April 3, 2025

Tariffs – Investment Impact and Opportunities

The sweeping tariffs announced last night by President Trump are based on both duties and deficits between the U.S. and foreign countries.

As a result, countries with high tariffs on U.S. imports and/or a large trade imbalance (export much more to, than import from the U.S.), are in the crosshairs. The intent is to push countries to reduce U.S. duties and/or to buy more U.S. made goods and services.

Semiconductors, copper, medicine, and lumber were all exempted from Wednesday's tariffs, but the U.S. is planning targeted tariffs for some of these items at a future date. The duty-free de minimis exemption for Chinese and Hong Kong imported packages of less than $800 will end on May 2.

INTERNATIONAL IMPACT

Irrespective of whether this is a short-term negotiating tactic or an attempt to rebuild industries lost to foreign competition, we expect the following:

- **High Export-dependent countries** such as South Korea and Japan must lower tariffs on U.S. Goods to continue to support their automotive, computer chip, and electronic industries.

- **India** is at a different stage of development and can easily lower its tariffs on U.S. goods without disrupting its focus on building out domestic consumer-based industries.

- **China** will accelerate its move to a U.S. style consumption-based economy which will be a boost for local companies serving these needs. Targeted retaliation and aggressive stimulus are likely to follow. Although China may attempt to remain steadfast and wait out Trump's term, tense but calculated negotiations are likely. China may be less inclined to appease Trump this time around, however, so ultimately the outcome may depend more on Trump's willingness to compromise.

- **Europe** will very likely ultimately come to the table with concessions (e.g. LNG purchases, reduced auto tariffs, etc.), to negotiate a partial rollback of tariffs, despite the current rhetoric. Divisions within member states may deepen between U.S. export-dependent countries (e.g. Germany, Ireland) and more China-friendly countries (e.g. Hungary, Slovakia). Countries in the middle (France, Italy) will likely favor aligning with Germany in pushing for a negotiated deal.

April 3, 2025

U.S. SECTOR IMPACTS

Bonds

U.S. Interest rates will decline in anticipation of slower economic growth though inflation will tick-up as necessary goods become more expensive. Long Duration Treasuries will benefit. High yield bonds and highly leveraged REITs should be avoided.

Staples

Food, personal care, beverages, utilities, and other companies who produce necessary products will hold up well and their dividends will become more attractive as interest rates decline. Valuations are not cheap, however, and these companies will lag if and when tensions ease and markets rally.

Energy

Energy will soften with the economic slowdown, however, the shift to domestic self-reliance and deregulation will benefit well-run drillers, oil service providers, pipelines, etc. Nuclear interest and data center power demand are showing no signs of slowing and we believe they will be multi-decade secular themes.

Pharmaceuticals

The Trump Administration is in the process of evaluating foreign Drugmakers. Additionally, concern and uncertainty over RFK, Jr.'s approach to the FDA will limit investor interest until more clarity emerges.

Technology

Hardware companies will pull back due to increased input costs on foreign-sourced parts. Countries will continue to attempt to delink from U.S. software, however, this will be difficult given the lack of robust alternatives. AI will continue to advance and reshape industries and companies alike.

Transports

Inland rail will benefit as domestic manufacturing is revitalized over the next several years. The trucking industry should do even better. For every product manufactured in the U.S., three times more trucking shipments are needed than for a seaborne imported good.

Final Thought

In all cases, a careful review of your portfolio on a company-by-company basis should be undertaken, with a focus on reducing positions that are likely to be disproportionately impacted.

April 3, 2025

Brad Stanley, CFA
Chief Investment Officer of The Stanley-Laman Group. Designer of SLG's proprietary Ad-Star® System. Brad received a BS in Computer Science from Carnegie Mellon University and is a Chartered Financial Analyst Charterholder