LIVE UPDATES | CONCLUDED

The Fallout From Trump's Reciprocal Tariffs Plan

Last Updated: Apr 3, 2025, 7:30 PM EDT

7 days ago

Where the Tariffs Pain Could Hit the Hardest

By Reshma Kapadia, Associate Editor

Economists and money managers have been increasingly worried about the direct and indirect costs of the administration's trade policies.

The team at USB Global Wealth Management put 50% odds that the average U.S. effective tariff rate by year's end increases by 10 percentage points since Trump's inauguration to around 12%, the highest since the 1940s. For context, the trade war that started in Trump's first term was focused mostly on China and emerged after the market and economy had already gotten a jolt from the tax cuts. Now, the tariffs are much larger, hit more countries, and come before a tax cut extension.

Among the U.S. industries likely to be hit hardest by the tariffs will be autos and others with complex supply chains that weave through multiple countries. "Industries that have benefited from supply chains that are efficient and cost effective will now have to retrench in order to reduce their exposure to trade policy and geopolitical risks. This will inevitably drive up costs for consumers worldwide, with businesses prioritizing resilience rather than efficiency," says Eswar Prasad, Cornell professor and senior fellow at Brookings Institution.

Also at risk: Companies that could be caught in the crossfire as countries retaliate. The most likely targets include companies making agricultural products, machinery and equipment, and high-tech goods that account for a significant share of U.S. exports, Prasad says.

Yardeni Research recently raised its odds for stagflation—or high inflation with weak economic growth—in the U.S. to 45%, citing the possibility of a growth slowdown "is exacerbated by the lack of a 'policy put' from the Federal Reserve or Trump 2.0 to support the stock market." Without support forthcoming, declines in the market could lead consumers and businesses to become more risk-averse, pushing the economy into a slump.

Money managers are also worried about the indirect costs. In their quarterly letter, Ben Inker and John Pease, part of GMO's asset allocation team, highlight the uncertainty created by the U.S. industrial policy that they warn will hit investment levels, return on capital, and overall growth globally, with the U.S. bearing the brunt of it.

"Tariffs also will hit the profits of most companies that do business in the U.S., including high-quality companies with significant market power, like the Magnificent Seven. For lower-quality companies, this hit may be enough to drive some into bankruptcy. That increased bankruptcy risk alongside generally tight credit spreads means that U.S. high yield corporate credit looks to be a particularly bad risk/reward trade-off," they write.

Trump has said he may be "flexible" and "lenient" when it comes to tariffs and negotiations. Such comments and the on-off nature of tariffs in recent weeks adds to the growing view that trade policy is fluid.

That feeds an uncertainty that could lead many to sit on their hands when it comes to spending. Lack of clarity on longer-term policy also doesn't foster the type of backdrop that leads companies to decide on long-term investment plans like building new production centers that the administration is hoping for with its trade and industrial policy, according to a piece co-authored by Philip Luck, director of the economic program and Centers for Strategic and International Studies.

Share

Back to Live Updates