



NAVIGATING TARIFF COMPLEXITIES

What happened:

After U.S. markets closed yesterday, President Trump held a highly awaited press conference where he outlined his strategy for addressing U.S. trade imbalances. This included the details of a broad-based rollout of additional tariffs on U.S. trading partners.

What was delivered:

The President announced a tariff of 10% on all imports from all trading partners (“universal” tariff). Around 60 countries representing the bulk of U.S. imports will receive a tariff that is higher than the 10% universal rate (“reciprocal” tariff). These countries will be charged a custom rate that is half what the U.S. Trade Representative estimates they are charging to the U.S. This appears to have been estimated by the size of each country’s trade imbalance with the U.S., and was said to incorporate non-tariff barriers such as currency practices and value-added taxes. Reciprocal tariffs on some of the largest U.S. trading partners include 20% on the European Union, 34% on China, 24% on Japan, 46% on Vietnam, 25% on South Korea, 32% on Taiwan and 26% on India. The full list of countries charged a reciprocal tariff is posted in Annex 1 of the Executive Order. These tariffs will be stacked onto existing tariffs. For example, without exemptions the total average tariff rate on China could rise to 54% (20% pre-existing tariff rate plus the 34% reciprocal). The 10% universal tariff will go into effect on April 5, while the country-specific reciprocal rates take effect on April 9.

A second Executive Order also ends the de minimis exemption for China. This allowed China imports valued under \$800 to avoid tariffs. Starting May 2, those goods will be tariffed at 30% of their value, or \$25 per item, which increases to \$50 per item starting June 1.

There are some key exceptions to the additional tariffs. The pre-existing tariff structure on Mexico and Canada will remain as is. This means that USMCA compliant goods will not be tariffed, which represents around half of imports from Mexico and Canada. That proportion is likely increasing as the countries now have strong incentive to ensure goods adhere to USMCA compliance. The additional tariffs will also not apply to the 25% tariff on steel, aluminum and autos tariffs. It will also exclude many key products including copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, energy products and all

products listed in Annex 2 of the Executive Order. The scale of imported products that are exempt from increased tariffs will be a key area of focus and research in the coming days. Unfortunately, Annex 3 which includes a more comprehensive list of sector has not been released yet but we should assume that products that are of critical importance to the US economy are likely to be exempt and therefore reduce the effective tariff rate.

What remains unknown:

We do not expect all these tariffs to remain in place permanently. Negotiations are already underway and consensus expectations seem to suggest that we should expect an extended period of uncertainty. Realistically, the complexity of renegotiating trade deals with all major trading partners could last well into 2026. The few days of time before the tariffs takes effect leaves room for more exemptions and progress on a broader negotiation between the U.S. and its trading partners. There is also the potential that the tariffs are challenged in courts. President Trump invoked the International Emergency Economic Powers Act (IEEPA) to impose the tariffs, citing a national emergency arising from persistent trade deficits. This is the same legal authority used for China, Canada and Mexico tariffs. Legal challenges and calls for greater Congressional oversight of IEEPA are likely to follow in the coming days and weeks. Beyond the actual tariffs, we also still do not have clarity on how long they will remain in place.

There is also a lot of uncertainty around the broader reaction function from the different trading partners. Asian countries, in particular, seem to be more negatively impacted than initially expected. In some cases, there is high potential for foreign retaliation, with a lot of uncertainty around the size and scope. How central banks respond will also be key, and will likely hold implications for the economic trajectory, rates and currencies. Lastly, there is the potential for more tariffs, as there wasn't clarity on a lot of previously-mentioned sectoral tariffs such as copper, semis and pharmaceuticals.

Macro impacts:

If upheld, these tariffs could push the U.S. weighted average tariff rate to around 25%, with product exemptions whittling the increase down toward 20%. That would put it at levels last seen around 100 years ago. It also represents a more aggressive approach than we believe consensus expected heading into the press conference.

We expect baseline tariff expectations will move higher, leading to downward revisions to consensus growth forecasts and upward adjustments to inflation projections. And given the unknowns that still remain, we also do not think uncertainty has been significantly reduced.

From a monetary policy perspective, the Federal Reserve's challenge is to assess the relative impact from higher temporary inflation and the drag on economic growth. If growth fears were to intensify, the Federal Reserve would

have ample room to cut interest rates and would prioritize its growth mandate over short-term inflation concerns.

Countries that are most negatively impacted by the hike in US tariffs are also likely to respond with additional fiscal measures. This would be in addition to the already announced boost in fiscal measures in Europe and Asia over the past two months.

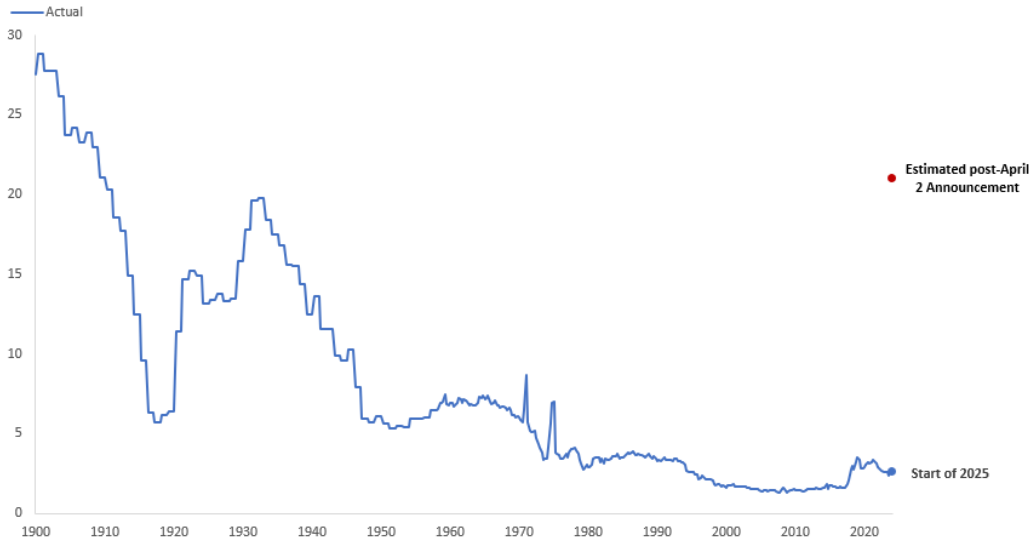
Regarding the impact on equity markets, ongoing uncertainty around trade policy is expected to drive further earnings downgrades and exert pressure on valuation multiples. The upcoming earnings season will offer insights into corporate sentiment and specific strategies to mitigate the negative impact from higher import costs.

Net, we believe this increases the odds of our “Supply Restraint” risk scenario in which tariff policy weighs on growth and leads to temporary inflation. This could put downward pressure on equity earnings estimates, with the potential for multiple compression sooner. It also raises the odds of recession cuts from the Federal Reserve.

At the same time, these tariffs may represent the ceiling for tariff rates that could increase the odds of incrementally positive trade news. Information is still highly fluid and the coming days could reveal very important information regarding the outlook. The Investment Policy Committee meets on Wednesday, followed by the Tactical Asset Allocation team’s meeting on Tuesday.

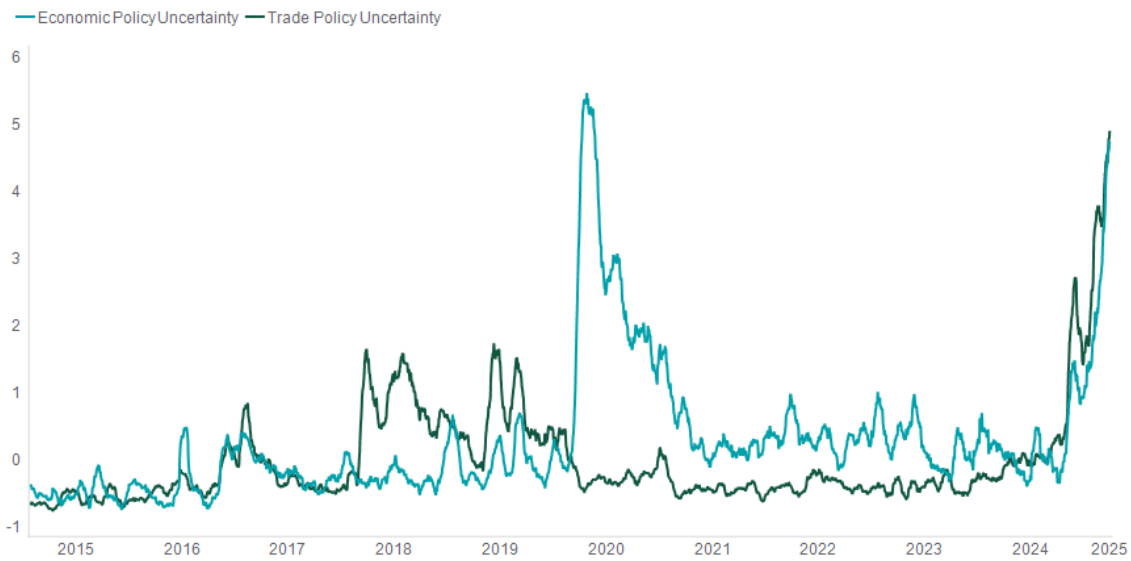
Given the uncertainties, please do not hesitate to reach out with any questions or concerns. We are happy to assist in any way we can.

Estimated U.S. Weighted Average Tariff Rate Across Scenarios (%)



Source: Northern Trust Asset Management, Macrobond, U.S. Bureau of Economic Analysis, Goldman Sachs (GS). GS estimate for post-April 2. Actual tariff rate from 1900 to 2025.

Smoothed Z-Score of Daily Uncertainty Measures



Source: Northern Trust Asset Management, Macrobond, Matteo Iacoviello, Economic Policy Uncertainty. One-month smoothed measures of daily data. Data as of 4/2/2025.

Trading Partner	Import 2024 (\$bn)	Effective Tariff Rate 2024 (%)	Change in Trading Partner-level Tariff Rate by Tariff Package (pp)					Effective Reciprocal Tariff with Exclusions (pp)	Total Tariff Increase, Announced as of April 2 2025 (pp)
			20% China (pp)	25% CA/MX non-USMCA (pp)	25% Steel & Aluminum (pp)	25% Autos & Auto Parts (pp)	Announced Reciprocal Tariff (pp)		
EU	606	1.4			0.6	2.1	20.0	10.8	13.5
Mexico	506	0.5		2.4	0.9	4.1			7.3
China	439	10.9	20		0.5	0.7	34.0	26.3	47.5
Canada	413	0.3		2.2	1.2	2.2			5.5
Japan	148	1.7			0.7	7.6	24.0	11.7	20.0
Vietnam	137	4.1			0.4	5.9	46.0	40.4	46.7
Korea	132	0.4			1.1	0.5	25.0	14.0	15.6
Taiwan	116	1.1			0.6	0.7	36.0	26.4	27.8
India	87	2.6			0.6	0.5	26.0	18.5	19.5
LatAm FTAs	76	0.4			0.2	3.9	10.0	8.2	12.3
UK	68	1.2			0.5	0.0	10.0	5.6	6.1
Switzerland	63	0.8			0.1	0.6	31.0	18.5	19.2
Thailand	63	1.8			0.5	0.1	36.0	29.4	30.1
Malaysia	53	0.8			0.3	0.0	24.0	16.1	16.4
Singapore	43	0.3			0.1	0.4	10.0	4.9	5.3
Brazil	42	1.5			1.9	0.3	10.0	6.5	8.6
Indonesia	28	5.1			0.3	0.1	32.0	28.1	28.5
Israel	22	0.3			0.2	1.2	17.0	10.0	11.3
Turkey	17	3.5			1.6	0.2	29.0	23.0	24.8
Australia	17	0.3			0.7	3.7	10.0	8.0	12.5
South Africa	15	0.5			0.8	1.6	30.0	14.8	17.2
Philippines	14	1.5			0.1	0.0	17.0	13.1	13.2
Saudi Arabia	13	0.6			0.2	0.0	10.0	3.4	3.6
Cambodia	13	7.2			0.1	0.0	49.0	41.3	41.4
Ecuador	9	0.6			0.2	0.0	10.0	5.6	5.8
Bangladesh	8	15.4			0.0	0.3	37.0	36.6	36.9
United Arab Emirates	7	2.4			4.8	0.1	10.0	4.9	9.8
Argentina	7	1.3			1.9	0.0	10.0	5.7	7.6
Norway	7	0.8			0.3	0.1	10.0	7.1	7.5
New Zealand	6	1.3			0.2	0.0	10.0	9.0	9.3
Pakistan	5	9.8			0.1	0.3	29.0	28.5	28.9
Other	88	1.4			0.5	0.3	14.0	7.8	8.6
Total or average, import weighted	3267	2.5	2.4	0.6	0.7	2.2	18.3	12.6	18.8

Source: Goldman Sachs

IMPORTANT INFORMATION

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