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Tariff Man Strikes Again: The Ripple Effects of the "Liberation Day" Announcement

The announcement on April 2nd of reciprocal tariffs sent shockwaves across markets, leaving corporations, consumers, and investors scrambling to make sense of the far-reaching impacts. Dubbed the "Tariff Man," President Trump's latest move is being viewed as a significant and reckless revenue grab by the Federal government (one that is expected to generate more in tax revenue than all corporate taxes combined!) with much of the burden falling on U.S. consumers. A corporate executive we spoke with today summarized the sentiment today best: "[If you] talk to someone who has all the answers—send him [them] my way."

Businesses are now grappling with the consequences of tariffs that are well outside even their worst planning scenarios, and the broader implications for the economy are potentially troubling should nothing change and trade tensions escalate. That said, the delayed implementation of reciprocal tariffs to April 9th leaves the door open for negotiation and moderation. Even Eric Trump, the President's son, tweeted on April 3rd, "I wouldn't want to be the last country that tries to negotiate a trade deal with @realDonaldTrump. The first to negotiate will win – the last will absolutely lose. I have seen this movie my entire life…" This type of rhetoric does lend credence to tariffs as a bargaining chip with the potential to be toned down (perhaps even by the time this note is published!).

A New Era of Tariffs

- **The Tariff Landscape:** Our initial estimates of the reciprocal trade order suggest that the overall U.S. tariff rate could rise into the 20-30% range, marking the highest levels since the 1930s. The tariffs are in addition to existing customs duties already imposed by the U.S. This dramatic escalation follows years of encouraging companies to relocate their supply chains out of China, only to now impose tariffs on the likes of Vietnam and Indonesia, which were previously considered viable alternative options. This sudden policy shift is a stark reminder of how quickly the rules of the game can change. Corporate investments are typically made with long-term horizons, yet the same administration that once encouraged and cheered supply chain diversification away from China is now penalizing those efforts with tariffs that disrupt global trade flows.
- **Questionable Math:** The "tariff" math behind these moves is under scrutiny. While tariffs are traditionally calculated as a percentage of the value of imported goods, this administration's broader calculations apparently include factors like trade deficits, which don't align with true tariff rates. For example, dividing the trade deficit by exports does not yield a legitimate tariff rate, further muddying the waters for governments and businesses trying to plan around these policies.

Potential Economic Fallout

- **Decision-making Freezes:** As businesses process the reality of yesterday's announcement, decision-making is grinding to a halt. Corporate leaders are hesitant to deploy capital, and the odds of a U.S. recession are increasing meaningfully. Tariffs of this magnitude create significant uncertainty, forcing companies to pause major projects and reevaluate their strategies until they have a better sense of the return profile. One executive put it plainly: *"Until we get a better sense of trade and tariff structure, we can't put capital to work."*

- **Earnings Revisions and Equity Risk Premium:** Trump's tariffs are likely to become the exogenous shock that drives downward earnings revisions across industries. Retailers, manufacturers, and consumer goods companies are particularly vulnerable to these changes, as price increases ripple through supply chains and ultimately impact consumers. While trade deals may eventually be struck and deadlines pushed out, the equity risk premium has risen and will likely remain elevated, reflecting the heightened uncertainty in global markets.

Corporate Voices from the Ground

The immediacy and scale of yesterday's announcement left many companies scrambling to respond. After all, the scale of the new tariffs is unprecedented, catching companies off-guard and forcing them to reassess their business models. Despite the chaos, companies are expected to lean on their experiences, business model flexibility, strong balance sheets, and partnerships to weather the storm.

After attending an industry conference, here are what some consumer executives on the ground are saying:

- **Reactions to the Breaking News:**
  - *"We are all processing live, real-time together this morning."*
  - *"Emergency calls are happening today."*
  - *"Things change quickly. Come back and see us in 6 hours."*
  - *"It's a fluid situation. We were proactively meeting with our vendor base over the past month and now have to go back and speak to more of them."*
- **Magnitude of Change:**
  - *"Today is much more broad-based than 2017/2018 where the entire focus was on goods coming from China."*
  - *"No one was anticipating 45 points in some countries and 50 in others. We are in a range where we haven't modeled these numbers before."*
  - *"Expect prices to start going up in the second quarter."*
  - *"There will be significant dislocation in retail."*
  - *"Tariff announcement was larger and broader than expected."*
- **Managing Business Disruption:**
  - *"Try to balance short-term disruption with staying relevant for the big market share opportunities in the long-term."*
  - *"We understand our cost position. We share that with vendors and have fact-based conversations. At the same time, our vendors are our partners and we want them to succeed."*
  - *"Sitting here today, we are fortunate to have a strong balance sheet."*
  - *"We will be very cautious as we think about inventory management later this year and will chase any upside demand."*
  - *"What will the consumer trade-off when they have to pay 20-40% more for footwear?"*

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An Obviously Fluid Situation

As markets adjust to the new tariff environment, uncertainty remains the only constant. Businesses are bracing for significant dislocation, particularly in retail and consumer goods, while consumers should expect rising prices in the months ahead. Meanwhile, the derivative impacts are increasingly hard to model (e.g., anti-U.S. sentiment, changing alliances, etc.). Emergency calls, fluid negotiations, and cautious inventory strategies are now the norm as companies scramble to adapt to this rapidly shifting reality.

While some companies may manage this disruption better than others, the broader implications of these tariffs—rising costs, delayed investments, and increased recession risks—pose significant challenges for the U.S. economy. For now, the "Tariff Man" has delivered his tariffs, and the burden falls squarely on the shoulders of businesses and consumers alike.

In closing, we believe that we are operating in a real and financial market world where the speed of change is astonishing. Sentiment (and even policy!) shifts rapidly from extreme emotions of fear to greed, sometimes even within the same day; as such, we would expect elevated volatility and higher dispersions among stocks. Rest assured, we believe this is precisely the backdrop where a disciplined process, sound asset allocations, and diversified equity portfolios will prove even more powerful. While we cannot possibly attempt to guess what tomorrow will bring, we stand ready as always to assist you in thinking through your specific risk tolerances and asset allocations.

Best,

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As of 4/3/2025. Source: Strategas and industry conference.