The Tariff Threat Becomes an Ugly Reality

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Yesterday afternoon, President Trump made good on his threat to impose harsh global reciprocal tariffs on U.S. trade partners. Market fears were realized when the president presented a chart to his Rose Garden audience outlining imposed tariff percentage by country. It's far from clear how these shockingly high numbers were compiled, although the chart itself mentioned that the formula included reference to (perceived) currency manipulation and trade barriers.

From these head-scratching calculations, Trump applied a "kind" discount of approximately 50% to arrive at the rate the U.S. will charge on imported goods:

- Vietnam 46%
- China 34% (on top of the 20% already in place)
- Taiwan 32%
- India 26%
- South Korea 25%
- Japan 24%
- The European Union 20%

The 25% tax on all foreign cars (announced earlier) was reiterated, and a global baseline rate of 10% was established, presumably to prevent relocation of production to a country not subject to tariffs. Canada and Mexico, earlier targets, were spared additional pain.

Trump has declared a national economic emergency, which in turn gives the administration power to act without approval from congress. This will likely be challenged in court. According to the official White House website: "President Trump is invoking his authority under the International Emergency Economic Powers Act of 1977 (IEEPA)." *This "emergency" is highly debatable as the actual overall tariff rates for U.S. partners are a fraction of what the President presented.*

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If investors were hoping for clarity yesterday, they didn't get much. A case can be made the suffocating tariff rates will create urgency for negotiations, but Trump continues to emphasize the massive amount of tariff revenue he expects to add to Treasury coffers. This puts him in a tough spot as he'd be reluctant to negotiate away a source of revenue expected to help pay for high priority tax cuts. The irony is that yesterday's tariff announcement appears to represent the biggest tax increase in U.S. history. According to *JPMorgan*, "this year's cumulative tariff hike should be viewed as a US tax increase of roughly $660bn or 2.2% of GDP."

It's likely that trade grinds to a halt as countries assess the new rules and determine how to respond. It's possible that many shipments in transit, scheduled to arrive next week, will be halted or refused. Most business investment is probably on pause until there's more clarity. Assuming stocks get hammered further, consumer confidence will slide. Prices for most items will soar, demand will drop. One obvious example is clothing and footwear, as over 97% of apparel sold in the United States is made overseas. Another is

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automobiles, where roughly 50% of production is domestic.

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The 10% tariff *on all goods* will take effect on April 5th, while higher reciprocal tariffs will become effective on April 9th.

Market Indications as of 9:08 A.M. Central Time

DOW	Down -1,479 to 40,746 (HIGH: 45,014)
NASDAQ	Down -837 to 16,764 (HIGH: 20,174)
S&P 500	Down -187 to 5,484 (HIGH: 6,144)
1-Yr T-bill	current yield 3.92%; opening yield 3.99%
2-Yr T-note	current yield 3.71%; opening yield 3.89%
3-Yr T-note	current yield 3.67%; opening yield 3.73%
5-Yr T-note	current yield 3.73%; opening yield 3.78%
10-Yr T-note	current yield 4.03%; opening yield 4.04%
30-Yr T-bond	current yield 4.46%; opening yield 4.44%