

Market Commentary 2/20/25

An Oxford Harriman & Company Market Commentary

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Understanding Tariffs and President Trump's Recent Proposals

What Are Tariffs?

Tariffs are taxes or duties imposed by a government on imported goods. The primary purpose of tariffs is to make imported goods more expensive, encouraging consumers and businesses to buy domestically produced alternatives. However, they can also generate revenue for the government and are often used as a tool in international trade policy to negotiate better terms or protect strategic domestic industries.

Recently, President Trump has been issuing and threatening tariffs to help curb the flow of illegal aliens into the U.S., as well as attempting to get cooperation in curbing the flow of fentanyl into the country.

There are two main types of tariffs:

Ad Valorem Tariffs

A percentage of the value of the imported good.

Specific Tariffs

A fixed amount of money charged per unit of the imported good.

While tariffs can support domestic industries by limiting foreign competition, they can also lead to higher prices for consumers and potentially provoke retaliatory measures from trading partners. This has been well documented in the media since the beginning of 2025.

President Trump's Proposed Tariffs

During his first presidency, Donald Trump frequently used tariffs as part of his "America First" trade strategy.

During his first presidency, Donald Trump frequently used tariffs as part of his "America First" trade strategy. Between 2018 and 2019, the United States, under the Trump administration, engaged in a series of escalating trade and tariff conflicts, primarily with China but also targeting other trading partners such as the European Union, Canada, and Mexico.

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This period was marked by the imposition of tariffs on hundreds of billions of dollars worth of imported goods, countermeasures by trading partners, and ongoing trade negotiations. While the stated objective was to address trade imbalances and intellectual property issues, these conflicts resulted in significant economic disruptions, creating heightened market volatility.

One of Trump's recent proposals advocates for introducing a **universal tariff**, which would apply to nearly all imports at a flat rate of 10%. This would mark a significant departure from traditional trade policy. Trump's argument is rooted in the belief that such a tariff would incentivize manufacturing within the United States, reduce the trade deficit, and protect American jobs against competition from lower-cost foreign labor.

Potential Impacts of the Proposed Tariffs on the U.S. Economy

While the long-term ramifications of such policies are complex and depend on numerous factors, economists have identified several potential impacts of President Trump's proposed universal tariffs:

By making imported goods more expensive, the tariff could encourage consumers and businesses to purchase American-made products.

Positive Impacts

1. Boost to Domestic Industries

By making imported goods more expensive, the tariff could encourage consumers and businesses to purchase American-made products, potentially leading to increased domestic production and job creation in certain sectors.

2. Reduction in Trade Deficit

A universal tariff may reduce the volume of imported goods, narrowing the trade deficit—the difference between what the U.S. imports and exports. Supporters of the proposal often cite this as a mechanism to strengthen economic self-reliance.

Negative Impacts

Higher tariffs would likely increase the price of imported goods, as businesses often pass the additional costs onto consumers. This is particularly concerning for industries like electronics and apparel, where a significant portion of goods are imported.

1. Rising Costs for Consumers and Businesses

Higher tariffs would likely increase the price of imported goods, as businesses often pass the additional costs onto consumers. This is particularly concerning for industries like electronics and apparel, where a significant portion of goods are imported.

2. Impact on Supply Chains

Modern manufacturing relies heavily on global supply chains. A universal tariff could disrupt established supply lines, forcing businesses to either pay higher costs or find alternatives, which could reduce efficiency and increase production expenses.

3. Retaliatory Measures from Trading Partners

A broad and unilateral increase in tariffs could provoke retaliatory tariffs from other countries, potentially harming American exporters. For instance, agricultural producers and manufacturers reliant on international sales may face reduced demand if trading partners impose their own restrictions on U.S. goods.

4. Risk of Inflation

Higher prices on imported goods could contribute to inflation, squeezing household budgets and leading to slower economic growth.

5. Potential Strain on Global Trade Relationships

A flat tariff on all imports may challenge long-standing trade agreements, including those under the WTO (World Trade Organization), potentially isolating the U.S. in the global economic sphere.

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Balancing Act

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The ultimate success or failure of Trump's proposed tariffs depends on whether they deliver enough economic benefits to offset the potential downsides. While they may bolster domestic production in select industries, the broader impact on consumers, businesses, and international relationships could complicate the long-term outlook.

For policymakers, the challenge lies in finding a trade policy that simultaneously supports domestic growth, protects American workers, maintains affordability for consumers, and sustains healthy global trade partnerships.

We believe balancing these competing priorities will be essential as debates around tariffs and trade policies continue to shape the economic landscape. We will continue to review the situation and keep you informed.

Have a good week,

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