MARKET COMMENTARY

EQUITY ANALYSIS

TURNING POINT: WHY TARIFFS SIGNAL THE END OF AN ERA AND THE START OF SOMETHING NEW

President Trump's April 2 announcement of a new "reciprocal" tariff policy comes on the heels of a volatile quarter—bonds outpaced stocks, growth stocks lost their edge, and haven assets gained favor. These new tariffs mark a pivotal shift in the trade, growth, and inflation outlook for the United States and the global economy. A growing consensus now assumes slower trade and economic growth, and a temporary rise in inflation pressures.

FROM GLOBALIZATION TO NATIONALISM

This shift should not be surprising. The once-dominant rallying cry for "globalization and free trade" is being replaced by calls for "protection and nationalism." A widening gap between haves and have-nots is reshaping politics worldwide. From the 2008 Financial Crisis to Brexit and the European debt crisis, many of today's global challenges trace their roots to the same source—unfettered globalization.

For many, what began as a widely beneficial trend has evolved into a burden. In our view, based on recent election results in the U.S. and elsewhere, voters across the developed world increasingly feel that globalization no longer serves their interests, and this sentiment is reshaping policy.

HIGHS AND LOWS OF GLOBALIZATION

In the early stages, globalization delivered real benefits. U.S. consumers, for instance, reaped rewards from the steep devaluation of China's currency throughout the 1980s and 1990s. Cheaper imports helped suppress inflation and interest rates, even as deficits rose. The U.S. transitioned from a manufacturing-based economy to one dominated by services. Meanwhile, the fall of the Soviet Union ushered in a rare era of global peace and expanding trade under American leadership.

CRACKS IN THE FOUNDATION

Yet, cracks began to form in the early 2000s. The September 11 attacks exposed the vulnerabilities of a rapidly interconnected world. Wars in the Middle East followed. Then came the Global Financial Crisis, the European debt crisis, and, most recently, the COVID-19 pandemic, which laid bare the fragility of global supply chains. Each event added momentum to the rising tide of nationalism and skepticism toward global integration.

THE HIDDEN COST—A LEGACY OF DEBT

Over the last 45 years, the United States has accumulated a cumulative trade deficit of approximately $16 trillion. These deficits were matched by capital account surpluses of equal size, which funded domestic consumption but at a cost. Jobs and production moved overseas, while America's exposure on external capital grew. Foreign central banks, in turn, amassed vast reserves (essentially U.S. Treasury securities) in a quest to maintain undervalued currencies and a competitive advantage vs. the U.S. Today, the interest burden on that debt is growing just as economic growth slows, raising the risk of future recession and financial instability.

Seen in this broader context, the April 2nd tariff announcement is less an isolated policy move than a milestone in a long-developing story. Both Democrats and Republicans have expressed concern about globalization's rising costs. While they may disagree on the solutions, there is broad agreement that something must change.

NAVIGATING WHAT COMES NEXT

Not all countries are retaliating, and upcoming tax debates are likely to reshape the narrative. China's quick response with reciprocal tariffs grabbed headlines, for example, but other nations—such as Vietnam and Cambodia—have responded differently, seemingly receptive to negotiating down tariffs. Domestically, the policy debate is already pivoting toward potential tax cuts in the coming months. An aggressive push toward extending tax cuts will likely be a prominent feature of the legislative agenda in the months ahead. These developments could offer a bullish counterweight to today's bearish tariff narrative, reminding investors that economic policy is a balance of competing forces, not a single headline.

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