Tariffs: Everything, Everywhere All At Once

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- Trump appears indifferent to the near-term impact on capital markets. His tariff policy increasingly presents a binary outcome—either highly effective or deeply misguided. The challenge for investors is that it may take 12 to 18 months for the results to become clear. This raises questions about whether Trump has sufficient time, and whether his base—both voters and legislators—has the patience and resolve to endure the economic pain the Administration has signaled will follow, especially heading into the midterm election cycle.
- Many investors, including ourselves, naïvely assumed that Trump's campaigning tariff salvo was entirely a negotiation tactic; now, it seems less so.
- The question is, did Trump always intend on going hard or going home? Or did the growing consensus view that tariffs were only a negotiating tactic cause an authoritarian and populist reaction, doubling down with an unrelenting and draconian tariff response policy?
- While the original intent of Trump's tariff policy may have been to serve as a negotiation tool for achieving fairer trade terms, it is increasingly evident that Trump aims to try and fundamentally reshape U.S. international trade and economic relations.
- Trump announced a 10% universal baseline tariff on many trade partners, with significantly higher duties for others—including a 34% tariff on China and a 20% levy on the European Union. So far, trading partners have yet to retaliate, as the U.S. Treasury Secretary has urged countries to "take a deep breath" and not to retaliate against tariffs.
- Absent any type of recession, we believe market bottom is the 5,200-5,300 range, implying low 17x handle on 2026 FactSet consensus earnings. However, if a deep recession were to unfold and a stagflation environment take hold, all bets are off. In this scenario, we believe earnings will be revised lower by 5-10%, and forward multiples may be recalibrated down to the mid-16x range, resulting in a market floor of roughly 4,500 for the S&P 500 or an additional 18% retracement from the current levels. We do not believe this will happen unless the job market implodes, stagflation takes hold of the U.S. economy and high-yield debt collapses. However, we would not be surprised if a short and shallow demand-induced recession caused by tariff shocks occurs.
- Long-term investors who are fully allocated should maintain their long-term focus. Those with near-term capital needs should remain in short-duration, liquid government securities. Income-oriented investors may consider using this opportunity to lock in higher yields, while recognizing that ongoing tariff announcements could trigger inflationary sentiment and lead to principal volatility. We'd love to hear your thoughts.

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