To the Point.

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What to Do in the Face of a Tariff War?

Since the Trump administration took office last January, a wind of change has swept through U.S. economic policy. One of the most striking measures has been the push to impose tariffs on imports from Canada.

What Is a Tariff?

A tariff is a tax imposed by a government on imported or exported goods. Its purpose is to regulate international trade, protect domestic industries, and generate revenue for the state.

Why Does President Trump Want to Impose Tariffs on Imports?

The Trump administration has provided several justifications for introducing new tariffs:

1. **Reducing the Trade Deficit:** The U.S. has a significant trade deficit, meaning it imports more than it exports. By making foreign products more expensive, the goal is to encourage the consumption of American-made goods.
2. **Job Creation:** Protecting domestic industries is expected to boost employment within the country.
3. **Negotiation Leverage :** Tariffs can serve as a political bargaining tool in trade agreement renegotiations.

Are Tariffs a Good Thing?

The While tariffs may seem beneficial to the imposing country, they often come with unintended economic consequences:

- **Higher Prices for Consumers:** Tariffs will have the effect of increasing sales prices, which will accentuate inflation.
- **Retaliatory Measures:** Targeted countries often respond with similar tariffs, potentially escalating into a damaging trade war.
- **Disruptions to Global Trade:** Uncertainty surrounding trade relations can affect business investment decisions.
- **Job Losses in Certain Sectors:** Industries reliant on international trade, such as exports and logistics, may suffer.

A Bit of History

In macroeconomics, the concept of comparative advantage is fundamental to understanding the benefits of international trade. When one country excels in producing a particular good, while another specializes in another, both benefit from specialization and exchange. This model optimizes resource allocation and drives economic growth.

Over the past two centuries, global economies have oscillated between periods of deep globalization and waves of protectionism. At the turn of the millennium, globalization led developed nations to outsource much of their manufacturing to lower-cost emerging economies. This trend contributed to sustained economic growth and moderate inflation in Western economies.

However, the COVID-19 pandemic has exposed the fragility of global supply chains, reigniting interest in manufacturing sovereignty. This shift toward protectionism could reshape international trade in the years ahead.

Our Perspective

At this stage, it is clear that tariffs will inevitably drive inflation higher. Since consumer spending accounts for nearly 70% of U.S. GDP, an inflationary shock could slow economic growth. This presents a dilemma for the current administration, which must balance protectionist policies with the risk of an economic slowdown. From a purely rational standpoint, there is still uncertainty regarding the scale and extent of the tariffs that will eventually be implemented.

What Should You Do With Your Portfolio?

In times of uncertainty, it may be tempting to exit the market and wait for the storm to pass. However, we do not recommend a market-timing approach, and here's why:

1. **Market Predictions Are Difficult:** Trying to anticipate market fluctuations can negatively impact long-term returns.
2. **Time-Consuming and Stressful:** Constantly monitoring economic policies and adjusting portfolios accordingly is challenging and often counterproductive.
3. **Strong Fundamentals Remain Key:** In the long run, corporate profitability and growth drive stock market performance.

Historically, Republican administrations have fostered a business-friendly economic environment (lower taxes, deregulation, free markets). This trend could mitigate some of the negative effects of tariffs.

In Summary

Tariffs are nothing new, and their impact will depend on how they are effectively implemented. It is likely that they will contribute to higher inflation and slower economic growth in the U.S. Nevertheless, the extent of these measures remains uncertain and may be less severe than initially announced.

In this context, the best strategy is to stay disciplined by investing in high-quality companies rather than trying to anticipate market fluctuations. Historically, markets have adapted to such changes, and a long-term investment approach remains the best way to navigate uncertain periods.

If you have any questions about how these developments may affect your portfolio, please feel free to contact us.

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