Tariffs: What investors need to know

Monthly Market Playbook

Key Insights

- New tariffs could more than double the effective U.S. tariff rate, impacting global economies and financial markets.
- As a result, economic uncertainty is at its highest since the worst of the COVID crisis, risking potential recessions.

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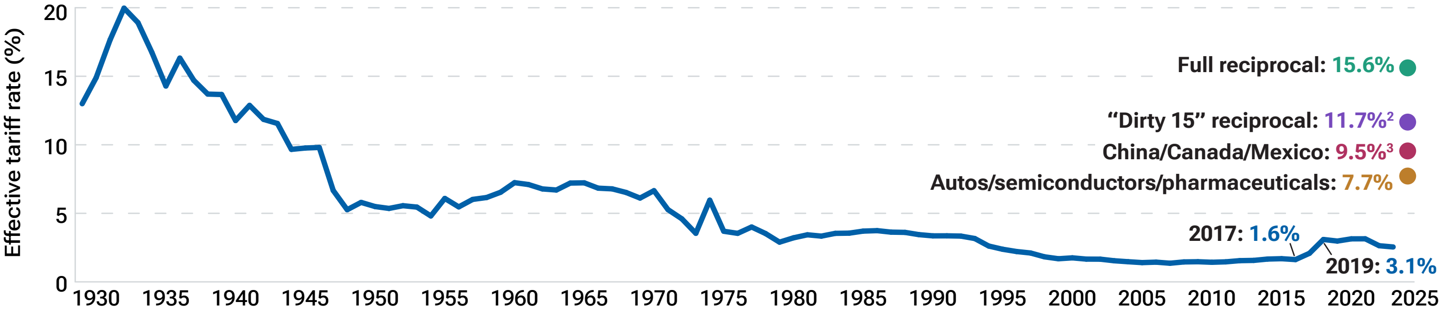
Markets have been extremely concerned that the Trump administration's proposed tariff increases could trigger a global trade war. Here's a look at what could be at stake for U.S. and global investors.

The most important thing investors should know is that the current tariff proposals are significantly larger in scope than those put in place by the first Trump administration in 2017. The tariffs now threatened would cover a much wider range of countries and a much longer list of industries.

In 2017, the focus was almost entirely on China. This time, it includes nearly all U.S. trading partners. In 2017, only a few specific products were targeted—most notably aluminum and steel. The scope is much broader this time around.

Tariff proposals are much bigger this time around

(Fig. 1) Effective U.S. tariff rate versus current proposals[1]

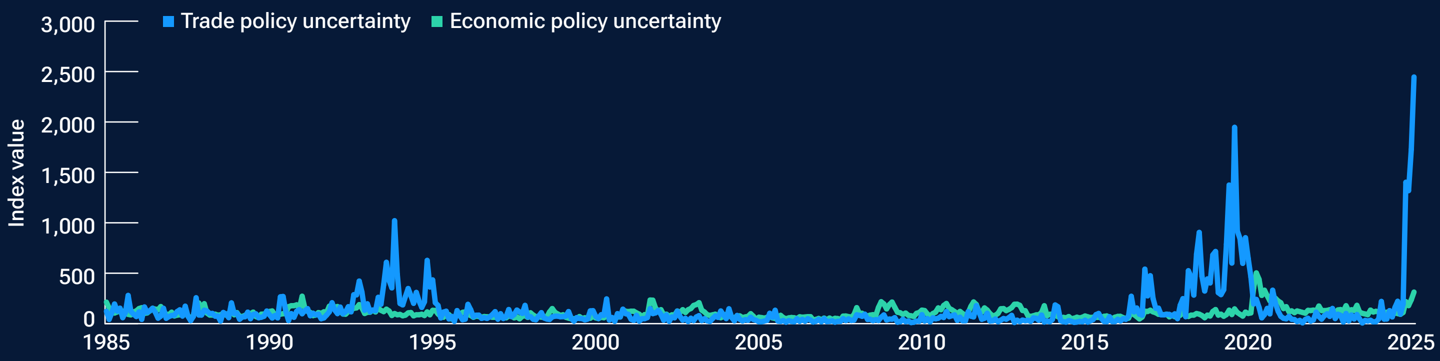


Annual averages, 1929 through 2024. Proposed tariffs as of March 31, 2025.
Source: Piper Sandler & Co., based on analysis of data from the U.S. Census Bureau, U.S. Bureau of Economic Analysis, and Yale Budget Lab (see Additional Disclosures).

[1] The effective tariff rate is defined as U.S. tariff revenue divided by the value of U.S. goods imports.
[2] The Trump administration hasn't named the "Dirty 15" countries, but they are believed to include a number of U.S. trade partners that currently run extremely large trade surpluses with the U.S.
[3] Tariff rate for Canada and Mexico does not include the United States-Mexico-Canada Agreement exemption.

Uncertainty has skyrocketed

(Fig. 2) U.S. Economic Policy Uncertainty Index



Monthly, January 1985 to February 2025.
Sources: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom, and Steven J. Davis at www.PolicyUncertainty.com / Macrobond.

This means the potential impact could dwarf what was seen in 2017. Then, the effective tariff rate that the U.S. imposes on all imports only rose from 1.6% to 3.1% (Figure 1). But this time around, even if deals are made with numerous trading partners, the effective tariff rate is likely to be substantially higher. The measures announced by President Trump on April 2nd would move the rate above 20%, even higher than the peak levels seen in the 1930s.

What is the Trump administration trying to achieve?

While the ultimate objectives of the tariff proposals are not certain, the president's public statements suggest three possible goals:

- One goal may be to strengthen the U.S. trade negotiating position. Because the U.S. runs trade deficits with most countries, higher tariffs generally would be more painful for U.S. trading partners than for the U.S.—even if those countries retaliated by raising their own tariffs. This could give Trump leverage in any negotiations to reduce trade barriers.
- A second objective appears to be to raise revenues. In theory, higher tariffs could help reduce the U.S. federal government's giant budget deficit. However, this will only work if the negative impact of tariffs on the U.S. economy doesn't offset any potential gains in U.S. tax revenue.
- A third goal may be to bring manufacturing jobs back to the U.S. If tariff rates were set high enough, it could make it cheaper for U.S. and foreign companies to shift production of domestically sold goods to factories in the U.S. However, this almost certainly would raise manufacturing costs considerably and could take years to fully implement.

If President Trump's primary goal is to gain negotiating leverage, and U.S. trading partners are willing to make deals, then any tariff hikes might be temporary and the ultimate economic impacts could be minimal. This is clearly the outcome most investors are hoping for.

However, if Trump's objectives are broader, or if any negotiations end up being long and drawn out—like the 2017 and 2018 tariff talks with China, which lasted 19 months—investors are likely to face more stock market volatility in the months ahead.

Where things stand

So far, tariff concerns do not appear to have significantly impacted U.S. economic activity. Most real-time barometers of GDP growth have decreased, but only slightly. Earnings estimates generally have held up. But we have seen an enormous increase in business uncertainty (Figure 2). Trade uncertainty is higher than at any time since at least the mid-1980s. And one widely followed index of economic policy uncertainty has spiked to a level previously only eclipsed at the height of the COVID pandemic.

As a result, businesses and consumers appear to be putting some major spending decisions on hold. If this level of uncertainty persists, a U.S. recession—and, probably, a global one as well—are not out of the question.

Conclusion

The bottom line is that higher tariffs pose a significant risk to the current economic outlook. While this risk may ultimately prove to be temporary, we think concerns are likely to get worse before they get better. As a result, T. Rowe Price's Asset Allocation Committee is seeking to reduce risk exposure over the near term.

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