# TARIFF FACTS

1. The US imposed 25% additional tariffs on all imports from Mexico and Canada and 10% additional tariffs on all imports from China. Energy resources from Canada will see reduced tariff rates of 10%.

2. The Administration suspended the “de minimis” exemption for packages valued at less than $800 addressed to individual buyers in the United States. This exemption has been seen as a boon for Chinese e-commerce retailers.

3. The primary rationale given by the Administration for the new tariffs is the leverage it believes it will give the United States in stopping illegal immigration and the importation of fentanyl and other dangerous narcotics.

4. Secondary justifications for the tariffs given were the impact of illegal immigration on wages, social services, crime, terrorist entry into the U.S., and human trafficking.

5. Gross trade (imports plus exports) makes up 67% of Canada’s GDP, 73% of Mexico’s GDP, and 37% of China’s GDP. Trade makes up 24% of U.S. GDP.

6. The United States’ total trade deficit is roughly -3% of GDP.

7. Spending on services accounts for over 80% of the American economy. Despite its much smaller size, spending on goods and manufacturing accounts for a greater portion of the economy's volatility.

8. The value of total imports of goods into the United States is about $3.3 trillion dollars. Total personal income in the U.S. is roughly $25 trillion. A 25% increase on all goods imported into the United States would be roughly equivalent to a 3% tax increase on all income.

9. Any attempts to retaliate against these tariffs will result in additional tariffs.

10. Over the weekend, the president said he will “definitely place new tariffs on the European Union. I wouldn’t say there’s a timeline, but it’s going to be pretty soon,” he told reporters. Euro Stoxx 50 futures were down as much as 3.4% on Sunday night.

Source: RiskBridge, Strategas Research

# TARIFF OPINIONS

- RiskBridge believes US tariffs will likely increase financial market volatility, trim corporate earnings growth by -3% for 2025, and support our baseline assumption of 5.0% 10-year US Treasury yields, which lowers stock market earnings multiples.
- We still believe US nominal GDP growth of ~5.0% is still possible, but with higher inflation and lower growth.
- Analysis of past tariffs suggests the sharpest hit to markets should occur in the first four to six quarters, then dissipate thereafter.
- Unlike the Smoot Hawley legislation passed in the 1930s, today, there is an attempt to keep taxes low (or cut them) and reduce the regulatory burden on business. A tighter trade policy increases the need for TCJA extension, an easier regulatory environment, and lower energy prices.
- The US dollar is expected to rally following a down January.
- The yield curve is expected to bear-steepen, with the back end of the curve rising faster than the front end of the curve.
- Corporate credit spreads are expected to widen due to potential supply chain disruption, higher consumer prices, rising cost of capital, and a general economic slowdown. We think credit's positive carry still supports an allocation to credit, especially high-yield and select private credit opportunities.
- For equity investors, we believe value may start to outperform growth, and small-cap companies with access to relatively cheap funding may outperform large-cap stocks with international operations.

| US Macro Data | 7-year avg | 2024 | 2025 | 2025 w/ Tariffs |
|---|---|---|---|---|
| Real GDP Growth | 2.4% | 2.6% | 2.5% | 1.9% |
| CPI Inflation | 3.5% | 2.4% | 2.5% | 3.0% |
| **Nominal GDP Growth** | **5.9%** | **5.0%** | **5.0%** | **4.9%** |

| US Interest Rate Fundamentals | 7-year avg | 2024 | 2025 | 2025 w/ Tariffs |
|---|---|---|---|---|
| Fed Funds | 1.73% | 5.17% | 3.75% | 4.0% |
| 2-yr UST yield | 2.00% | 4.38% | 4.00% | 4.25% |
| 5-yr UST yield | 2.14% | 4.12% | 4.50% | 4.75% |
| 10-yr UST yield | 2.37% | 4.20% | 5.25% | 5.00% |
| 30-yr Mortgage | 4.48% | 7.13% | 8.00% | 8.00% |
| US 1y Credit Default Swap (bps) | 18 | 19 | 24 | 35 |
| US 5y Credit Default Swap (bps) | 23 | 33 | 34 | 35 |

| US Credit Fundamentals | 7-year avg | 2024 | 2025 | 2025 w/ Tariffs |
|---|---|---|---|---|
| IG Credit Spread | 119 | 80 | 100 | 100 |
| HY Credit Spread | 398 | 287 | 350 | 350 |
| EM Debt Spread | 315 | 220 | 325 | 325 |

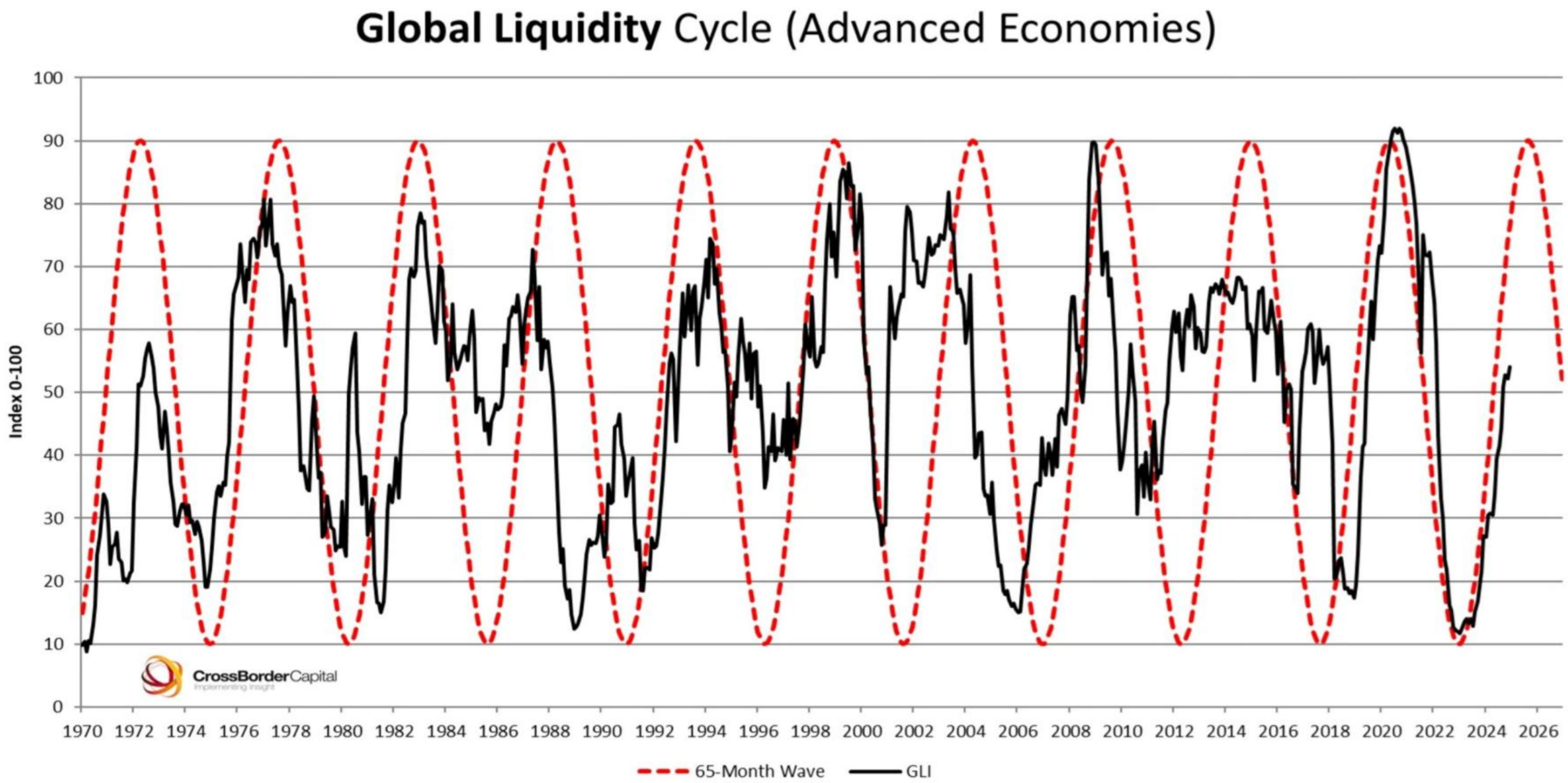
| US Stock Market Fundamentals | 7-year avg | 2024 | 2025 | 2025 w/ Tariffs |
|---|---|---|---|---|
| S&P EPS ($) | $167.76 | $239.00 | $265.00 | $257.00 |
| S&P EPS (y/y %) | 10.5% | 8.5% | 10.9% | 7.5% |
| Price/Earnings Multiple | 21.9 | 25.3 | 22.8 | 23.5 |

Source: RiskBridge, Bloomberg

# LIQUIDITY IS ON THE RISE

One reason we remain constructive on capital markets is that global liquidity is expected to accelerate in the coming months.

Global liquidity is the total amount of money in the global financial system that can be easily accessed and used for investments. It is comprised of central bank reserves, commercial bank credit, shadow banking (private credit, hedge funds, money market funds), and cross-border flows. Factors impacting liquidity include monetary policy, banking sector health, cross-border capital flows, private market risk appetite, FX rates, regulation, and interest rate volatility. Generally, rising global liquidity favors an increased tolerance for risk.



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