MARKET OBSERVATIONS
APRIL 2025

SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Tariffs

While many factors could be called out for the heightened level of stock market volatility, tariffs most certainly are at the top of the list. Many tariff thought pieces had been written since the Rose Garden announcement on April 2. Common expectations for the near term are a slowdown (possible recession) in real U.S. economic activity and some upward inflationary pressure. Longer term scenarios vary widely with low levels of conviction. Needless to say, analysis of tariff policies and consequences will be ongoing for some time. The perspective here provides some basic information that may be useful as tariff dynamics continue to unfold and as markets respond.

PERSPECTIVE

The use of tariffs can be traced as far back as ancient Greece. The term itself derives from medieval Latin, "set price". More formally, a tariff has been called a "duty". More directly, a tariff is a tax, applied by a government to the import of certain goods. The goal is to support the consumption of locally made goods by making the imported good more expensive.

The modern application of tariffs evolved from a collective push to expand global trade, thereby increasing activity across economies and enhancing the financial well-being for all. Tariffs were just one of a package of provisions, intellectual property rights and protections being another. The outcome over many years has been a wide range of winners and losers. The current perception in the U.S. is that benefits have come with significant costs. Tariffs now are seen as the most direct way to redress global trade imbalances.

The U.S. economy has recorded a trade deficit for goods in every year back to the 1970s. Chart I shows the largest contributors by country to the $1.2 trillion U.S. goods deficit in 2024.

Proposed U.S. tariffs reflect rebalancing around a concept of trade reciprocity. This concept holds that a rough parity should prevail in tariff rates between two countries. Chart II shows how far some tariffs deviate from parity. The willingness of countries to close a parity gap with the U.S. will reflect in large part the relative importance of trade with the U.S. to that country's overall economy. Early indications of Vietnam's willingness to enter tariff negotiations indicates the importance of U.S. trade for that economy.

Tariff uncertainty has brought a high level of stock market volatility. Chart III shows daily price changes for the Dow Jones Industrial Average ("DJIA"). Over its long history, the absolute average daily price change for the DJIA has been 0.7%. Four of the last 6 days far exceeded this average, and the other two days were losses. The linkage of stock returns and tariffs is not direct but quite relevant.

INVESTMENT IMPLICATIONS

Stock market volatility and losses have captured investor attention since the April 2 tariff announcement. The U.S. stock market carried a relatively high valuation, but the subsequent decline moved the overall market to a correction and some sectors to bear-market declines. Somewhat lost has been the diversification benefit of fixed-income where taxable U.S. bonds have retained year-to-date gains. Extreme changes in portfolio composition often have unfavorable consequences particularly at times of elevated uncertainty like that of the present. Calm and thoughtful analysis is warranted now more than ever.

CHART I

CHART II

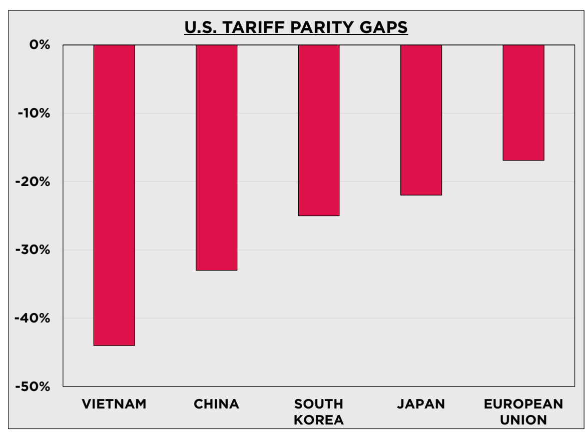

CHART III