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The Tariffs: What to Expect, How to Hedge

The Tariffs and Market Response

On April 2, 2025, U.S. President Trump announced blanket tariffs of at least 10% on almost all U.S. imports from nearly all trading partner countries (with the notable exception of Russia). About 60 countries, including the U.S.'s most significant trading partners, face much higher blanket tariffs. The long-telegraphed move, the largest and most comprehensive tariffs imposed by the U.S. since 1930 and the ill-fated Smoot-Hawley Act, and taken in defiance of almost all mainstream economist opinion, immediately sent world markets into freefall. On April 3, the Dow Jones Index fell 3.98%. the tech-focused NASDAQ fell 5.97% and the S&P 500 fell 4.84%. On April 4, the Dow fell a further 5.50% for a two-day decline of 9.48%, over 3,000 points for the week, into correction territory; the NASDAQ 5.82% for a two-day decline of 11.79%, into a bear market, since it was off 20% from its previous high; and the S&P 500 5.97% for a two-day decline of 10.81%, spurred in part by China's imposition of retaliatory tariffs of 34% on all American imports.

The two-day slide wiped over $6.6 trillion in value from the stock market (for reference, U.S. GDP for 2024 was $29.7 trillion, so the two-day losses were the equivalent of over 20% of annual U.S. GDP). $1.6 trillion of those losses came from the so-called "Magnificent Seven" of leading tech companies alone. Goldman Sachs and J.P. Morgan Chase revised their estimates for a U.S. recession in the remaining nine months of 2025 to 50 - 60%. U.S. Federal Reserve Chair Jerome Powell stated that the tariffs were likely both to spur inflation and decrease growth, the dreaded "stagflation," dampening investors' hopes for interest rate cuts and rebutting Trump administration promises that the tariffs would not be inflationary. The dollar fell to its weakest values of the year on the foreign exchange markets, unusual in times of stock market volatility, which usually strengthens the dollar as a refuge of stability. Not this time.

The tariffs are on goods only, not on services. Some tariffs are on specific categories of imported goods; some are on entire countries or blocs of countries. Among the key tariffs imposed on April 2 are: 25% on imported automobiles, hitting trusted allies Canada, Japan, Germany and South Korea particularly hard; 20% on all items imported from the European Union; and 97% on imports from Cambodia. China, the world's second largest economy, was levied with a 34% blanket rate in addition to the 20% already in place, a total of 54%. Imports from U.S. North American neighbors, Canada and Mexico, were already subject to 25% tariff on goods not already subject to the U.S.-Mexico-Canada Trade Agreement. Canadian energy and potash imports to the U.S. are tariffed at a 10% rate.

Why the Tariffs Make No Sense

We usually try to avoid politics in these advisories, but there is no sugarcoating economic and finance reality: the Trump tariffs are inane, probably the worst American economic policy decision in nearly 100 years, since Smoot-Hawley, and resulting in the highest American tariff structure since 1909. As virtually all mainstream economists have noted, tariffs are not paid by the exporting (selling) country, but by the wholesale or retail buyers in the importing country. The Trump administration tariffs are a tax on U.S. consumers. They are likely to provoke a U.S. recession of unknown duration and severity, and are doing incalculable damage to U.S. leadership, relations and foreign policy. The Trump administration will be forced to reverse them - even Republicans in Congress are expressing rare dissent and starting moves for Congress to reassert control of tariff policy. But any reversal now will be after much of the damage is done.

None of this is to say that targeted tariffs are never appropriate or justified, but blanket tariffs on the rest of the world make no sense and betray a lack of understanding of basic macroeconomics that would fail a university survey course. A few analysts have analyzed the announced tariffs, and realized that they were imposed for each country by putting the U.S. trade deficit with each other country in a fraction as the numerator with the amount of goods the U.S. imports from that country as the denominator, and dividing by two, with a minimum imposition coefficient of 10%. The calculation methodology was subsequently inadvertently confirmed by the Office of U.S. Trade Representative. As an example, the U.S. has a $66 billion trade deficit with South Korea, and imports $133 billion in goods from that country. The resulting fraction, 66 divided by 133, is 50%, so the Trump administration imposed a 25% tariff on South Korean imports. As another example, the U.S. trade deficit with China is $295.4 billion, and the U.S. imports $439.9 billion of Chinese goods. Applying the same formula, the Trump administration applied a tariff coefficient rate of 34%. But this formula has nothing to do with whether the exporting country has "looted, pillaged, raped and plundered" the United States, as Trump put it in an effort to rile up the pitchfork and torch crowd, which he knows are not in danger of getting the economic nuances; the trade deficit with any given country is usually a function of the U.S. being a larger, wealthier country, therefore importing more from that country than it exports to it, rather than the other country in some manner cheating or "ripping off" the United States, the officially stated pretext of the Trump administration for the tariffs. Import amounts and rates are also affected by price elasticity, capital flows and other factors. Independent analyses by The Economist, the Wall Street Journal, and the American Enterprise Institute, among others, show that corrected tariff rates for the affected countries, even if one accepts the Trump administration rationale for tariffs in the first place, should be half or less than has been imposed: for example, 10% instead of 20% for the European Union, 10% instead of 25% for South Korea, etc. Thus, the Trump tariff policy is not only ignorant of basic macroeconomic theory, but even within its wrong-headed policy choices, is misapplying its own theories and poisoning American trading and foreign policy relationships - for nothing.

Trading Partner Responses

Canada, the U.S.'s largest trading partner, immediately imposed a 25% tariff on U.S.automobile imports into Canada. China imposed a blanket tariff of 34% on U.S. imports. The European Union is expected to impose retaliatory and reciprocal tariffs. Most notably, Canada and the European Union are seeing a burst of anti-American sentiment that is already having the effect of causing many of their citizens to avoid buying American, even aside from tariffed pricing. In France and Denmark, for example, supermarkets and other outlets are labeling American products to make it easy for consumers not to buy them, such as the use of "black star" stickers on American products in Denmark. Some countries, including Vietnam and South Korea, announced their intention to "make a deal" with the Trump administration.

What to Expect; How to Hedge

Hedges: Hedges against the effects of the tariffs include, besides the expressly hoped-for policy of the Trump administration to move manufacturing back to the U.S. base, a process that will take years and which is uncertain of success, since U.S. consumers would have to be willing to pay the higher costs of U.S. manufacture: a retreat to reserve commodities of historic stability, such as gold and gold-based assets or other precious metals such as platinum; diversification of dollar-denominated holdings, including cash, into other currencies or "baskets" of currencies, including the Euro and Yen; shifting holdings from equities to bonds, particularly longer term bonds; and general diversification of holdings and exports. For example, Canada, which admits it has been far too reliant on the U.S. export market, is seeking to establish closer trading relations with the European Union.

Policy: Expect a rapid rollback of the tariffs by the Trump administration, probably as soon as if not before the expected recession sets in, no doubt with as much face-saving as possible, stating that "the goal of the tariffs has been achieved," etc.

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