

Tariffs, to escalate or de-escalate, that is the question

With some of the dust having settled from yesterday's reciprocal tariff announcement, coined 'Liberation Day', we can begin to put together some of our thoughts. It will come as no surprise to readers, a lot depends on what happens next.

President Trump unveiled a sweeping series of tariff measures that mark a significant escalation in United States trade policy.

A blanket 10% tariff on all imports of foreign goods was introduced, as anticipated from 5 April 2025. In addition, starting on 9 April, considerably steeper 'reciprocal tariffs' were imposed on countries with allegedly significant trade barriers against American goods. For example, China will face a 34% tariff, rising to 54% with additional duties tied to the fentanyl crisis. Vietnam will be subjected to a 46% rate, while Japan, South Korea, India, Taiwan, Thailand, and the European Union will face tariffs ranging from 20% to 36%. In the automotive sector, the U.S. will now apply a 25% tariff on all imported vehicles, with car parts expected to follow. Interestingly, the UK has comparatively fared well, receiving a mere 10% levy – a long-overdue Brexit dividend perhaps.

This more aggressive stance was slated to help the US to tackle the record $1.2 trillion trade deficit, by generating more import revenue from these trade partners. Canada and Mexico have been temporarily exempted from the new reciprocal tariff structure due to their compliance with the United States-Mexico-Canada Agreement (USMCA) and existing fentanyl-related tariffs. This, if there was one, was the silver lining in the announcement.

The markets' reaction was a negative one with global stock markets selling off 3%, oil prices declining along with US tech stocks. Government bonds predictably saw buying as people used them as a safe haven in the uncertainty. Much of the rational for the market hitting the sell button centred around the realisation that Trump had landed both blanket tariffs of 10% as well as higher targeted tariffs on larger trading partners. The market was expecting one or the other, but not at the same time which caught markets off guard.

It is worth mentioning that it's the day after the night before and history tells us the initial market reaction is not always indicative of the longer-term market trajectory, so be careful how we all react to it.

International government responses have been swift and largely critical as predicted. European Commission President Ursula von der Leyen, warned that the move could substantially increase global living costs, especially harming lower-income populations. Countries including China, Brazil and Canada have signalled intentions to retaliate, likely implementing counter-tariffs of their own. The United Kingdom and Japan have called for cautious diplomatic engagement to avoid a deepening of economic tensions.

The potential ramifications are significant but not 100% nailed on and more volatility depends on international governments choosing to deescalate the situation via offering concessions or escalate via increasing their own tariffs which will likely see the US responding in kind. Undoubtedly from here, the de-escalation option will calm markets and induce a relief rally, the latter will likely inject more volatility into what is a volatile situation, we remain at a crossroads here.

While the Trump administration argues that this was done to revive domestic manufacturing, reassert economic independence and increase tax revenues, some believe this could raise the potential of a recession which is certainly a big gamble to take. Whether this strategy succeeds remains to be seen. What is certain, however, is that these changes will reverberate well beyond U.S. borders, reshaping global trade in ways that may define international economic relations for years to come.

TAM has been managing its portfolios all year with a defensive mindset via slowly stepping back from US growth and US small caps. TAM has been steadily increasing its defensive investments into assets which act counter to the stock market such as precious metals, long short funds and volatility based strategies which go up in value when stocks fall back in value. As of this morning, TAM's active portfolios have moved to an underweight stance on equities with a steeper underweight to US Tech and overweight to the likes of global value stocks and the UK market to adopt a defensive stance.

TAM's investment portfolios are certainly not immune to the fear, volatility and pull backs permeating the market but we remain content with the defensive positioning we have been building all year. At this

juncture, before making further adjustments to protect or enhance the portfolios should we see the need arising, we are waiting to see where the market goes from here.

Let's not lose sight of the fact that, at a certain point in the future, these markets will begin to focus on a recovery and sentiment will turn positive. At that point we want to have been buying back some of what we love to own, high quality, stable investments in great companies which have been caught up in this volatility and are therefore "on sale".

Managing client assets through these uncertain times remains a challenge but it's one we have been doing for 16 years and we remain focussed on the challenges and opportunities ahead for all our clients.

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