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Tariffs Incoming

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The Trump Administration plans to increase tariffs on imported goods are going into effect. Tariffs of 25% on Canada and Mexico and 20% on China went into effect on March 4. The increased tariffs for Mexico were then delayed until April 2. On April 2, a 20% universal tariff and additional levies on specific sectors such as automobiles become effective.

Naturally, countries that trade with us have imposed tariffs of their own on goods imported to their countries from the US. Canada has imposed tariffs on US goods, effective in early March 2025. The EU plans to impose tariffs on US goods starting April 13. China has already raised tariffs on US imports of coal (15%) and crude oil (10%), effective on February 10.

The United States has had a large trade deficit for several decades and adjustments were inevitable as other countries want to reduce their accumulation of US dollar assets. Tariffs will raise government revenue, and several corporations have announced new manufacturing facilities in the US. However, the new US tariffs and retaliatory tariffs of other countries will reduce global trade, and the adjustment process may be painful. Furthermore, the Federal Reserve is less likely to reduce short-term interest rates further as inflation picks up to reflect higher prices that include the cost of tariffs. It is unlikely that foreign exporters will be willing to pick up any part of the tab for the new tariffs.

Before the proposed tariffs go into effect, the United States had a low average tariff rate of 1.5%, while the global average among all nations is about 2.6%. Many industrialized nations have free trade agreements in place to reduce or eliminate tariffs among certain countries. The US-Mexico-Canada Agreement (USMCA) and the European Free Trade Association (EFTA) are examples.

According to the World Population Review, countries with the highest tariff rates are typically small countries with limited exports. The six countries that have the highest tariff rates (weighted mean tax percentages for all products) in the world are: Bermuda (23.8%), Cayman Islands (20.4%), Belize (17.8%), Gambia (17.7%), Djibouti (17.6%), and Bahamas (17.1%).

Below is a list of larger countries with their average tariff rates based upon a weighted mean for all products. You may have seen these countries listed as a source of origin for products that you buy.

Country	Average Tariff Rate Weighted Mean Average, All Products
EU Nations	1.39%
Australia	0.81%
Brazil	7.76%
Canada	2.35%
Switzerland	1.40%
China	2.31%
Indonesia	1.83%
India	5.87%
Japan	1.84%
South Korea	4.85%
Mexico	1.21%
Norway	3.00%
Pakistan	9.03%
Saudi Arabia	4.23%
Türkiye	3.22%
United Kingdom	0.72%
Vietnam	1.17%

Source: Wikipedia

JP Morgan Research has revised their economic outlook in anticipation of a higher level of US tariffs and retaliatory tariffs by other countries. On March 7, they wrote that they "see a materially higher risk of global recession due to U.S. trade policy" with a 40% probability of a global recession. On March 14, they revised their 2025 US real GDP growth estimate downward by 0.3% to 1.6%.

Goldman Sachs also has a dim view in the short term and now expects a negative return of -5% for the S&P 500 Index during the next 3 months. Their 2025 and 2026 earnings forecasts are below consensus estimates.

A diversified investment strategy continues to be appropriate. However, we are underweight US stocks, with a tilt to stocks that have relatively low valuations and less exposure to a new tariff regime. We continue to hold fixed income securities that have high credit quality and low duration. I believe that precious metals are still in the early innings of a bull market.

If you have any questions or comments, please contact me.

Sincerely,
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