

Tariffs and the Market

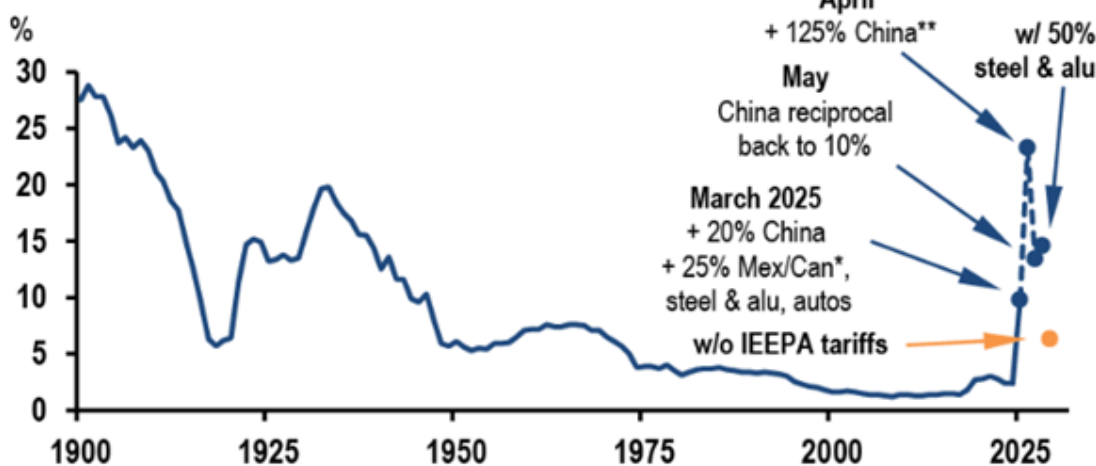
By: Jason Rodnick, CFA

July 2025

Why the market has shrugged off Trump's tariffs.

Since invoking the International Emergency Economic Powers Act (IEEPA) on April 2nd, 2025 ("Liberation Day"), President Trump has overseen the most dramatic shift in U.S. trade policy since the Smoot-Hawley Tariff Act of 1930. Average tariff rates have surged from ~2.5% to ~14% today and briefly touched 25% in mid-April. This policy shift has unwound decades of trade liberalization and economic orthodoxy.

Figure 7: US average tariff rate



Despite this economic shock, financial markets have shown remarkable resilience. After the S&P 500 plunged over 12% in just four days following Trump's "Liberation Day" announcements, the index recovered to hit record highs by quarter-end. This recovery has caught many investors off guard.

Three factors help explain recent market action: there has been limited retaliation from trading partners, the AI trade has rebounded after losses earlier in the year, and Trump's tendency to reverse policy in the face of market volatility, the so called TACO trade (Trump Always Chickens Out).

Limited Retaliation from Trading Partners

Post "Liberation Day," the market's initial fear was an escalating global trade war where every country imposed severe tariffs on U.S. exports – similar to what occurred after the Smoot-Hawley Act. Thus far, the global reaction has been more manageable. China and the U.S. were briefly engaged in a retaliatory tariff tit for tat which saw tariffs rise to over 100%. However, after the market declined in early April, both China and the U.S. agreed to reduce their tariff rates.

Tariffs and the Market

More importantly, Trump has responded to market pressure. On April 9th, he announced a 90-day pause on reciprocal tariffs for all countries except China, reducing rates from peak levels to a flat 10% for most nations. This pattern of policy announcement followed by moderation has repeated throughout 2025.

Other trading partners have shown restraint as well. Canada recently rescinded its digital service tax to ease trade negotiations with the U.S. Many countries seem to have adopted wait-and-see approaches rather than immediate broad retaliation.

Tech Resurgence

Technology stocks have helped drive the market recovery. The tech-heavy Nasdaq has rallied nearly 40% since its April 7th lows, outperforming other indexes. Earlier in the year, concerns of an AI slowdown led to the underperformance of AI companies. However, driven by robust earnings momentum and continued AI capex spending, most AI related names are once again trading at or near their record highs from the end of 2024. As a result, market concentration is approaching record highs and AI names are driving both the Nasdaq and S&P 500 to record highs.



Trump's Policy Reversals

There appears to be a consistent pattern in Trump's tariff policy implementation: initial announcements often represent negotiating positions rather than final policy. Markets now appear to discount initial policy announcements in recognition of this dynamic.

Tariffs and the Market

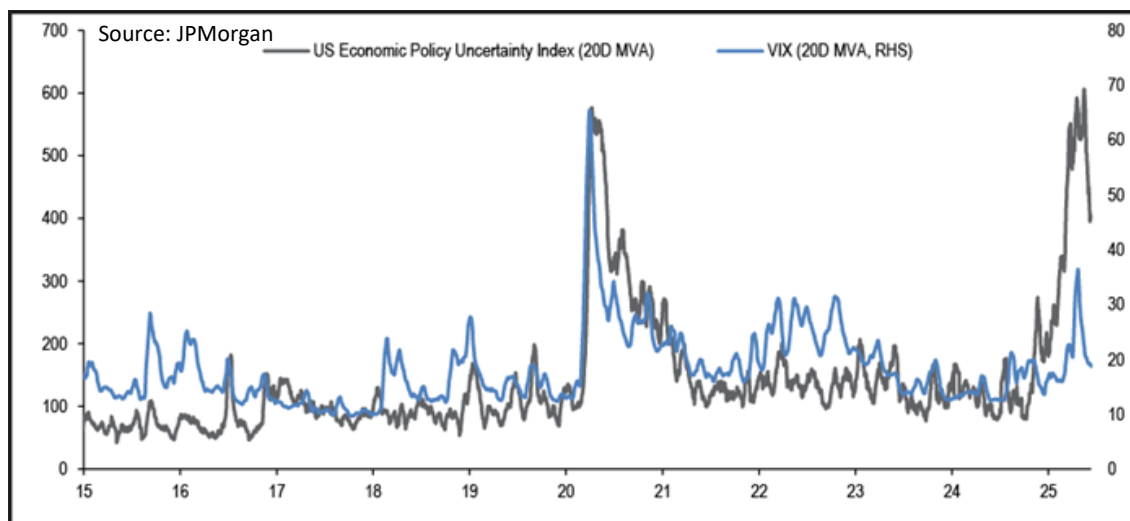
The April 9th pause shows this dynamic clearly. After markets declined sharply following Liberation Day, Trump announced 90-day reprieves for most countries, triggering the S&P 500's largest single-day gain since 2008. Similar patterns have appeared throughout 2025, including most recently when Trump extended the 90-day pause from July 9th to August 1st, with the administration showing consistent willingness to moderate policies when markets signal distress.

Risks on the Horizon

While markets have bounced back, we believe key risks remain: the economic effects of policy uncertainty, tariffs impacting small businesses more, and a constrained Federal Reserve.

Policy Uncertainty's Economic Impact

The current trade policy creates substantial uncertainty that extends beyond financial markets. Fed Chair Jerome Powell has acknowledged this challenge, noting in his April speech that "These are very fundamental policy changes. There isn't a modern experience of how to think about this." The JP Morgan Economic Policy Uncertainty Index, while moderating recently, is at levels not seen since the nadir of COVID-19.



This uncertainty shows up in several ways that could affect economic growth. Powell has observed that "Recent surveys of households and businesses point to heightened uncertainty about the economic outlook." Businesses are delaying investments and strategic initiatives while waiting for policy clarity, potentially slowing economic growth even when tariffs don't directly hit them.

The S&P 500 is Not the Economy

Large publicly traded companies can handle tariffs much better than small businesses. Large companies have sophisticated supply chain management and financial resources to absorb short-term cost increases. They have pricing power to pass costs through to consumers, suppliers, and international operations that provide

Tariffs and the Market

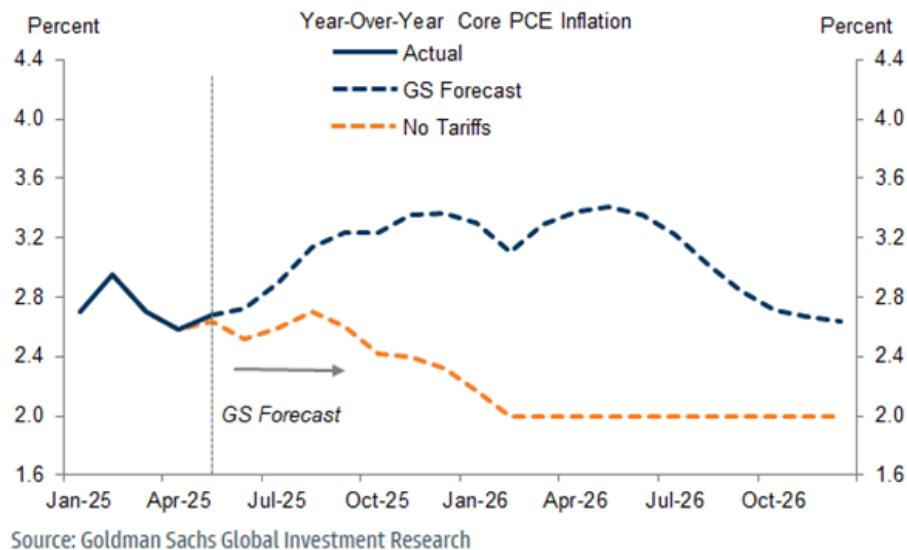
natural hedging against trade disruptions. Small and medium businesses, which account for about half of U.S. private sector employment, face much tougher challenges. They can't easily diversify suppliers, absorb costs, or pass them to price-sensitive customers.

For comparison, the Russell 2000, a small-cap index, underperformed the S&P 500 by 2.4% in the second quarter and have trailed the S&P 500 by nearly 8% year-to-date. The National Federation of Independent Business Small Business Sentiment index stands at 98.6, down from a six-year high of 105 in January. Manufacturing is showing increasing stress with the Purchasing Managers Index, an indicator of manufacturing activity, falling to 49, indicating manufacturing is in a contraction.

The Fed's Challenge

The Federal Reserve faces a difficult policy environment. Chair Powell has been candid about these constraints, particularly about how tariffs complicate the Fed's dual mandate of price stability and maximum employment.

Powell confirmed in July that "the U.S. central bank would have eased monetary policy by now if not for President Donald Trump's tariff plan," noting that tariff size pushed up all U.S. inflation forecasts. Research from Goldman Sachs, an investment bank, highlights this dynamic. Without tariffs, inflation would be on a sustainably lower trajectory.



Tariffs create both inflationary pressures and economic growth concerns. Powell has noted that "Tariffs are highly likely to generate at least a temporary rise in inflation. The inflationary effects could also be more persistent." At the same time, the uncertainty and economic disruption from tariffs could slow economic growth.



Tariffs and the Market

Fed Funds futures now price only 1-2 rate cuts in 2025, down from earlier expectations of 3-4 cuts before “Liberation Day.” If economic weakness accelerates faster than inflation pressures, the Fed may find itself cutting rates aggressively into a recession.

Investment Implications

While the markets have mostly recovered from “Liberation Day,” the outlook for the economy is still less clear. Despite this uncertainty, it’s important to remember that the market impact from headlines and economic policies are typically more muted than initially expected. Our disciplined approach has previously weathered earlier policy storms and periods of extreme market volatility, and we expect it to do so again.

We believe Osborne Partners’ style-agnostic portfolio management built on the foundation of diversification, disciplined analysis, and a long-term perspective is ideally situated to manage your portfolio through this period. Our relentless focus on the risk and reward of every investment helps limit risk while giving us the confidence to make investments while markets are falling. Adhering to a disciplined investment strategy is the best approach to achieving your financial goals, regardless of political outcomes. As always, please reach out to your Wealth Counselor if you have any questions or concerns. ■

The opinions expressed herein are strictly those of Osborne Partners Capital Management, LLC as of the date of the material and is subject to change without notice. None of the data presented herein constitutes a recommendation or solicitation to invest in any particular investment strategy and should not be relied upon in making an investment decision. There is no guarantee that the investment strategies presented herein will work under all market conditions and investors should evaluate their ability to invest for the long-term. Each investor should select asset classes for investment based on his/her own goals, time horizon and risk tolerance. The information contained in this report is for information purposes only and should not be deemed investment advice. Although information has been obtained from and is based upon sources Osborne Partners Capital Management, LLC believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss. Osborne Partners Capital Management, LLC does not provide tax or legal advice. Please consult with your tax and legal advisors regarding your personal circumstances. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board’s initial and ongoing certification requirements.