	**Existing Home Sales**
Date:	5/22/2025
Month:	April
Previous Report:	4.02 mln.
Argus Estimate:	4.10 mln.
Street Estimate:	4.10 mln.



Release:	**New Home Sales**
Date:	5/23/2025
Month:	April
Previous Report:	724000
Argus Estimate:	650000
Street Estimate:	685000



Previous Week's Releases and Next Week's Releases on next page.

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-May	Consumer Price Index	April	2.4%	2.3%	2.4%	**2.3%**
	CPI ex-Food & Energy	April	2.8%	2.8%	2.8%	**2.8%**
15-May	Retail Sales	April	4.9%	4.5%	NA	NA
	Retail Sales ex-autos	April	4.1%	3.9%	NA	NA
	Industrial Production	April	1.3%	1.4%	NA	NA
	Capacity Utilization	April	77.8%	77.8%	77.9%	NA
	PPI Final Demand	April	2.7%	2.4%	NA	NA
	PPI ex-Food & Energy	April	3.3%	3.1%	NA	NA
	Business Inventories	March	2.1%	2.5%	NA	NA
16-May	Housing Starts	April	1,324K	1,300K	1,368K	NA
	Import Price Index	April	0.9%	0.4%	NA	NA
	U. Michigan Sentiment	May	52.2	52.0	53.0	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
27-May	Durable Goods Orders	April	10.9%	NA	NA	NA
	Consumer Confidence	March	86.0	NA	NA	NA
29-May	GDP Annualized QoQ	1Q "2nd est."	-0.3%	NA	NA	NA
	GDP Price Index	1Q "2nd est."	3.7%	NA	NA	NA
30-May	PCE Deflator	April	2.3%	NA	NA	NA
	PCE Core Deflator	April	2.6%	NA	NA	NA
	Personal Income	April	4.3%	NA	NA	NA
	Personal Spending	April	5.6%	NA	NA	NA

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