

Tariff-ied markets:



10% appears to be the rate of no return, but the worst uncertainty may be behind us

Bottom line

In our view, the 10% baseline tariff for nearly all US imports is likely here to stay, while some of the higher country-specific rates could be used as leverage for negotiation. Although volatility is likely to persist for some time and risks of recession have risen, there are reasons to believe the odds of a full-blown trade war are limited and the current >15% market correction already reflects much of the negative impact to growth and earnings. Since we now have at least some clarity on the purported “ceiling” for tariffs and growing signs that retaliatory escalation may be less severe than anticipated, this week’s market turmoil could potentially represent the peak of trade policy uncertainty and anxiety.

We expect concessions to exceed retaliation & the ultimate effective tariff rate to be closer to 15% than 25%, potentially serving as an eventual relief tailwind to risk assets

A potential collapse in confidence leading to layoffs is a primary concern

But we don’t believe this is likely. Consumer spending data remains strong, dispelling weakening sentiment surveys that suggest the opposite. We will continue to closely monitor credit card spending trackers, job postings, and weekly jobless claims data to corroborate our views.

Market reaction implies a meaningful increase in recession odds

We recognize this risk has risen but believe the odds are less extreme. In our view, this is likely more of a one-time effect vs deep-seeded economic rot. There are no immediate red flags in our view hinting at more serious catalysts of recession (i.e., overinvestment, deleveraging, banking crisis).

We are wary to jump to immediate conclusions on inflation impact

We expect any downstream price hikes to be a one-time pass-through and likely implemented quickly and completely in <6 months. Inflation expectations have thus far remained anchored and confirm our thesis, with 5 and 10-year break-evens moving lower post-tariff announcement.

Legal questions could slow implementation

Since the tariffs were enacted under the International Emergency Economic Powers Act (IEEPA), they will likely face legal challenges about whether this law can be used for such sweeping actions by executive order.

