# Tariff Threat Becomes Reality

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Before yesterday, financial markets seemed to view President Trump's tariff threats mainly as a negotiating tactic. Despite the 10% tariffs already imposed on China, most expected the threatened 25% tariffs on Mexico and Canada would be further delayed or scaled back. That viewpoint met its demise yesterday when the President emphatically stated the tariffs would go into effect today.

With the exception of Canadian energy imports, which will be subject to a lower 10% levy, all imports from Mexico and Canada will be subject to the 25% tariff. The news is particularly grim for the auto industry whose supply chains are heavily intertwined between the three nations. The Wall Street Journal reported that an analysis by Anderson Economic Group concluded the tariffs will raise the cost of a pick-up assembled in North America by $8,000. While that remains to be seen, there is little doubt the tariffs will be disruptive to many industries.

In addition, President Trump issued an Executive Order doubling the 10% tariff previously imposed on China to 20%. He has also said a 25% tariff for the European Union is in the works. And in April, all trading partners that place levies or tariffs on US products will face reciprocal tariffs.

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The tit-for-tat retaliations have already begun with China announcing measured responses, Canada hitting back with retaliatory levies, and Mexico expected to announce its response on Sunday. The widening trade war further raises the level of uncertainty, and markets hate uncertainty. Stocks have been clobbered while interest rates have fallen sharply as concerns about the economic impact outweigh concerns about inflation. At least for now.

The job for the Fed's monetary policy makers has grown more difficult. Economists widely expect the new tariffs to initially result in higher prices, which might limit the Fed's ability to cut interest rates as a counter to the slowing economic activity that is also expected. Nonetheless, with growing concerns about deteriorating economic conditions, rate cut expectations are on the rise. Two weeks ago, fed funds futures had only fully priced-in one more rate cut this year. Today, futures are pricing in three more cuts this year with the next expected by June. The yield on the two-year Treasury note has fallen 40 basis points in the last two weeks, reaching its lowest level since last October.

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## Market Indications as of 12:07 P.M. Central Time

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| DOW | Down -604 to 42,587 (HIGH: 45,014) |
| NASDAQ | Down -105 to 18,245 (HIGH: 20,174) |
| S&P 500 | Down -73 to 5,777 (HIGH: 6,144) |
| 1-Yr T-bill | current yield 4.01%; opening yield 4.01% |
| 2-Yr T-note | current yield 3.92%; opening yield 3.94% |
| 3-Yr T-note | current yield 3.91%; opening yield 3.91% |
| 5-Yr T-note | current yield 3.97%; opening yield 3.96% |
| 10-Yr T-note | current yield 4.18%; opening yield 4.14% |
| 30-Yr T-bond | current yield 4.50%; opening yield 4.44% |