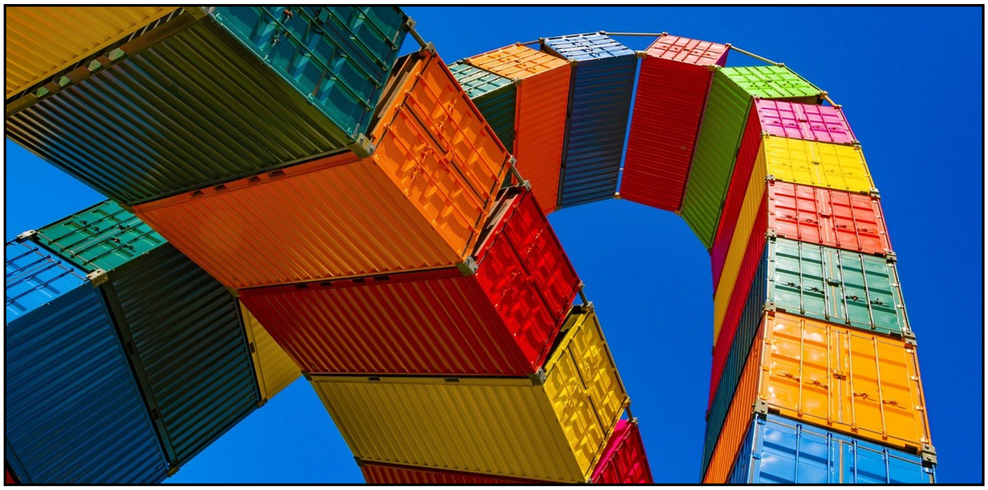
JadeSpeak

WINTER: First Quarter 2025



Potential impacts of tariffs weigh on markets, corporations

Raymond James CIO Larry Adam looks at how the proposed tariffs may impact the economy and financial markets

The United States proposed sweeping tariffs on imports from America's top three trading partners – Mexico, Canada and China – and the equity markets likely will experience volatility until their impacts are known.

The U.S. announced plans to place 25% tariffs on imports from Mexico and Canada, with the exception of energy commodities from Canada at 10%, and a 10% tariff for imports from China. The measures were set to take effect on February 4, but the tariffs on Mexico and Canada were delayed by one month as both countries agreed to reinforce the border against drug trafficking.

Combined, the three countries account for $1.4 trillion in U.S. imports, equating to 45% of all U.S. imports.

As markets and corporations digest the impacts of tariffs Raymond James Chief Investment Officer Larry Adam anticipates volatility will be elevated in the coming months.

"As we noted coming into the new year, the market was priced to perfection, with elevated valuations and overly optimistic investor sentiment making it vulnerable to any disappointing news on the economic, earnings or policy front," Adam said. "The swift and sweeping actions taken by the new administration over the weekend highlight that volatility will remain elevated, particularly in the near term."

Despite tariffs, Adam expects economic and corporate fundamentals to remain solid and remains confident in his committee's year-end S&P 500 target of 6,375, though the path may not be a straight line.

To enact the tariffs, President Donald Trump invoked the International Economic Emergency Powers Act (IEEPA), a 1977 federal statute granting the president extensive powers to address national emergencies. While the act has not been used to enact tariffs before, President Donald Trump sees it as within his legal authority to address a national emergency, fulfilling his campaign promises to stop illegal immigration and the flow of narcotics across borders.

Looking at our economic and market views

Volatility

Overoptimism among investors has been previously pinpointed by Adam's team as the biggest market risk, with many overlooking potential threats, particularly those originating from Washington.

CONTINUED ON BACK PAGE

Jade Investments & Retirement Solutions

HELLO, GRANDPA! Financial Advisor Tim Phillips welcomed his first grandchild into the world. Michael J. "Tripp" Molt III was born November 11, 2024, to Michael II and Sabria Molt. Congratulations!

Markets will be closed:

Monday, February 17
Washington's Birthday

Friday, April 18
Good Friday

Potential impacts of tariffs

FROM FRONT PAGE

Specifically, they highlighted the market's underestimation of the potential impact of tariffs. Investors perceived these tariffs as a mere negotiation tactic rather than considering the significant economic ramifications of their implementation. As the market and corporations begin to digest these impacts, they anticipate that volatility will remain elevated over the coming months. This period of adjustment will be crucial as the true effects and magnitude of these policies become clearer, influencing their economic and asset class outlook.

Economy

The economic impact of tariffs will depend on their extent, duration and potential escalation into a trade war. If they are implemented for the entire year, Adam anticipates they could generate $150 billion in revenues, cost the average household around $1,000 and reduce GDP growth by 0.5 percentage points, though some estimates are higher for all three figures.

The proposed tariffs will affect prices for a wide range of products, especially autos, fuel, food and consumer electronics. The U.S. imports heavily from its neighbors, with machinery and automotive products being significant categories. The integrated supply chain in North America makes it challenging to disentangle cross-border relationships.

The economic impact of tariffs will depend on their extent, duration and potential escalation into a trade war.

While tariffs negatively affect all economies involved, the U.S.'s diversified economy and strong dollar may help cushion some impacts. Canada and Mexico might face significant challenges sooner, potentially leading them to negotiate earlier.

Equity market

In the U.S equity market, corporate fundamentals remain solid, as evidenced by the 4Q24 earnings season, and overall revenue exposure to tariffs is fairly limited. The S&P 500 receives only 1%, 1%, and 7% of total revenues from Mexico, Canada, and China, respectively. No sector derives more than 5% of revenues from Mexico and Canada, though consumer staples, energy and materials have the most exposure.

The biggest impact could be on input costs and earnings. With valuations already stretched, earnings growth needs to drive the market higher over the next 12 months. If businesses cannot pass tariff costs onto consumers, it could pressure earnings through weaker margins.

Volatility is a natural part of the market. Historically, the S&P 500 experiences three or four pullbacks of 5% or more annually. With only two pullbacks in 2024, an uptick in volatility would not be unusual.

Bottom line: No changes to our forecast as of now

Given the fluid situation, it is too early to change assessments on the economy and different asset classes noted Adam. His team will remain alert to the potential fallout on growth, inflation, earnings, and the interest rate outlook from a wider or extended trade war if that is where the situation is heading.

During periods of heightened uncertainty, it is important for investors to maintain perspective and realize that volatility is part of the market's fabric. Investors should stay focused on their long-term objectives and avoid making decisions based on every twist and turn in the market.

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