Economic impacts of the tariffs

Global Financial Private Capital

Trade war anxiety plagued the markets once again this week and made stock investors nervous. The S&P 500® Index fell after the Trump administration threatened restrictions on Chinese investment in U.S. technology companies, along with tariffs. Nothing was spared, not even the much-loved technology sector. Until recently, the tech sector has avoided much of the volatility seen in the broader markets due to trade worries. The Nasdaq Composite Index dropped, dragged down by its heavier weighting to technology stocks, which stand to lose relatively more from the newly announced investment restrictions in this ongoing trade war.

As stocks declined, investors moved to safe-haven investments such as Treasury bonds, driving long-term bond yields lower and prices (which move inversely to yields) higher. Just a few weeks ago, the markets were grappling with the challenge of the 10-year Treasury topping 3.0%, which dominated headlines and sent equity markets to new lows. Now tariffs have introduced new fears in the market.

Tariffs generally damage economic well-being and lead to a net loss in production and jobs, as well as lower levels of income. While the U.S. has imposed tariffs on goods from various countries, and those countries have responded, a full-blown trade war—typically including substantial tariffs, quota barriers on a broad set of goods and services, or onerous restrictions on companies from other countries—has not yet materialized.

What exactly are the impacts of the tariffs?

To understand the full the impact of the tariffs, we look to the Tax Foundation, which is the nation's leading independent tax policy research organization. The Tax Foundation's Taxes and Growth Model analyzed the effects of enacted, threatened, and retaliatory tariffs on the United States economy and reported the following findings:

- The tariffs enacted so far by the Trump administration would reduce long-run GDP by 0.06 percent ($15 billion) and wages by 0.04 percent and eliminate 48,585 full-time equivalent jobs.
- If the Trump administration enacts additional tariffs on automobiles and parts and imposes additional Chinese tariffs, GDP would fall by an additional 0.3 percent ($82.3 billion), resulting in 0.2 percent lower wages and 255,283 fewer full-time equivalent jobs.
- Other countries have also announced intentions to enact tariffs on U.S. exports. If these tariffs are fully enacted, we estimate that U.S. GDP would fall another 0.05 percent ($12 billion) and cost an additional 37,590 full-time equivalent jobs.
- If all tariffs announced thus far were fully enacted, U.S. GDP would fall by 0.44 percent ($110 billion) in the long run, effectively offsetting one-quarter of the long-run impact of the Tax Cuts and Jobs Act. Wages would fall by 0.31 percent and employment would fall by 314,459 [full-time equivalent jobs].[1]

To place this in context, the U.S. GDP ran at a rate of $19.96 trillion a year from January through March 2018. In the job market, approximately 129.01 million people were employed on a full-time basis in the U.S. as of May 2018. To date, the resulting impact of the existing tariffs is not enough to derail U.S. economic growth. In addition, it's important to note that very few of the ideas that have been tweeted by the president or other members of the administration are final, and do not reflect effective policy at this point. As such, the biggest tariff of all is

[1] Tax Foundation Taxes and Growth Model [https://taxfoundation.org/tracker-economic-impact-tariffs/]

Created by:

Global Financial Private Capital

This Thought for the Week has been prepared by and for Global Financial Private Capital, LLC ("GFPC"). GFPC owns all copyright rights in and to this and each of its Thought for the Week articles. It is impermissible to copy or redistribute GFPC's Thought for the Week articles without our prior approval.

uncertainty. Markets do not like uncertainty and will continue to remain volatile as the tariff/trade war rhetoric ratchets up. While uncertainty alone does not lead to a recession, the concern remains that it could lead to a potential economic slowdown as consumer and business confidence erodes.

What can investors do in the meantime?

While the recent tariffs and trade wars have certainly stoked fear and greater uncertainty in the markets, the fundamentals of global growth remain strong in the short term. Portfolio resilience is crucial now. It's nearly impossible for investors to time the market, and it's generally better to resist the urge to sell based solely on recent market movements. Investors should avoid making investment decisions based on emotions, such as selling when the market declines suddenly, and stick with their long-term investment strategies. Incorporating higher quality exposures in fixed income and selecting companies with strong balance sheets and earnings growth may help dampen some volatility.

Diversification can also help buffer portfolios against market regime changes.* In addition, investors may also consider revisiting their plans and ensuring their portfolios are aligned with their long-term investment goals and objectives. Having a well-thought-out financial plan and investment strategy can help investors stay on course when the markets are most volatile. Investors may also want to revisit their risk tolerance. Periods of market volatility can be a wake-up call, and some investors feel differently about their risk tolerance after they experience volatility firsthand. Finally, periods of volatility may serve as a reminder for investors to rebalance their portfolios back to their long-term strategic asset allocations.

*Diversification does not ensure a profit or guarantee against loss.

Index Definitions

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

The NASDAQ Composite is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market. Along with the Dow Jones Average and S&P 500 it is one of the three most-followed indices in US stock markets.

This material is for informational purposes only and sets forth the views and opinions of our investment managers as of this date. The comments, opinions and estimates are based on or derived from publicly available information from sources that we believe to be reliable. This commentary is not intended as investment advice or an investment recommendation nor should it be construed as a solicitation to buy or sell securities.

Investment advisory services offered through Global Financial Private Capital, LLC. Securities offered through GF Investment Services, LLC. Member FINRA/SIPC. 501 North Cattlemen Road, Ste. 106, Sarasota, FL 34232
537001 06/2018

This Thought for the Week has been prepared by and for Global Financial Private Capital, LLC ("GFPC"). GFPC owns all copyright rights in and to this and each of its Thought for the Week articles. It is impermissible to copy or redistribute GFPC's Thought for the Week articles without our prior approval.