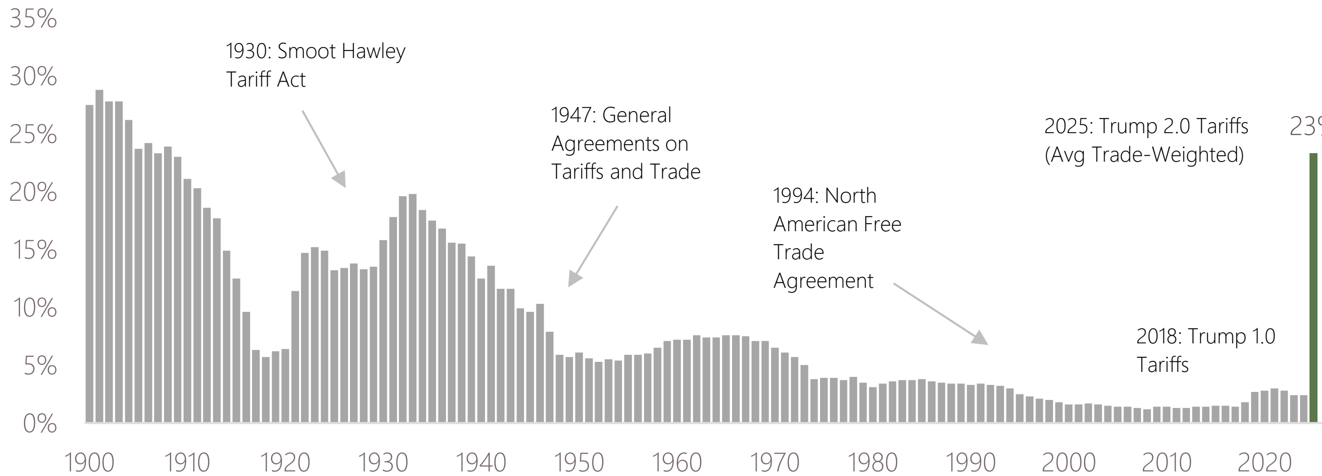
THE TARIFF POSTMORTEM

It was widely known that tariffs were a central part of Trump's policy agenda, but the scale of the newly announced reciprocal tariffs—averaging around 23% on a trade-weighted basis—exceeded expectations and caught markets off guard. Given the methodology used to determine the rate for each country and their self-harming potential for the US economy, there may be room for negotiation. Through this lens, the announced tariffs may be seen as a ceiling rather than a floor. Still, the risk of retaliation by affected countries raises the odds of further escalation. For now, all communiques from the White House suggest tariffs are not going away anytime soon. This means further uncertainty and volatility, likely keeping downward pressure on equities in the near-term.

Category	Key Points
Policy Overview	• Trump invokes national emergency tariffs under IEEPA equal to 10% baseline plus reciprocal tariffs based on trade deficits • Exemptions for semiconductors, energy, pharmaceuticals, and USCMA-compliant imports • Key Dates: April 5th (10% tariffs), April 9th (reciprocal tariffs)
Long-Term Goals	• Aim is to reduce imports, expand manufacturing, shrink the federal government • Transition expected to be painful and long
Market Implications	• Expect elevated volatility, tighter credit conditions, and broad uncertainty

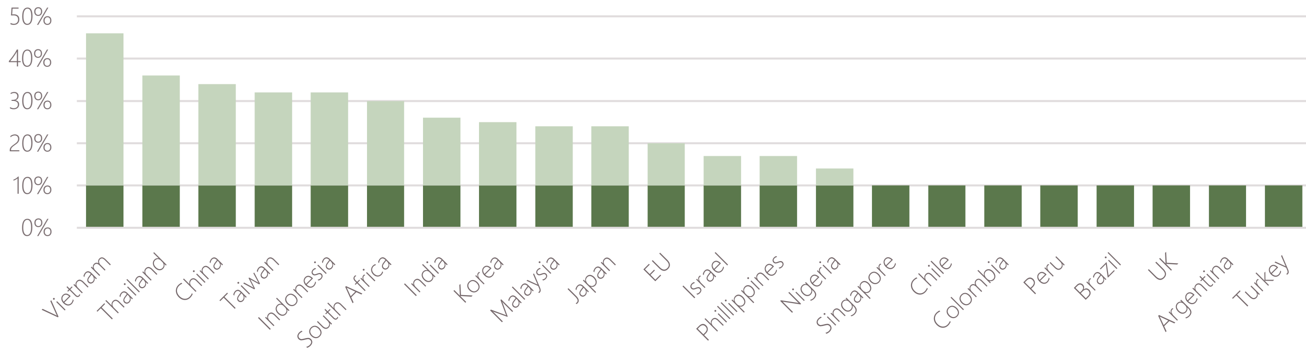
A Shock to the System: The Latest Tariffs Represent Largest Increase in Over 100 Years

US Effective Tariff Rate (%)



Source: US International Trade Commission, Crescent Grove Advisors

Tariff Impact Across Countries



Source: White House, Crescent Grove Advisors

Fed's Analysis: Backed Into a Corner

Even with the possibility of country-specific deals, the new tariffs will almost certainly lead to weaker economic growth. This is because tariffs raise the price of final and intermediate imported products, adversely affecting consumer spending, cost of investment and broader economic confidence. For the Federal Reserve, Trump's aggressive tariff agenda means divergent shocks to its dual mandate—price stability and full employment.

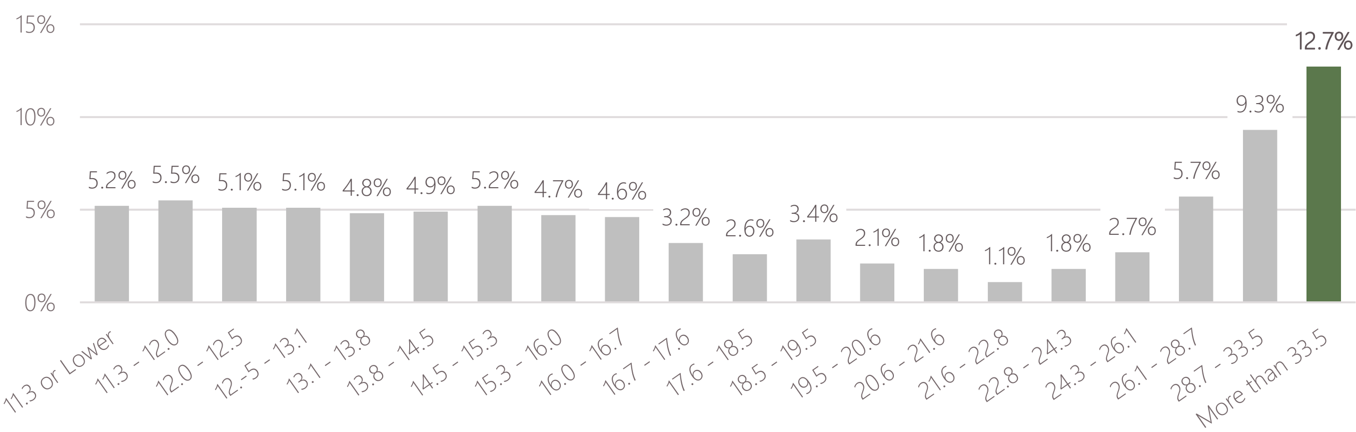
Estimates suggest that 20% tariffs could cut more than 2% from GDP through 2026 and drive inflation well above 3%. While slower growth would typically lead to higher unemployment and prompt Fed intervention, elevated inflation limits the Fed's ability to respond forcefully. Unlike previous downturns, the Fed is more likely to remain data-dependent, adjusting policy based on incoming data rather than proactively trying to counter a downturn.

Keeping Perspective: Focus on the Long-Term

Last week's declines, totaling more than 10%, pushed the market's fear gauge—the volatility index—above 40. The silver lining is that historically when the VIX reaches these levels, the market tends to finish significantly higher 12 months later. Perspective is key and while the declines have been painful, markets are usually quick to see through the noise and focus on fundamentals rather than headlines.

Markets Have Performed Well When VIX Has Reached Current Levels or Higher

Forward 12-Month S&P 500 Index Total Returns (Based on VIX Levels)



Source: Schroders Assets Management. VIX has spent 5% of the time in each range. From January 1991 to February 2023. Past performance is no guarantee of future results.

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