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# Keeping tabs on tariffs: The new trade era

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## Latest developments

In a significant move that could reshape international trade dynamics, President Donald Trump held a ceremony in the Rose Garden to sign an executive order imposing a comprehensive schedule of tariffs on all imports. This new policy introduces an average reciprocal tariff of nearly 20%, a figure that aligns closely with forecasters' worst-case predictions leading up to the announcement. Under the new tariff regime, a baseline rate of 10% will be applied to all imports. However, the rate will increase for individual countries that impose higher penalties on the US, which include tariffs, currency manipulation, and other non-tariff barriers.

The President presented a detailed list of fifty countries and economic regions, outlining the estimated penalties they impose on the US and the reciprocal tariffs that will take effect within the next week. For example, China—America's second largest trading partner—will face a 34% reciprocal tariff rate on everything imported to the US. This is on top of the 20% tariff applied last month, producing a 54% tariff rate. Canada and Mexico, however, were absent from the President's reciprocal tariff list. Goods covered under the existing United States-Mexico-Canada Agreement (USMCA) will not be subject to these new tariffs.<sup>1</sup> However, non-compliant goods will continue to face a steeper penalty of 25%, with some exceptions. Additionally, previously announced sectoral tariffs on key industries such as autos, steel, aluminum and energy will not be subject to the reciprocal rate. This executive order marks a pivotal moment in US trade policy, setting the stage for potential retaliation, negotiations and adjustments in the global economic landscape.

## Next steps—Negotiation and on to the tax bill

Uncertainty remains regarding the expected duration of these tariffs and the status of ongoing negotiations. According to a release from the White House, the tariffs will remain in effect until the President determines that the threat posed by the trade deficit and underlying nonreciprocal treatment is satisfied, resolved, or mitigated. Treasury Secretary Scott Bessent noted that the reciprocal rate serves as a ceiling, unless trading partners choose to retaliate. Historically, earlier rounds of tariffs were characterized by revisions and reversals, but the level of detail and buildup surrounding the announcement suggests that the penalties could be more permanent.

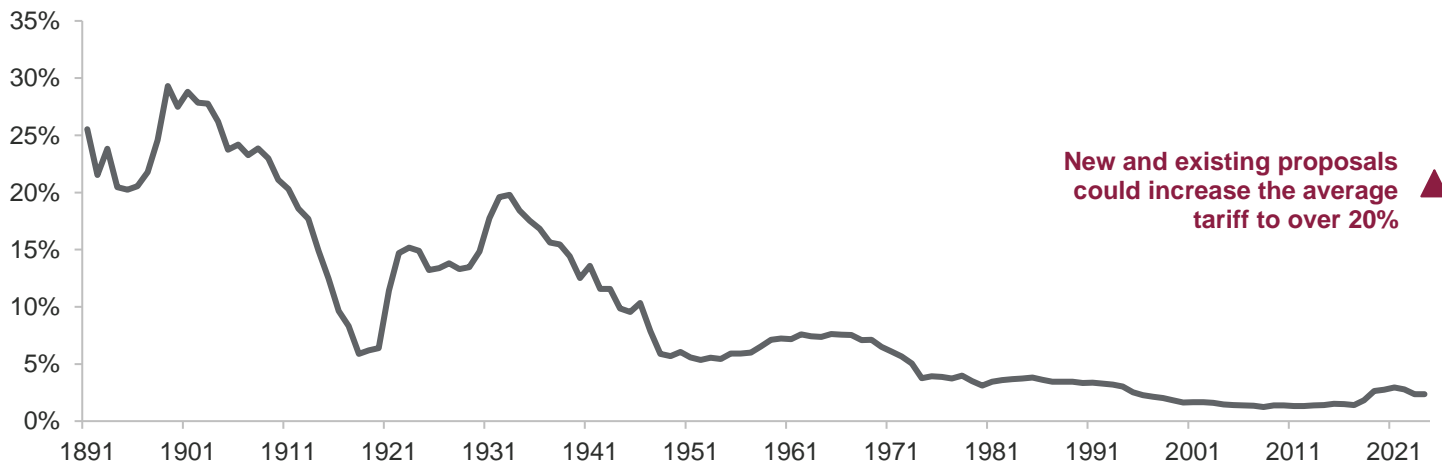
Following the tariff rollout, the President shifted to the potential extension of the Trump tax cuts. The administration is likely to pivot toward more market-friendly discussions, advocating for lower tax rates and deregulation as a means to offset the negative impacts of the newly implemented trade policy. This strategy reflects a notable shift from the Trump 1.0 approach, which initially emphasized corporate and individual tax cuts before delving into the disruptive aspects of trade policy. The Trump 2.0 team appears to be reversing this narrative.

## Impact and implications—Markets discounting a steeper slow-down

The announcement of new tariffs sent shockwaves through the financial markets, leading to sharp selloffs in global equities and rallies in developed market bonds. In the twenty-four hours immediately following President Trump's statement, the S&P 500 Index fell by more than 4%, while 10-year Treasury yields fell by ten basis points, settling just above 4%. The US dollar also weakened against major trading partners, reflecting the immediate market reaction to the size of the penalties and the potential growth headwinds associated with the new trade policy.

The announced actions would bring the estimated average tariff to levels that have not been seen in more than 100 years. Additionally, the levels imposed by the US on some individual countries, such as China and Vietnam, go well beyond existing tariffs and could lead to more complex and lengthy negotiations.

### Exhibit 1: Effective US import tariff rate



Source: United States International Trade Commission, IMF, CIBCWP April 3, 2025.

In anticipation of the announcement, forecasters had already adjusted their expectations—lowering growth forecasts and raising near-term inflation expectations. However, further adjustments may be on the horizon as analysts assess a possible tariff-driven recession. The recent market weakness is indicative of the reduced growth and earnings expectations stemming from the tariffs and general policy uncertainty. The likelihood of retaliatory measures and ongoing negotiations suggests that market volatility could persist in the near term.

Looking beyond the immediate market reactions, the administration is expected to pivot its messaging toward extending tax cuts and promoting deregulation as potential offsets to the negative impacts of the tariffs. Additionally, the Federal Reserve (Fed) could shift its attention to fostering growth. At its last meeting on March 19, the Fed held interest rates steady, but markets are now anticipating that the negative growth aspects of the tariffs could prompt the Fed to cut rates four more times by the end of 2025. This shift in market sentiment has favored higher-quality bonds.

While tariffs pose a significant headwind for the global economy, the current outlook for the US remains one of slower growth rather than outright recession. The economy continues to benefit from near-full employment and healthy corporate balance sheets, positioning it well to navigate the challenges of restrictive trade policy. During a broad correction like the one experienced over the last six weeks, there is no place to hide in the equity market. However, stocks possessing reasonable valuations, solid cash flows, and strong balance sheets are holding up better. Meanwhile, more attractively-valued foreign markets have generally outperformed the US, with some still carrying positive year-to-date returns. High-quality fixed income has fulfilled its safe-haven status, holding its value and generating income during the equity downturn. As the situation evolves, we will be closely monitoring both market responses and policy adjustments in the coming weeks.

*We will continue to monitor and keep investors apprised of the evolving tariff situation. If you have any questions, please do not hesitate to contact a member of your CIBC Private Wealth team.*

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1 The Presidential Executive Order of April 2, 2025 (Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits).

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