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TRENDING TOPICS

Tariffs may hurt economic outcomes but not stop bull market

New tariffs on foreign goods likely wouldn't spark lasting inflation, but they could dampen economic activity.

Talking points

1. A tariff is a government-imposed tax or duty on imported or exported goods.
2. Tariffs are more like a one-off price shock than extended inflation.
3. Tariffs may put a damper on economic activity.
4. Past tariffs haven't had a long-term market impact.

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Proof points

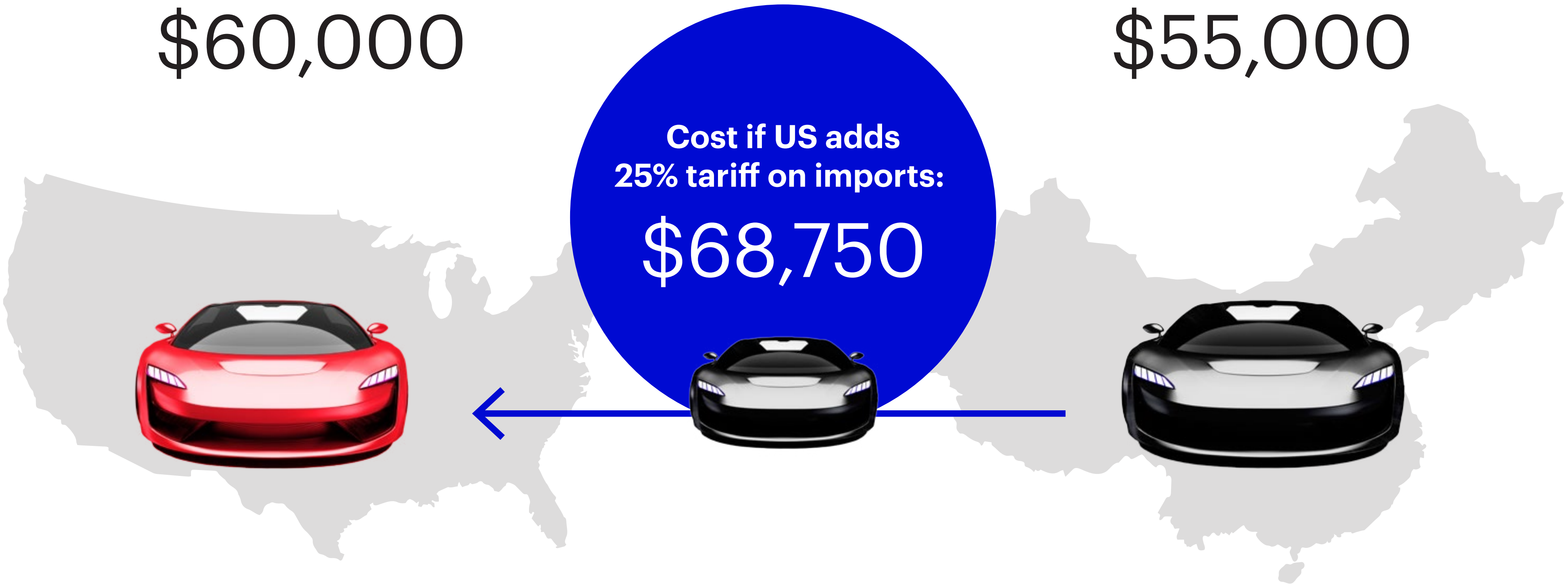
- Tariffs can be used to regulate trade between countries, protect domestic industries from foreign competition, and make money for the government.
- Tariffs generally lead to worse economic outcomes but don't necessarily create inflation or drive economies into recession.

A tariff is a government-imposed tax or duty on imported or exported goods

How a tariff works

The cost of a car made in
United States
$60,000

The cost of a car made in
China
$55,000



For illustrative purposes only.

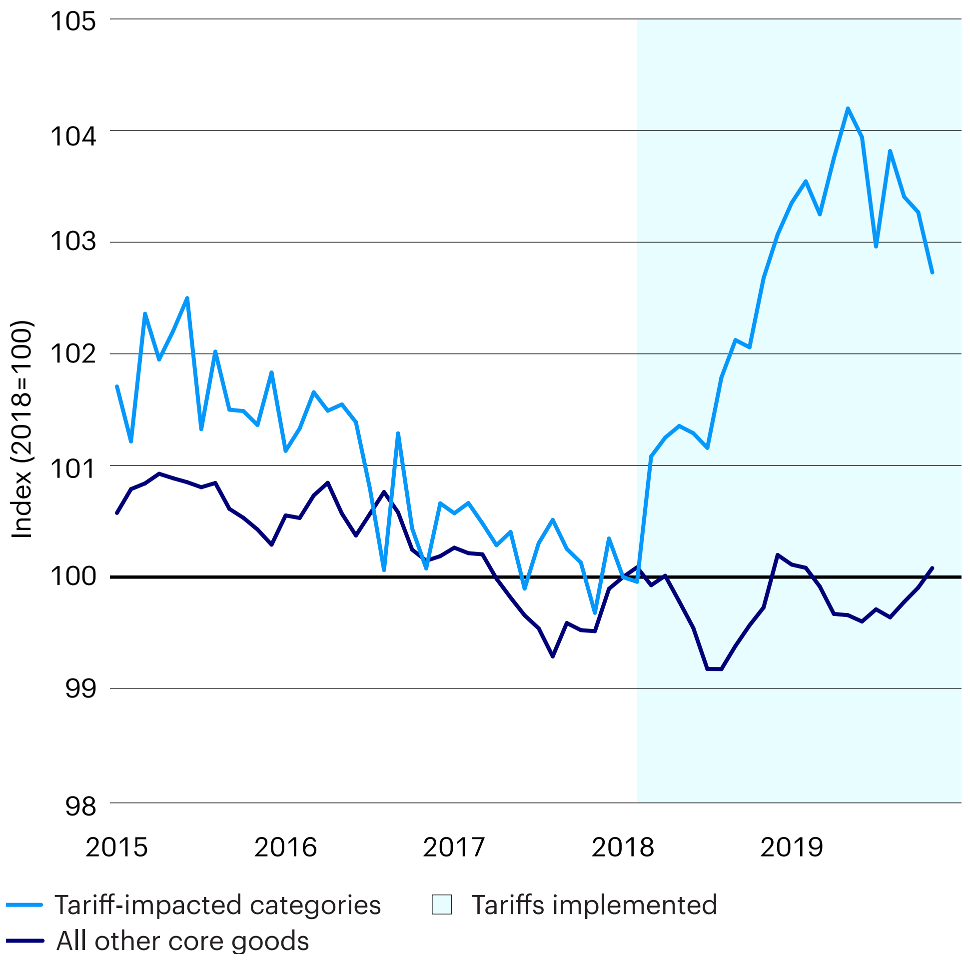
Proof points

- A tariff acts like a tax on the consumption of a particular good, which could weigh on demand and prices for other products that consumers buy.
- Looking at the 2018 tariffs, categories affected by tariffs saw their prices rise, but other goods didn't.
- For example, washing machines were impacted by tariffs in 2018. Their prices briefly increased only to decrease in subsequent months.

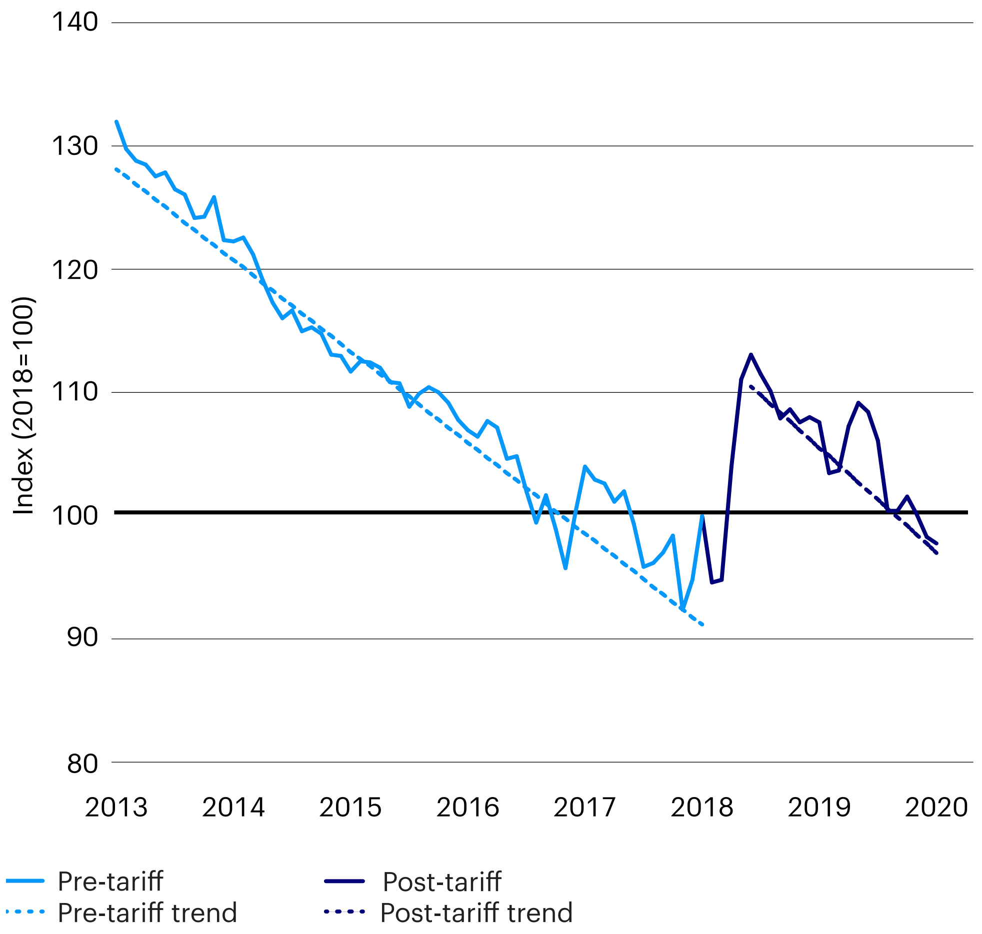
Tariffs are more like a one-off price shock than extended inflation

US Consumer Price Index

Tariff-impacted categories vs. all other core goods



Example: Laundry equipment



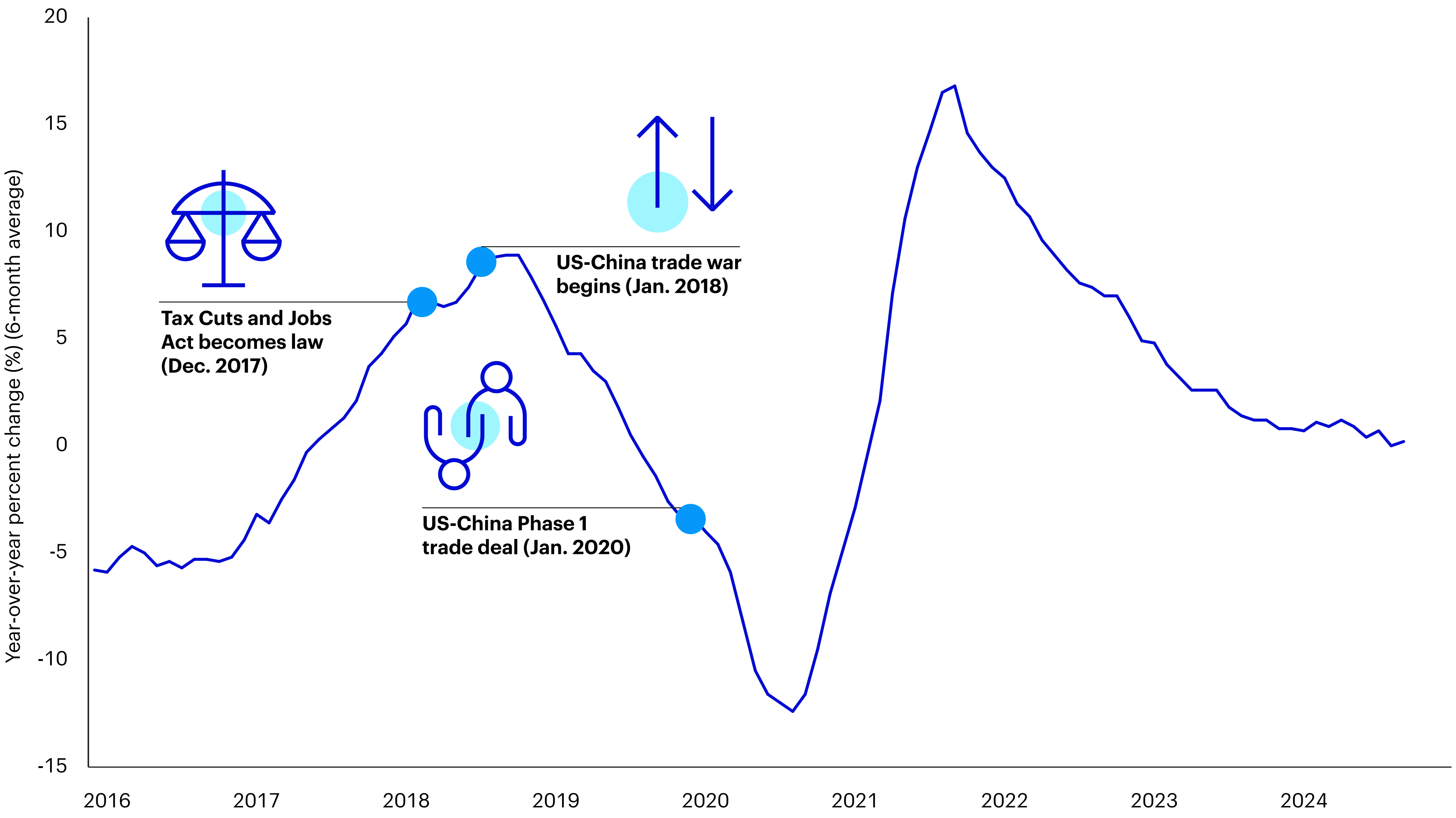
Source: US Bureau of Labor Statistics, 10/31/24. Tariff-impacted categories include appliances, furniture and bedding, floor coverings, and auto parts. Weighted by relative importance to the Consumer Price Index (CPI), which measures the change in consumer prices and is a commonly cited measure of inflation.

Proof points

- Tariffs can create a less-than-ideal economic environment. A tax on imports may reduce consumer discretionary spending. One person's spending is another person's income. But while economic output would likely fall, it's unlikely to drive the US economy into recession.
- A trade policy of heightened tariffs may create uncertainty, which can pose a risk to the economy. Uncertainty often leads to caution and pessimism — the hindering of "animal spirits." Economic activity can decline as a result.
- Business investment deteriorated during the 2018 US/China trade war as business leaders looked for clarity. Business investment rebounded once the terms of the trade deals became clearer.

Tariffs may put a damper on economic activity

Non-defense capital expenditures (excluding aircrafts and parts)



Source: US Census Bureau, 10/31/24.

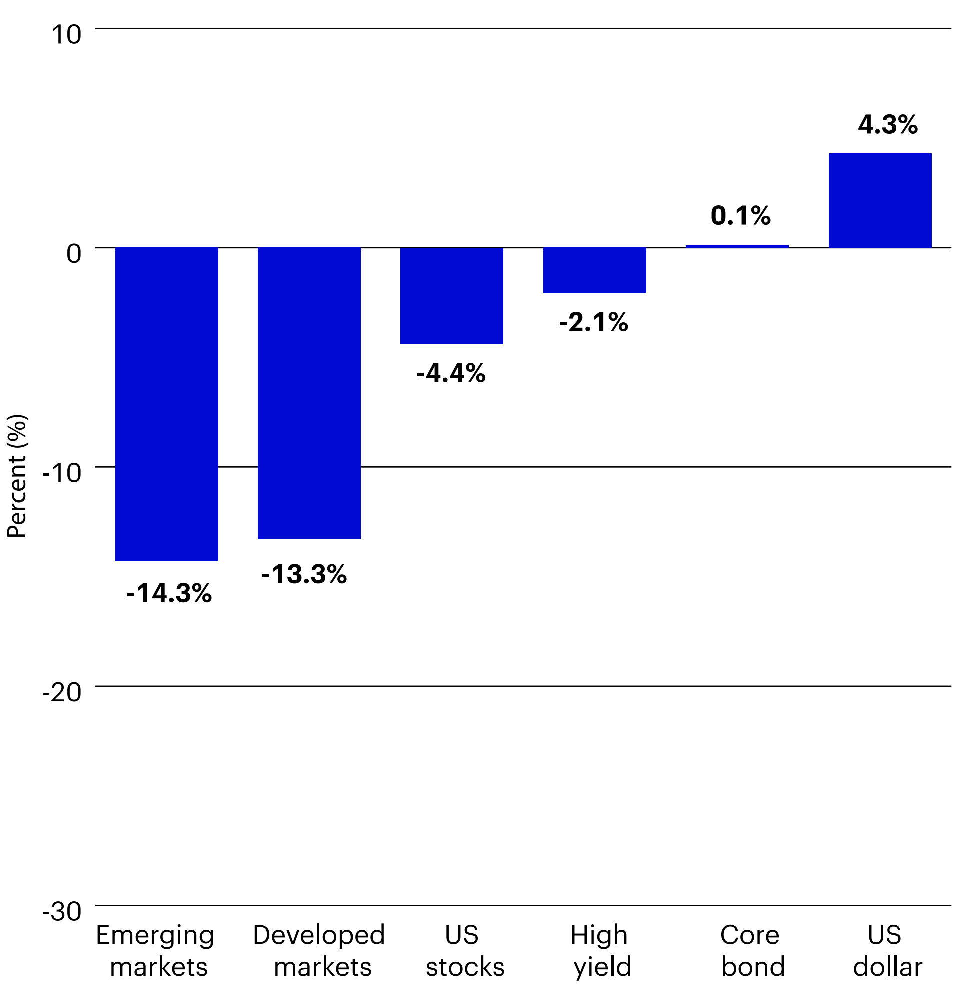
Proof points

- Stocks faced challenges in the first year of 2018's prolonged trade war, particularly in non-US markets. But the dollar rallied, serving as a "safe haven" for investors.
- Over the next three years, the dollar weakened, and stocks posted gains both globally and domestically.
- In the coming year, trade policy uncertainty could reignite market volatility. However, like the trade war in 2018, it's unlikely to end the market cycle.

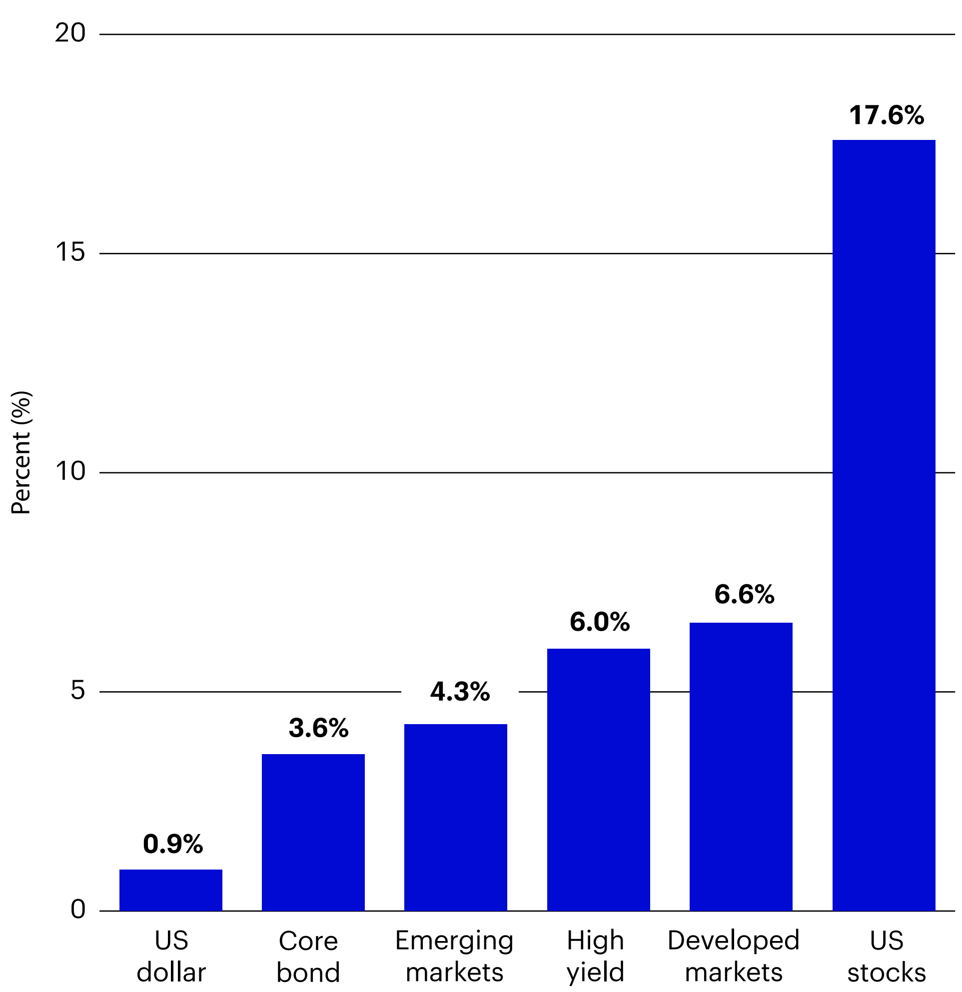
Past tariffs haven't had a long-term market impact

Returns after initial Trump tariff

One-year returns (01/2018–12/2018)



Three-year annualized returns (01/2018–12/2021)



Source: Bloomberg L.P., 11/30/24. Based on the returns of: MSCI EM Index, MSCI EAFE Index, S&P 500 Index, Bloomberg US Corporate High Yield Bond Index, and Bloomberg US Aggregate Bond Index. US dollar is based on the value of the US dollar versus a trade-weighted basket of currencies. Safe havens are investments that are expected to hold or increase their value in volatile markets. Indexes cannot be purchased directly by investors. **Past performance does not guarantee future results.**

Contact us

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