

The markets are reacting strongly to the latest developments in the U.S. trade policy, as yesterday's announcement from the Trump administration exceeded what many considered the worst-case tariff scenario.

Last year, U.S. tariff revenue was approximately \$70 billion, but current proposals suggest an ambition beyond ten times that amount. These are protectionist measures that could significantly reshape both the U.S. economy and global trade. The market had anticipated a focus on fair trade, potentially generating \$300–\$400 billion in revenue, but this shift came as a surprise. Many economists and corporate leaders view this as an overreach that could increase the risk of a recession.

The challenge in assessing the situation lies in the unpredictability of Trump's negotiating style. His approach often involves making bold, aggressive moves before engaging in negotiations and declaring victory, even if the actual outcome is minimal.

### **Potential Economic Impact**

- The U.S. economy is already slowing, and adding costs to consumers will accelerate the decline.
- Many essential goods, including clothing (Vietnam) and electronics like iPhones (China), are produced overseas. The U.S. lacks the capacity or labour force to onshore these industries in the near term.
- The U.S. 10-year Treasury yield is dropping, reducing debt payments—a key focus for the administration. However, a recession does not solve economic challenges.

## **Trade War vs. Fair Trade**

Optimistic expectations going into year-end were based on deregulation and pro-growth policies. With mid-term elections ahead, a full-scale trade war seems unlikely, as it would likely shift political power. A fair-trade strategy—raising tariff revenue from \$70 billion to \$300 billion—could be more sustainable, as long as it is negotiated effectively. The exclusion of Canada and Mexico from certain tariffs suggests this may be the intended outcome.

The key question remains: Is the goal to isolate the U.S. economy and force domestic manufacturing, or to create a level playing field? Treasury officials have indicated that the announced tariffs may serve as a cap, leaving room for negotiation.

## **Investment Outlook**

Despite current volatility, the long-term backdrop remains pro-growth, with lower taxes, a business-friendly agenda, and technological advancements driving productivity. If the current stance is a negotiation tactic, better days may be ahead. If not, and economic isolation is the goal, a recession may follow, leading to a political shift in the mid-terms and a market reset.

For now, we remain invested in solid dividend-paying companies with elevated cash positions to navigate this period effectively.

This too shall pass.

As always, please feel free to reach out if you have any questions or concerns.

## The Andras Group

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