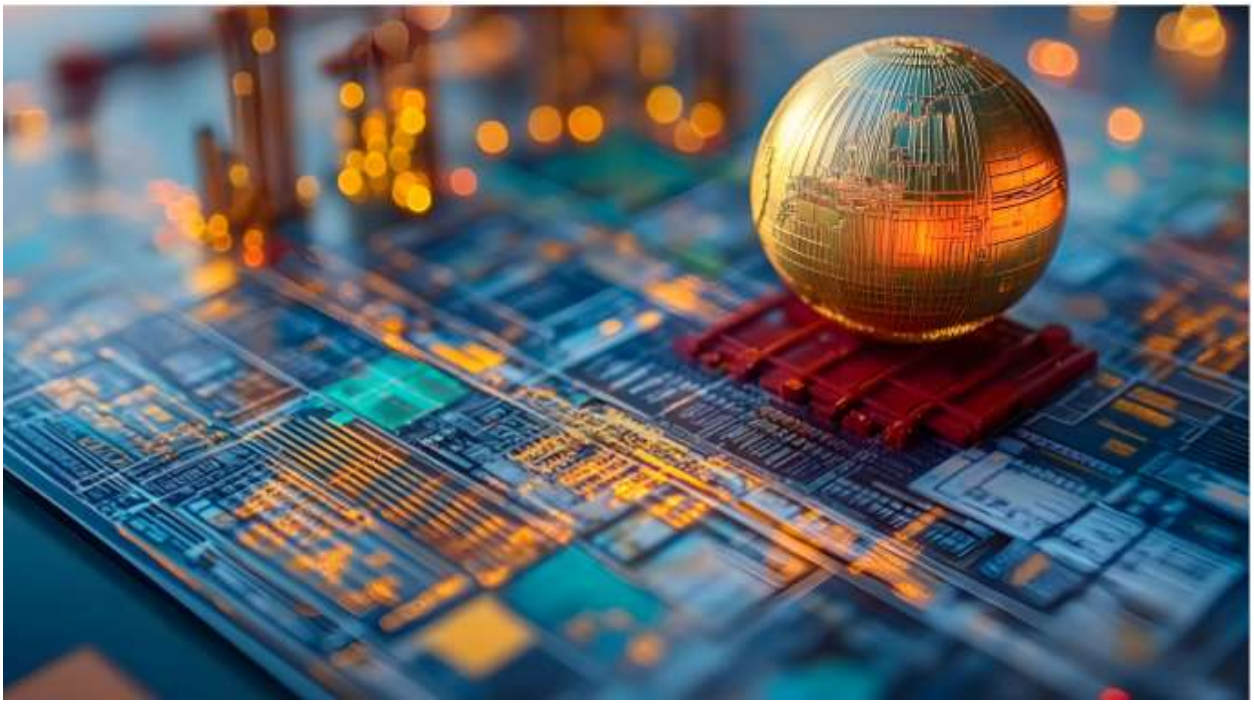
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Tariff Reaction

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Creating well-paying jobs in the US should be the goal of any policy maker. Protecting industries such as defense are critical for all nations. The problem is that using tariffs as a blunt tool to achieve these objectives may have unintended consequences.

On Wednesday, April 2nd, the President announced tariffs rates will be higher than expected. The markets responded with falling US equity prices. Bond prices jumped while yields dropped. The dollar fell sharply against other major currencies. International equities held up relatively well for US investors, thanks in part to the foreign currency appreciation.

One of the reasons we love markets are that they are trying to find the truth. They are not always right, but the agenda is clear – find the right price for assets. Millions of people around the world are trying to incorporate the new information on

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tariffs into the price of assets. The challenge is handicapping what announcement comes next.

Across Wall Street, economists had different reactions but in the same direction.

Morgan Stanley's team wrote, *"This announcement reinforces our view on the US economic outlook… that policy changes will weigh meaningfully on growth. Risks to inflation lie to the upside."*

Deutsche Bank said, *"Our US economists will need to work through the full implications, but their initial read is that if implemented this could easily knock around 1% to 1.5% off US growth this year while adding a similar amount to core [prices]."*

RenMac Advisors' Neil Dutta wrote, *"The squeeze from tariffs is a new development and all the administration is really promising is an extension of the current baseline of fiscal policy. In other words, whatever President Trump plans to do with the help of Congress will not really provide a major boost to the economy. Extending TCJA (Tax Cuts & Jobs Act) is removing a future headwind not adding a tailwind. Tariffs, by contrast, are a new headwind."*

After so much discussion around our neighbor to the North the last two months, we found it interesting that the executive order on tariffs exempted Canada. The Senate passed a resolution on Wednesday with a 51-48 vote that repealed the 25% tariff on Canada, though it will be unlikely to pass the House. The executive branch has limited authority on tariffs, and one of those requires a state of emergency. The Senate pushed back on the declared state of emergency with Canada.

Republican Senator Rand Paul was outspoken about the history of tariffs in prior eras and the economic consequences of the negative impact. He points out that McKinley's tariffs in 1890 led to the Republican party losing 50% of House seats. With the Smoot-Hawley tariffs in 1930, the GOP would lose control of Congress for the next 60 years. We bring all of this up to note that perhaps Congress is reasserting the taxing authority under Article I. Meaning, the President may be overstepping his reach with tariffs.

A White House spokesman said on BBC, "This is not a permanent state of affairs. This is a measure for those [countries] that are using punitive measures against our goods and sent a shot across the bow…. This isn't carved in stone, this isn't forever."

Perhaps it is a negotiation even though the administration denied this. President Trump, after all, did write a book called "The Art of the Deal." The tactic could level

the playing field for global trade, lowering tariffs and trade barriers. We expect more announcements over coming weeks and a dynamic pace.

For companies that are having a bad quarter, the rule is to get all the bad news out at once. That way, when things look a little brighter, the stock may react in a positive way to the news. In a similar way, we think the shock and awe approach to tariffs might be trying to speed up the bad news.

What could a turn and positive catalyst look like? Perhaps the Fed lowers interest rates further and faster than expected. Tax cuts (or the extension of current policy) could be another positive for the economy and markets. Less tariffs than we expected for the reasons discussed above are also possible.

We are watching markets and policy makers closely. Prior to every quarter, we analyze where we want to buy certain asset classes and the prices that we believe are right. We have levels in which we will begin to respond to reposition portfolios appropriately.

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