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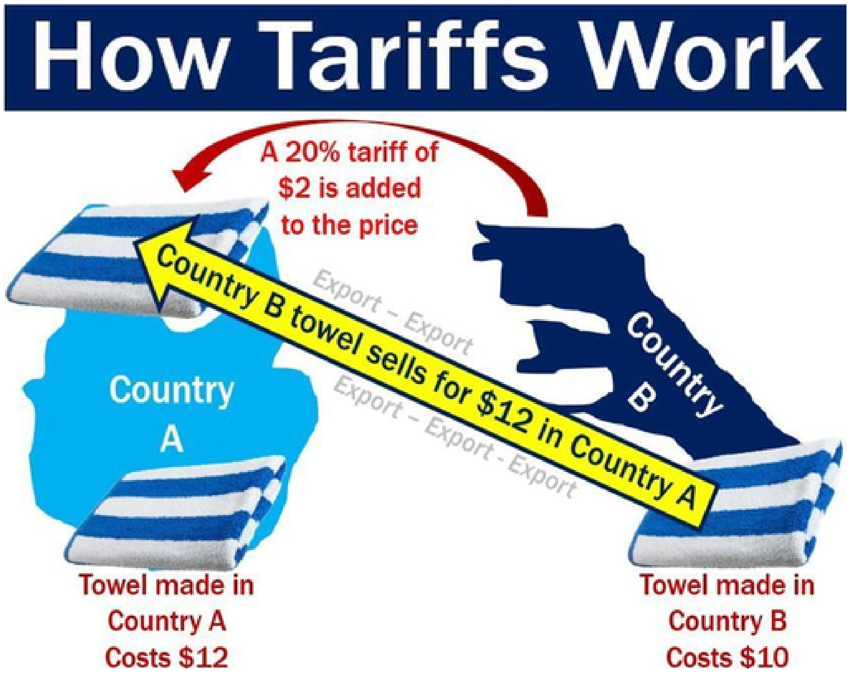
INTELLIGENT WEALTH SOLUTIONS

‘LIBERATION DAY’
TRUMP, TARIFFS, AND TRADE

4 April, 2025

Let’s Start With The Basics

In practice, when a product is made in one country and sold into another, the importing country can slap on an extra fee, paid by the domestic importer - that’s a tariff. Governments use tariffs for a few reasons. The primary goal is often to protect domestic industries by making foreign goods more expensive, giving local businesses a better chance to compete. But tariffs can also be used to generate government revenue, push back against unfair trade practices, or serve as a bargaining chip in negotiations. For example, if goods from Country B are flooding into Country A at lower prices, a tariff raises the cost of the foreign products, helping level the playing field for local producers.

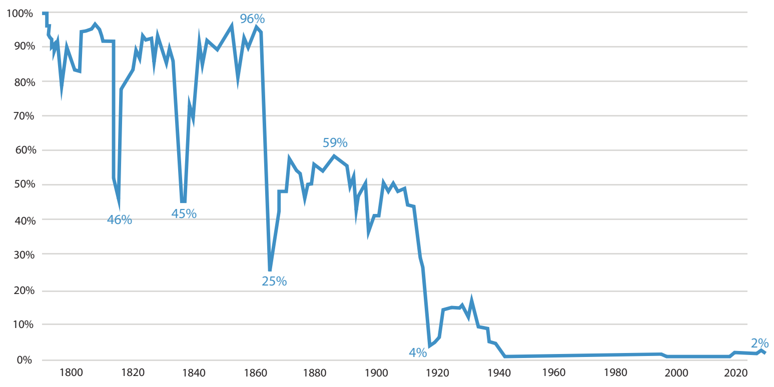

How Tariffs Work
A 20% tariff of $2 is added to the price
Country B towel sells for $12 in Country A
Export – Export
Export – Export - Export
Country A
Country B
Towel made in Country A Costs $12
Towel made in Country B Costs $10

McCormick

For much of early U.S. history, tariffs were the federal government’s primary source of revenue. That shifted in 1913 with the introduction of the federal income tax, which has since become the primary source of government funding. Over the past 40 years, average U.S. tariff rates have stayed relatively low, thanks to trade agreements, a broader embrace of free-market policies, and the rise of global supply chains.

One major exception in modern history was the Smoot-Hawley Tariff Act of the 1930s, passed during the Great Depression.While intended to protect American manufacturers and farmers, it triggered widespread retaliation from trading partners, shrinking global trade and worsening the economic downturn. Most economists today believe it significantly deepened and prolonged the Great Depression.

Tariff Revenue as a Share of Total Federal Receipts



Source: First Trust, U.S. Census Bureau. 2024 Data. Federal Receipts - the total money the U.S. gov collects from taxes, fees, and other soureces

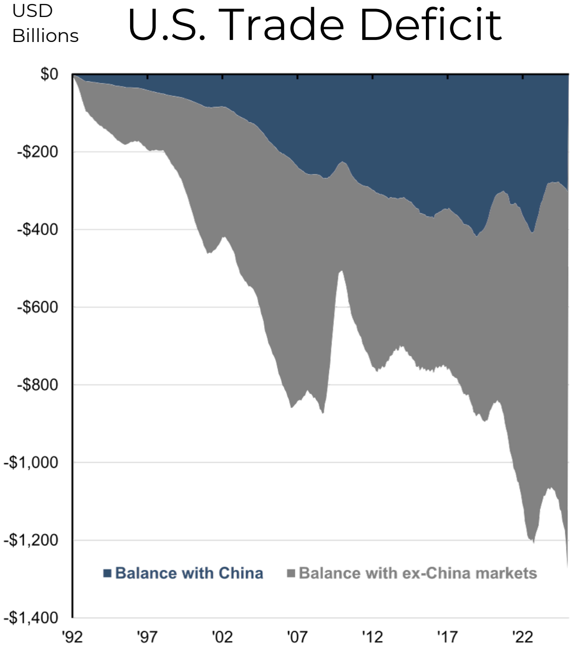
President Trump appears to be taking the Smoot-Hawley approach to modern times. Rather than viewing meaningful tariffs as a relic, he sees them as an underused tool for supporting American industries. Since his first term in 2016, Donald Trump has made tariffs a central part of his “America First” agenda, touting them as a tool to protect American industries from what the administration considers unfair foreign competition, especially from China.

For Trump, tariffs aren’t just about economics; they reflect a broader political stance: taxing foreign goods to help U.S. companies compete. From this perspective, the global trading system has long favored other countries, through currency manipulation, subsidies, and one-sided trade deals, at the expense of the U.S. worker. While there is ongoing debate among economists about the long-term costs and benefits of broad tariffs, they remain a politically powerful message and a straightforward way to communicate support for domestic industry.

A major focus behind Trump’s tariff push is the persistent U.S. trade deficit, which he views as a symptom of these imbalances. The U.S. has generated trade deficits since the 1970s, and the goods deficit has ballooned from around $435 billion in 2000 to over $1 trillion today - a trend that accelerated following China’s admission the World Trade Organization in 2001 as they gained easier access to U.S. markets.

While trade deficits often spark alarm, they’ve been sustainable for the U.S. in the short term thanks to the dollar’s role as the global reserve currency. The trade deficits have meant Americans consumed more goods and services than they produced, which showed up in strong domestic demand and a high standard of living. It also allowed the U.S. to attract foreign capital as other countries often reinvest their trade surpluses by buying U.S. assets, from Treasury bonds to real estate to equities, helping finance government spending and keep interest rates relatively low.

U.S. Trade Deficit



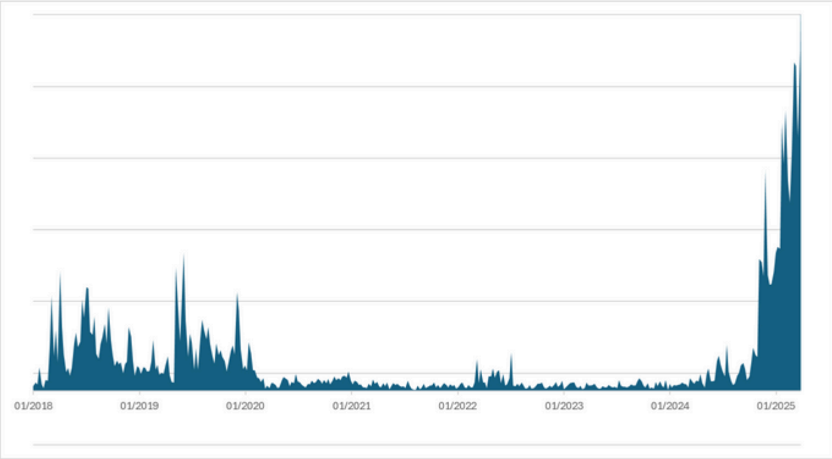
J.P. Morgan

So, what's causing a stir in markets this week?

Just a month into Trump's second term, markets were already uneasy. Constant tariff-related headlines had stirred confusion and volatility, ultimately leading to a 10% correction in the S&P 500.

Businesses were left in limbo, unsure which countries would be targeted, how severe the tariffs would be, or when they would take effect. That uncertainty forced companies to pause hiring, investment, and expansion plans. Management was busy modeling multiple scenarios, complicating every business decision. For investors, the lack of clarity clouded earnings visibility, increased perceived risk, and weighed on valuations. Even before the recent announcements, the threat of them alone became a drag on sentiment and growth.

U.S. Economic Policy Uncertainty Index



Bloomberg, Waterloo Capital

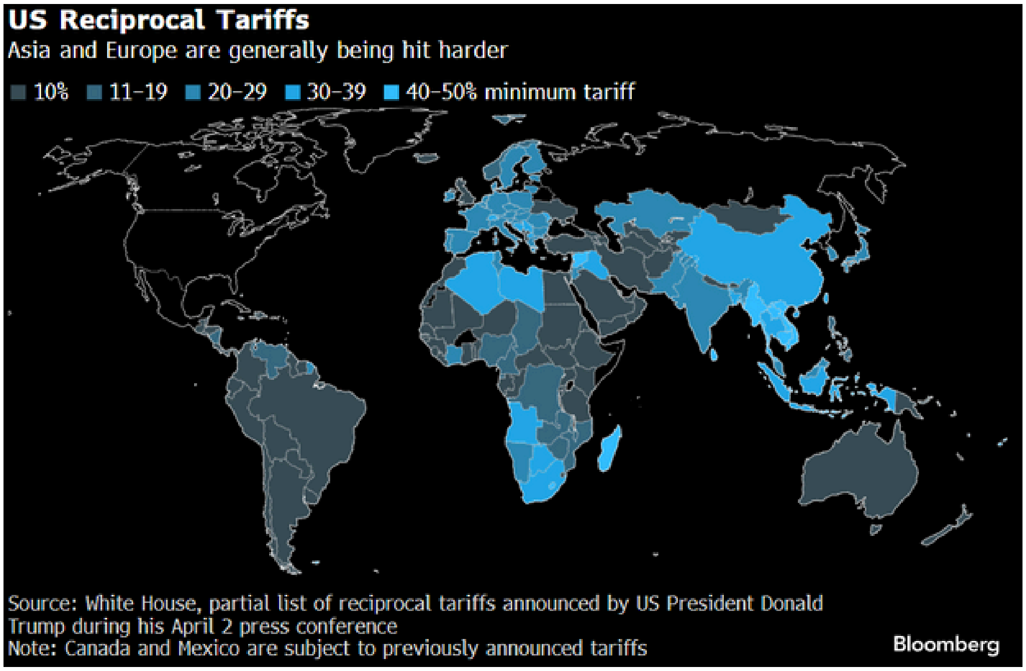
That threat became a more painful reality on April 2nd, as President Trump unveiled what he called "Liberation Day," a sweeping new trade protectionism policy meant to restore U.S. industry and provide clarity. Instead, it delivered a shock. The details of the tariff plan revealed a far more aggressive policy than nearly everyone had anticipated: a minimum 10% tariff on all imports and significantly higher rates on key trade partners, driving the U.S. effective tariff rate to about 25%, its highest level since 1904 and up from just 2.5% at the start of the year.

Markets quickly reacted. The next day, U.S. equities saw their worst one-day drop since 2020, treasuries rallied, and the dollar gave back all post-election gains. The reaction wasn't just about tariffs themselves, but the broader and second-order implications of slower growth, higher prices, and rising recession risk.

At their core, tariffs act like a tax on imported goods, raising input costs for companies and, ultimately, prices for consumers. That can directly increase price pressures, particularly in sectors dependent on foreign components. On the growth side, higher costs often force businesses to delay investment, scale back hiring, or reduce output. Global trade is also exposed to these implications as the affected countries retaliate, weighing on exports and international demand. In short, tariffs tend to act as a brake on economic momentum, hitting both supply chains and consumer purchasing power at the same time.

Most notable economists and strategists labeled the President's move as far more hostile than expected. JP Morgan raised its global recession odds from 40% to 60% and called the policy the biggest tax hike on U.S. households and businesses since 1968. Wall Street forecasts quickly shifted, with GDP estimates falling, unemployment projections rising, and inflation expected to reaccelerate.

While Liberation Day was framed as a step toward clarity, it has instead introduced a new layer of economic risk. Compared to Trump's first term, when tariffs were paired with tax cuts and fiscal stimulus, this time, the economic backdrop is more fragile. Growth heading into 2025, although solid, was already slowing. Now, layering on the most aggressive tariff package in over a century risks turning an expected soft landing into a potential self-inflicted recession. Some believe a Republican-led Congress may respond with additional fiscal stimulus, but that support may add to inflation pressures and complicate the Federal Reserve's policy path further.



US Reciprocal Tariffs

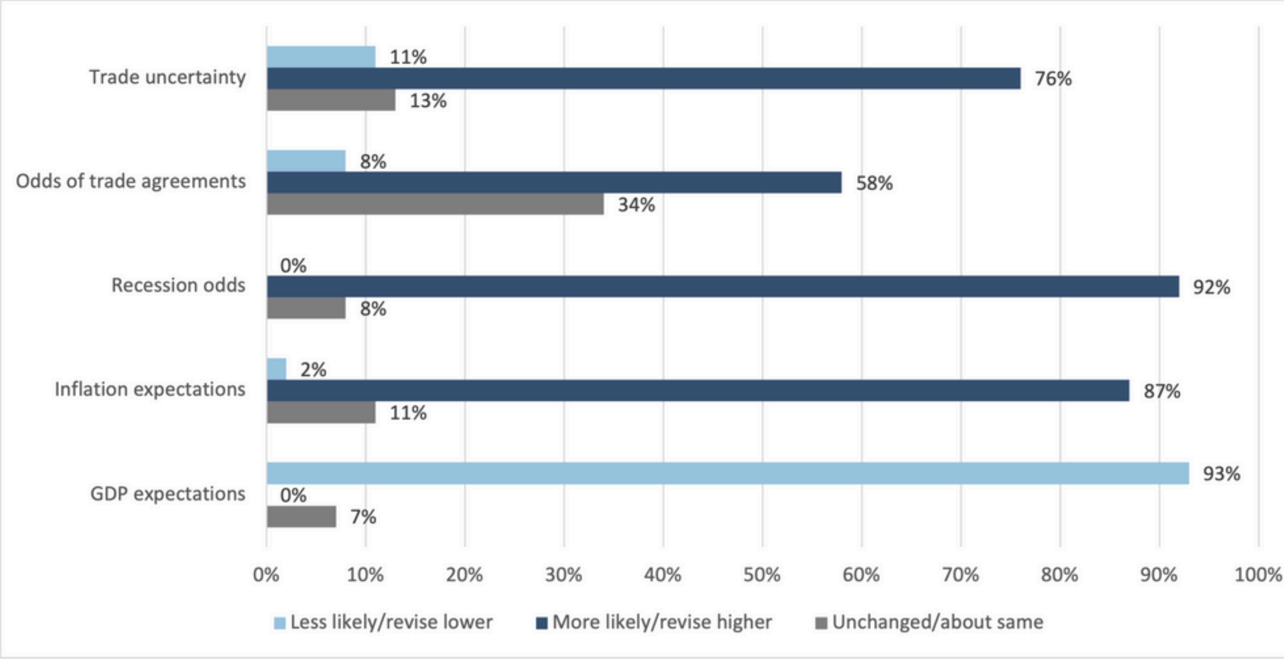
Asia and Europe are generally being hit harder

Source: White House, partial list of reciprocal tariffs announced by US President Donald Trump during his April 2 press conference
Note: Canada and Mexico are subject to previously announced tariffs

There are still scenarios in which this shock is partially defused. We do expect that negotiations with key trading partners could lead to more moderate "reciprocal" rates than the current headline figures, but even so, the new baseline is significantly higher than what markets had previously priced. If there's a silver lining, it's that market internals weren't in full panic. During prior 3% S&P 500 selloffs, the average number of declining stocks was around 442.

On April 3rd, it was 279 - suggesting broad selling, but not disorderly. Still, as we head into the next week, we don't view this as a flashing green light "buy-the-dip" moment. The trend is clearly risk-off, and the ultimate policy direction is still in flux. At this point, it is hard to see the off ramp for Trump and his team backing away from this anytime soon, even if retaliatory tariffs are put on the U.S.

Economists Sour on Growth Prospects After ‘Liberation Day’



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For now, we remain defensive and selective, leaning into areas that provide diversification. Over the next month, we’re looking closely for signs of diplomatic movement, potential re-negotiations, and how these policies begin to affect hard, not soft, economic data. Until we get more clarity, the market is likely to remain under pressure - less because of the unknown, but because of what we now know.

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