

High Dividend Value
April 4, 2025

Summary of the April 2nd Trump Administration Tariff Announcement

On April 2nd, President Trump announced reciprocal tariffs that were far more sweeping and extensive than equity markets had expected. Trump announced a baseline tariff of 10% on all countries beginning on April 5th. On top of this baseline rate, there will be a reciprocal tariff for certain trading partners beginning on April 9th. Countries in Asia will generally be subject to the highest rates; notably, China will be subjected to an additional tariff on top of the 20% already established, bringing the new rate to 54%. Economists and market observers had expected a broad 10-15% tariff rate, but the overall blended rate for countries will be approximately 25%.

There are several exemptions, including for USMCA-compliant goods, leaving Mexico and Canada better off on a relative basis. Those two countries will still be subjected to the current fentanyl/migration tariffs. Moreover, goods subjected to Section 232 tariffs will be exempt. This list includes steel, aluminum, copper, pharmaceuticals, semiconductors, and lumber, among other goods that are not readily available in the U.S.

The tariffs will remain effective until the President determines that the “threat posed by the trade deficit and underlying nonreciprocal treatment is satisfied, resolved, or mitigated.” The executive order will also give Trump the power to change tariff rates in response to negotiations.

Economic implications: In 2024 the US imported almost \$3.3 trillion in total goods, with machinery, electrical equipment, fuel, and pharmaceuticals accounting for more than half the total. With a 10% baseline tariff plus reciprocal tariffs, the economic impact is expected to be substantial. In response to the tariff announcement, US GDP and corporate earnings growth forecasts have dropped and several economists and market strategists have already raised their odds of a US recession in 2025.

What could happen now: As with previous announcements, the next several days and weeks might be filled with announcements by the Trump administration of tariff removals, extensions, or delays. Countries could respond in several ways. Some have already indicated they will meet the reciprocal tariffs with tariff increases of their own. Others might seek to negotiate with the Trump administration to remove these tariffs and strengthen ties with the US.

How companies might react: Given the unpredictable nature of Trump’s trade policy implementation, we expect most companies to proceed cautiously. US companies with overseas supply chains will have to make adjustments, but large-scale changes to supply chains are both costly and time consuming. Without certainty on the permanence of the tariffs, management teams will likely be reluctant to move too swiftly in response to the announcement. This will be a critical issue to monitor and we will surely learn more about how management teams might respond during 1st quarter earnings reports in the coming weeks. Regarding 2025 earnings outlooks, we would not be surprised to see a resetting of EPS expectations for the full year.

The High Dividend Value Equity strategy maintains a balanced portfolio allocation, with exposure to both Defensive Value and Cyclical Value sectors. Given the turmoil in the US equity market caused by the tariff uncertainties, the investment team remains focused on identifying new investment opportunities should they present themselves, considering changes in company and sector fundamentals, valuations, sentiment, and capital flows.

Thank you for your continued support of our strategy. Feel free to reach out to us if you have any questions.

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