Barita INSIGHTS

Preliminary Assessment Of President Trump's Tariffs

A Focus On the Important and the Knowable

Trump Tariffs

The Important and Knowable

On Wednesday, April 2nd, 2025, President Trump announced the details of his "Liberation Day" tariffs, which include reciprocal tariff rates on key trading partners and a baseline 10% tariff applied to all countries not featured on a preliminary exemption list. The implementation of these measures will be phased: baseline tariffs will take effect on April 5th, tariffs on automotive imports will begin earlier on April 3rd, and country-specific tariffs are scheduled to commence on April 9th. In response, on April 4th, China announced that it would impose retaliatory tariffs of 34% on U.S. imports, effective April 10th. The countries facing the highest tariff rates under President Trump's new reciprocal trade policy include:

- Cambodia (49%)
- Vietnam (46%)
- Myanmar (45%)
- Sri Lanka (44%)
- China (54% on footwear and other goods).

Other notable cases include Bangladesh (37%) and India (26%). As a result of these measures, the United States' average effective tariff rate is expected to rise from 2.5% in 2024 to approximately 22%, the highest level in over a century. Under these conditions of heightened uncertainty, we have found it prudent to focus on the information that we consider to be both important and knowable, which the table illustrates below:

	Knowable	Unknowable
IMPORTANT	**Tariff Implementation Details** • Minimum baseline tariff of 10% on all imports entering the US effective April 5, 2025 • Reciprocal tariffs imposed were calculated by taking the US goods deficit with a trade partner and dividing it by the goods imports from that country • Key economic regions such as the EU will have a sharp effect tariff rate: EU will have a combined 20%; China will have a combined 54%; Japan will be 24%; Vietnam will be 46%; 25% on all foreign-made automobiles, effective April 3, 2025 • China announced its own retaliatory tariffs of 34% on imports from the US **Immediate Financial Market Reactions:** • DJIA down 1,600 points following the announcement; Nasdaq composite declined by 6%; S&P fell by 4.8% • Sharp increase in volatility indices (VIX) **Sectoral Impacts** • From a more macro perspective, with tariffs impacting all countries, all exporters to the US will be impacted. This means that in the short term, the tariffs would simply become a tax on the US consumers i.e., they could be fully passed on, unless a particular set of goods has large manufacturing capacity in the US. Companies with any manufacturing in the US will be the obvious beneficiaries as they can collect the higher prices on goods but don't have to pay any tariffs. (Source: Jefferies)	**Magnitude and Duration of Global Retaliatory Measures** • Specific retaliatory tariffs and economic responses from China, the EU, Japan, Vietnam, Canada, and Mexico remain uncertain • Unclear scope of potential escalations into broader global trade conflicts or trade wars **Longterm Economic Consequences** • Depth and length of potential recessionary pressures caused by trade disruptions • Potential structural shifts in global supply chains and permanent relocation of production capacities **Central Bank and Fiscal Policy Responses** • Timing, magnitude, and effectiveness of Federal Reserve's interest rate adjustments • Fiscal policy changes (tax cuts, stimulus measures) that may be enacted in response to economic downturn

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IMPORTANT	• The analysis for MSCI ACWI shows that about 37% of global sales are manufactured goods, of which 14ppt is exposed to US. However, if we further remove companies that have sufficient long-life assets in US (i.e. limited production gap), then the exposure is only about 5.4% of global sales. The exposure is highest for Asia and LatAm (incl. Mexico) while being least for Japan. (Source: Jefferies) • Only about 1% of global EPS would be directly impacted by US tariffs: if we ignore the impact from potential counter-tariffs and general economic slowdown, at a 10% effective tariff rate, and assuming companies absorb about 30% of that impact, the overall impact on earnings would only be about 1%. Global autos, tech hardware and cap goods' EPS are most at risk. (Source: Jefferies) • USA – Autos and tech hardware most exposed: US firms are also affected by the tariffs as some have set up production in foreign countries and import goods to the US, with Apple being one example. Our analysis shows that 4.9% of MSCI USA ex-finance sales is potentially exposed to tariffs, and a 10% tariff rate along with a 30% absorption rate could see EPS decline by 0.8%. We find that autos (-15%), tech hardware (-3.3%) and materials (-2.4%) have the highest potential impact on earnings. (Source: Jefferies) **Policy Context** Clear policy stance towards protectionism, reversing decades of trade liberalization	**Geopolitical Developments** • Impact of tariffs on broader international alliances and geopolitical stability • Potential diplomatic fallout and implications for multilateral trade agreements **Market Confidence and Investor Behaviour** • Extent of sustained investor flight to safety or shifts in asset allocation • Potential disruptions or freezes in global credit markets

	Knowable	Unknowable
UNIMPORTANT	**Daily market Fluctuations** • Short-term movements in equity prices driven by daily headlines • Temporary currency fluctuations not indicative of long-term trends **Individual corporate statements** • Immediate reactions and statements from individual corporations with minimal broader market impact	**Market Rumours and Speculation** • Unsubstantiated predictions of future tariffs or policy reveals • Speculative geopolitical scenarios lacking credible basis **Rumours and Speculation** • Non-critical political rhetoric or announcements unlikely to result in substantial economic policy changes

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The first, and most obvious important and knowable fact is that President Trump's administration has committed to a clear protectionist policy stance that could potentially reverse decades of trade liberalization. Trump's preference for trade tariffs were already revealed during his first presidency and reiterated during his campaign for his second presidency; however, though that preference was known, the magnitude and aggressiveness of his policy prescriptions caught international market participants off-guard.

Sectoral Impacts: Where Could the Impact Be Felt Most?

Among the countries directly in the line of fire, Figure 1 presents a ranking of economies most likely to be affected based on the size of their trade surplus with the United States. Vietnam, which tops this ranking, pre-emptively reduced its own tariffs on U.S. imports ahead of the official announcement of the U.S. tariff measures, an indication of its strategic attempt to mitigate potential fallout. The broader takeaway is that the tariffs are expected to disproportionately impact several Asian economies, led by China.

From a **sectoral** perspective, the steepest tariff rates apply to countries that are deeply integrated into global supply chains for apparel, electronics, toys, and agricultural products. This suggests that consumers may face noticeable price increases on a wide range of discretionary goods, including clothing, confectionery, and smartphones.

Also notable was the exemption of the United States' two closest trading partners, Canada and Mexico, from the list of countries subject to the new 10% global baseline tariff. Both nations are key participants in the United States-Mexico-Canada Agreement (USMCA), and as such, goods that comply with USMCA rules of origin remain largely exempt. This framework enabled both countries to avoid the most severe impacts of the new tariff round. While President Trump had previously imposed 25% tariffs on Canada and Mexico in relation to migration and fentanyl trafficking concerns, exemptions were later extended for goods that meet USMCA compliance.

According to a White House fact sheet, USMCA-compliant goods will continue to benefit from preferential treatment even if previous executive orders are rescinded. Non-compliant goods, however, could be subject to a reciprocal tariff of up to 12%.

Figure 1 Global Market Ranking Table - Tariff Impact

Global markets	Impact from tariffs: US goods export / ctry nominal GDP (2023)	Impact from tariffs: Total goods exports / GDP (2023)	Impact from tariffs: Goods deficit (2Q24, US$bn)	Impact from tariffs: % of index sales exposed to US tariffs	Dollar impact: Avg OPF during strong USD (US$, %)	What happened in 2018?: OPF in 2018 (US$, %)	Avg z-score	Final rank
Australia	0.9	21.4	4.9	0.8	(0.2)	(2.9)	0.64	1
India	2.3	12.2	(11.5)	2.6	(0.1)	1.6	0.63	2
Italy	3.2	28.0	(12.5)	0.4	0.7	(8.0)	0.53	3
UK	1.9	14.5	2.1	5.2	(0.3)	(5.2)	0.47	4
Indonesia	2.0	18.9	(4.2)	0.0	(1.1)	0.2	0.45	5
Netherlands	3.4	63.4	13.2	2.2	(0.2)	(3.8)	0.41	6
France	1.9	22.3	(4.6)	7.2	(0.3)	(3.0)	0.38	7
Japan	3.5	16.9	(17.0)	4.0	(0.5)	(3.6)	0.28	8
Philippines	3.0	12.7	(1.0)	0.0	(1.4)	(7.2)	0.19	9
Malaysia	11.6	57.9	(6.2)	0.0	(0.8)	2.9	0.16	10
Thailand	10.9	54.4	(10.2)	0.4	(0.9)	3.7	0.13	11
Singapore	8.1	108.9	1.3	0.0	(0.2)	(0.4)	0.11	12
Germany	3.5	37.4	(22.5)	2.2	0.1	(12.7)	0.05	13
Brazil	1.8	15.8	1.7	28.1	(1.5)	8.8	0.05	14
Switzerland	5.9	54.7	(6.3)	12.2	(0.6)	0.7	0.03	15
Belgium	3.6	61.5	1.4	5.2	(0.4)	(17.2)	(0.16)	16
EU	*3.3*	*38.5*	*(59.8)*	*4.2*	*(0.2)*	*(5.5)*	*(0.18)*	*17*
Canada	19.9	26.6	(16.2)	3.7	(0.4)	(7.6)	(0.21)	18
HK	1.2	150.9	5.2	5.4	(1.4)	1.1	(0.29)	19
Taiwan	11.6	57.1	(16.9)	23.8	(0.0)	0.8	(0.29)	20
China	2.4	17.9	(68.2)	1.2	(0.8)	(9.8)	(0.33)	21
Korea	6.4	35.1	(17.8)	13.3	(1.2)	(11.5)	(0.47)	22
Mexico	27.1	33.2	(43.4)	1.1	(0.9)	(6.4)	(0.67)	23
Ireland	15.0	60.6	(20.3)	20.4	0.4	(16.1)	(0.69)	24
Vietnam	26.4	81.8	(31.2)	na	(2.3)	(3.8)	(1.43)	25

Source: Jefferies, Factset

Reactions from Trade Partners and Other Strategic Interests

On April 4th, China announced that it would impose a 34% retaliatory tariff on U.S. imports, effective April 10th. Several U.S. allies, however, have since indicated a preference for diplomatic engagement in response to the new trade measures, with many echoing Mexico's cautious tone. The European Union, through Commission President Ursula von der Leyen, expressed openness to negotiation while affirming its readiness to respond if required. Similar positions have been articulated by Italy, Finland, Sweden, and the United Kingdom, all emphasizing dialogue and cooperation over escalation.

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In Asia-Pacific, South Korea and New Zealand also stressed the importance of continued engagement. South Korea has additionally activated emergency domestic support measures while initiating talks with U.S. officials. The International Monetary Fund's Managing Director, Kristalina Georgieva, has encouraged both the U.S. and its trading partners to work constructively toward a resolution in order to reduce global uncertainty and mitigate economic risk.

However, some countries, have adopted firmer positions. Spain criticized the policy as a broad-based tariff escalation and proposed the creation of an EU-wide fund to support affected sectors. Germany described the decision as fundamentally flawed and pledged to work toward a unified European response. France and Ireland also raised concerns about potentially serious economic consequences. Meanwhile, Brazil's Congress pre-emptively passed legislation establishing a legal framework to implement countermeasures against any unilateral trade restrictions that may be imposed on Brazilian goods and services.

Other governments remain non-committal for now, largely due to concerns about domestic economic implications. Japan described the tariffs as "extremely regrettable" and potentially in violation of existing trade agreements, though it has yet to announce any specific countermeasures. Colombia has taken a conditional stance, stating that it will only consider retaliatory tariffs if U.S. imports lead to job losses in key domestic industries. In Sri Lanka, the apparel industry has warned of significant disruptions and announced the formation of a government committee to assess the impact of the new measures. India, for its part, is still evaluating the broader implications but has signaled a willingness to pursue a mutually beneficial trade agreement with the United States.

Sectoral Impacts: Equities Markets and Potential Impact on Earnings

Jefferies, utilizing a quantitative model, estimates that the potential drag on global corporate earnings from the new tariffs could be limited to approximately 1%, assuming no broad countermeasures or economic slowdown materializes. However, the impact is expected to vary significantly across regions and industries. Notably, approximately 37% of global sales comes from manufacturing companies, of which, 14 percentage points (or 38% of manufactured goods sales) have exposure to the US.

Among global equity markets, the U.S. may experience the smallest earnings impact at -0.8%, while Latin America and the Asia-Pacific & Japan (AP&J) regions may face larger declines of -2.1% and -1.7%, respectively. At the industry level, global automotive manufacturing, technology hardware, and capital goods are expected to be most at risk. This view, however, should be seen as a 'point-in-time' view, as the full scope of future policy actions by the Trump administration, particularly regarding large economic blocs such as the European Union, remains uncertain. This elevated policy ambiguity continues to fuel volatility and the broad-based sell-off in risk assets.

Following President Trump's Rose Garden announcement on Wednesday April 2nd, 2025, S&P 500 futures closed the week 9% lower. For the trading week ended Friday, April 4, 2025, the U.S. dollar depreciated nearly 1% against a basket of major currencies, with the greenback experiencing some recovery on Friday after a strong sell-off on Thursday due to due to initial market jitters. Year-to-date, the dollar has weakened by 5.2% up to the close of the week, largely on concerns that the tariff measures may weigh on U.S. economic growth.

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Markets also briefly priced in 125 basis points of easing by year end, equivalent to five quarter-point moves, overnight interest-rate swaps showed. While traders later pared that move back, the uptick has been sharp; as of last week, just three reductions were fully priced.

Equity market declines have been particularly pronounced in sectors with high exposure to Southeast Asian supply chains. Consumer discretionary names have been disproportionately affected, with companies such as Lululemon experiencing double-digit losses. Shares of Lululemon fell more than 10% for the trading week ending April 4th, 2025, after disclosures revealed that 40% of its products are sourced from Vietnam, and over 90% when including Cambodia, Sri Lanka, Indonesia, and Bangladesh.

American automakers also faced broad selling pressure at the market open. Shares of Ford, General Motors, Stellantis (the parent company of Chrysler, Dodge, Jeep, and Ram), and Tesla all declined in early trading. While the administration's stated objective is to support U.S.-based auto manufacturing, the policy has raised concerns about unintended cost pressures on domestic automakers who rely heavily on global supply chains. In anticipation of the tariff increases, many automakers accelerated vehicle shipments and dealership promotions to clear inventory before the April 3rd effective date.

Although automakers have signalled their willingness to absorb tariffs on finished vehicles and large components such as engines and transmissions, and in some cases expand U.S. operations, they have also cautioned that levies on smaller, low-margin parts could raise costs by billions of dollars. Many of these components, such as video screens or electrical wiring sheaths, are labour-intensive to produce and are almost exclusively manufactured in lower-wage countries. As a result, automakers have begun lobbying for exemptions on such items, particularly those sourced from Mexico and other cost-efficient jurisdictions. Without such carve-outs, the availability of tariff-free vehicles in the U.S. could become increasingly limited.

Globally, European and Chinese stocks fell on news of newly proposed tariffs but are still outperforming relative the S&P 500 on a year-to-date basis.

In Asia, Vietnamese stocks fell almost 7% on news of the newly proposed tariffs, while Japan's Nikkei slid more than 3% following the announcement, returning to its August 2024 low.

In fixed income markets, investor risk aversion drove flows into safe-haven assets. U.S. 10-year Treasury yields declined by more than 10 basis points to end last week at 4%, the lowest level since October 2024. This represents a notable reversal from the 4.8% level reached in January, when concerns about rising deficits and debt levels dominated the market narrative. The spread between the U.S. 10-year and 2-year note widened modestly to 36 basis points on Friday April 4th, from 29 basis points at the close on April 2nd. This slight steepening largely reflects a flight to quality and evolving market expectations regarding U.S. growth prospects in light of the new trade measures.

Given what we know to be important and knowable, what is our outlook for the respective asset classes?

Equity Outlook - For the remainder of 2025, what is both important and reasonably knowable is that **the U.S. economy is in a late-cycle, high-risk phase**, conditions that are being further challenged by the imposition of new trade tariffs. Against this backdrop, **the equity outlook remains tilted to the downside**. A combination of decelerating growth, policy uncertainty and persistent inflation presents an unattractive environment for equities.

A key variable remains Federal Reserve policy. Should the Fed adopt a more dovish stance, such as a significant reduction in interest rates, equities may find support through improved valuation multiples. In a scenario of weakening growth and elevated inflation, U.S. equity markets are **likely to remain range-bound or trend lower through the first half of 2025**, with potential for recovery in the latter half if greater policy clarity or resolution on trade issues emerges.

Historical precedent offers some guidance. During the 2018 U.S.-China trade war, the S&P 500 experienced a material sell-off, only to rebound strongly in 2019 following a trade truce. A similar pattern could unfold, particularly if markets begin to anticipate a recovery in 2026 or a rollback of some of the newly imposed tariffs.

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In the near term, some projections suggest **a potential -5% return for the S&P 500 over the next three months, with a possible rebound of 6% over a 12-month horizon, driven by expectations of weaker growth and tariff-induced inflationary pressures. Goldman Sachs currently estimates a 35% probability of a U.S. recession within the next 12 months. Based on historical recessionary drawdowns, the S&P 500 could experience a peak-to-trough decline of up to 25%. From the current level, this implies a potential further 17% correction to an index level of approximately 4,600—suggesting a bottoming at a P/E multiple near 17x. For reference, recent major downturns saw the S&P 500's forward P/E multiple bottom at 15x (2022), 13x (2020), and 14x (2018).**

Credit Outlook – The deteriorating macroeconomic backdrop, coupled with retaliatory tariff measures, is likely to sustain elevated levels of uncertainty in credit markets. This uncertainty will have implications for several macroeconomic variables, including consumer and business confidence, corporate hiring, capital expenditure, and ultimately aggregate demand.

Market	Updated as of Apr. 02, 2025			
	Current	2025Q2	2025Q3	2025Q4
USD spreads				
USD IG	93	110	125	115
USD Fin	94	110	124	113
USD Non-Fin	91	110	126	117
USD HY	334	380	440	400
EUR spreads				
EUR IG	107	105	110	105
EUR Fin	118	113	115	108
EUR Non-Fin	101	100	106	103
EUR HY	329	345	380	355

Source: Bloomberg, iBoxx, ICE-BAML, Goldman Sachs Global Investment Research

Figure 2: Expectations for Credit Spreads

As a result, investors are expected to demand higher risk premia across corporate credit instruments. Moreover, the risk of stagflation—rising prices amid stagnating growth—complicates the credit outlook further. In such a scenario, the Federal Reserve's policy flexibility becomes constrained, which could hinder its ability to act decisively.

Credit spreads are expected to widen over the coming quarters, as reflected in Figure 2; however, current projections do not suggest widening of the magnitude typically associated with deep recessions.

Rates Outlook – President Trump's tariff policy introduces additional complexity to the interest rate environment by increasing the likelihood of stagflation. This reduces the Fed's latitude to engage in pre-emptive monetary easing. For the Fed to justify a rate cut similar to the response observed during the 2018 trade conflict, there will likely need to be clear signs of labour market softening and growing recession risks.

Goldman Sachs anticipates that such conditions could materialize by mid-year, potentially prompting three consecutive 25 basis point cuts beginning in July, taking the federal funds rate toward a 3.50%–3.75% terminal range. "However, the labour market would need to exhibit sufficient signs of softening; otherwise, persistent inflation risks may limit the extent to which the front end of the yield curve can rally."

In the event of a marked growth slowdown, we may see further downward pressure on long-term yields as investors increase allocations to safe-haven assets. Over the near term, front-end yields could decline more than long-term rates if growth slows considerably, potentially compelling the Fed to deviate from its data-dependent stance to avoid exacerbating an economic contraction.

Uncertainty remains a defining characteristic of the current environment. This is underscored by the recent spike in the VIX, the market's fear gauge, which surged 23.0 points to close at 45.3 at the end of the week. At present, insufficient information exists to establish a confident directional view on the path forward. The situation is further complicated by the threat of stagflation, driven by a simultaneous decline in consumption and rising input costs due to tariffs on key U.S. imports. However, clarity may improve as new data emerges in the coming days and weeks.

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What does this mean for small open economies like Jamaica?

Like many countries, Jamaica has been affected by retaliatory U.S. trade measures, with a 10% tariff now applied to its exports. While Jamaica accounts for a negligible portion of U.S. imports at just 0.024% in 2023, according to the Observatory of Economic Complexity, the impact on the local economy could be disproportionate, particularly in terms of its trade balance.

The United States remains Jamaica's largest trading partner, supplying 38.8% of total imports (US$3.1 billion in 2023). Mineral products, refined petroleum, petroleum gas, and asphalt mixtures, represent the bulk of these imports. On the export side, the U.S. absorbed 37.5% (US$709 million) of Jamaica's goods, largely comprising petroleum products and aluminum ore.

Given President Trump's emphasis on domestic energy production, Jamaica may benefit from increased U.S. oil and gas output, potentially lowering import costs and stimulating domestic activity. However, this positive effect could be offset by downward pressure on the Jamaican dollar if export volumes weaken.

Attention must also be given to imported inflation. Higher U.S. prices, if transmitted through Jamaican import channels, could result in headline inflation breaching the Bank of Jamaica's target band of 4% to 6%. Furthermore, should global economic activity slow, Jamaica may experience a decline in tourist arrivals during the upcoming summer and winter seasons. This scenario would apply further downward pressure on the Jamaican dollar. In such a case, the Bank of Jamaica may be inclined to adopt a more accommodative policy stance to support economic activity, provided inflationary pressures remain contained.

Therefore, what should you do with your investments?

Periods of market dislocation can be emotionally challenging, particularly when unrealized losses accumulate rapidly. However, historical experience, most notably the 2017–2018 U.S.-China trade dispute, demonstrates that remaining invested can be the most prudent strategy.

Following that period of tension, global risk assets rebounded sharply in 2019 after a partial resolution was achieved. In light of the current environment, our core recommendations are as follows:

- **Remain Invested:** Maintain exposure to companies with strong balance sheets, limited leverage, defensible market positions, and experienced leadership. These attributes offer resilience in volatile conditions.

- **Selective Asset Acquisition:** The U.S. economy remains predominantly services-based, and the tariffs currently target a relatively narrow portion of economic activity. Many high-quality companies with limited direct exposure to tariffs have nonetheless seen indiscriminate selling. These represent compelling opportunities to build or expand positions at attractive valuations. This view can be expressed through continued or increased allocations to our FX Growth Fund.

- **Raise Cash and Cash Equivalents:** As demonstrated by Berkshire Hathaway's accumulation of over US$300 billion in liquidity ahead of this episode, maintaining a cash buffer enables investors to take advantage of dislocations. While markets may not yet have bottomed, it remains prudent to increase cash and equivalents in order to take positions in attractive assets that have been oversold; this strategy of could be practically executed through gradual purchases.

- **Remain Rational:** Behavioural finance research consistently shows that investor losses during periods of market stress are often exacerbated by poor timing decisions, particularly exiting near the market bottom. **Adhering to a structured framework that prioritizes what is important and knowable can help mitigate the risks of emotionally driven decisions.**

Overarching Takeaway:

There are many factors that are important but unknowable at this point, and those will likely continue to cause bouts of market volatility. However, historical experience shows that by remaining rational, invested and fairly liquid, investors can emerge from these market downturns with significant gains.