Tariffs tax equity markets.

President Trump's "liberation day" tariff announcement has been anything but liberating for investors. Plunging stock prices are making investors wonder whether it's time to buy or time to sell. We'd argue that it is time to wait.

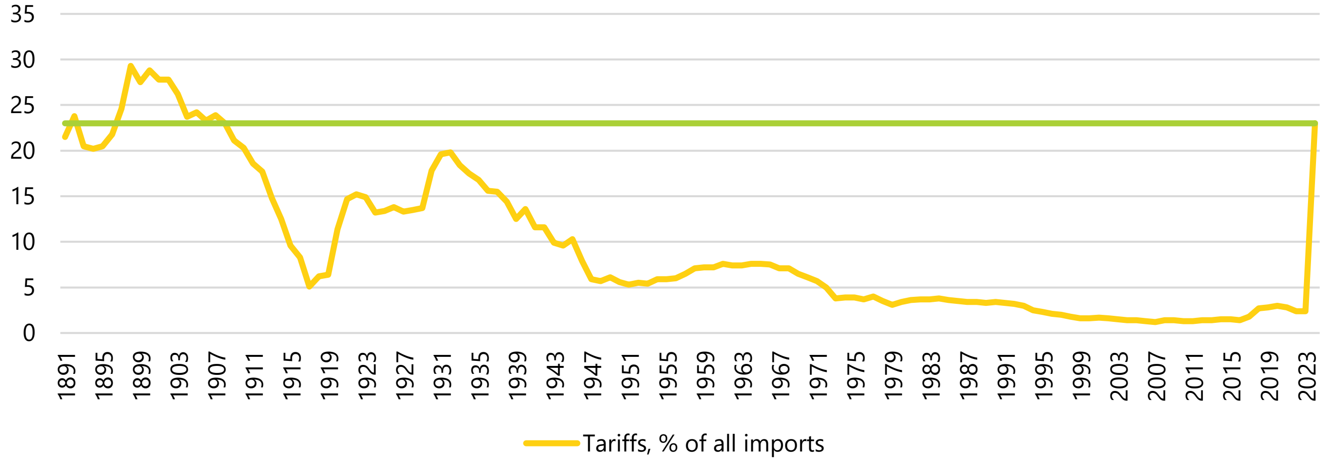
A heavy tax on the global economy

President Trump's widely anticipated tariff announcement was significantly worse than expected. The U.S. administration announced a blanket minimum tariff of 10% for all imports, and it imposed so-called "reciprocal" tariffs on multiple countries (with the exception of goods from Canada and Mexico covered under the U.S.-Mexico-Canada Agreement).

The assumed tariffs imposed by other countries were calculated based on trade imbalances, not actual tariff rates. This means that if a country has a large trading surplus with the U.S., that was considered a "tariff" rate that should be countered by the U.S. The logic behind this calculation is dubious at best. Economists are stunned, and the implications are quite significant given that, while a tariff rate can be negotiated, the current trading arrangements (which are the results of years of industrial planning) cannot.

In addition to the tariffs, duty-free treatment for inexpensive goods shipped from China will end. Goods valued at or under $800 are now subject to a duty rate of either 30% of their value or $25 per item (increasing to $50 per item after June 1, 2025). This means that those inexpensive t-shirts and dresses won't be inexpensive for much longer.

Exhibit 1: Highest tariffs in over a century.



Source: Bloomberg, U.S. International Trade Commission, SEI. Data estimate as of 4/3/2025

Looking ahead

If implemented as initially announced and sustained for the next two or three quarters, our outlook for U.S. gross domestic product growth would be reduced by a percentage point or more for 2025, and inflation expectations would be adjusted higher by a commensurate percentage. Other economies will be hit to varying degrees, depending on the extent of the tariff increases and their exposure to the U.S. market. Almost all countries face a reduction in growth as trade flows contract and supply chains are disrupted.

Retaliatory measures by U.S. trading partners may worsen matters in the short term and elicit threats by the Trump administration to increase tariffs even further. The 10% minimum tariff is likely a permanent fixture aimed at generating revenues for U.S. tax cuts or deficit reduction; the reciprocal rates are likely negotiable. We view the reciprocal rates as a maximalist opening move on the part of the Trump administration, but the timing and extent of future revisions is unclear.

What's next? Volatility.

Given the Trump administration's track record of implementing, then modifying or rescinding tariffs, it is difficult to predict the long-term implications at this time. While bears are prowling among tech stocks and talk of a global recession is swirling, the only real certainty is short-term volatility. As is our custom during times of extreme volatility, we encourage investors to maintain their long-term investment strategies and avoid fear-driven portfolio changes.

We reiterate, it is far too early to predict the outcome of the current situation. We don't know what the short term will bring but are confident that the long-term direction of the stock market is higher. We are also confident that a diversified portfolio is a prudent approach to investing. If you have a solid investment strategy in place, market volatility is not a reasonable catalyst for change. While watching and waiting as the value of your portfolio declines can be uniquely frustrating, logic and reason dictate that it is the right thing to do.

Important information