



## 2025.04.04 Tariffs: The Gift That Keeps on Taking...

Index	April 3 Return	April 4 Return	2025 YTD Return
Russell 2000	-6.59%	-4.37%	-17.79%
Nasdaq 100	-5.40%	-6.07%	-17.02%
S&P 500	-4.84%	-5.96%	-13.43%
MSCI Japan	-3.35%	-3.38%	-11.78%
MSCI Europe	-2.59%	-4.97%	-2.09%
MSCI China	-1.67%	-0.57%	+13.04%
MSCI ACWI ex-US	-1.08%	-4.27%	+0.46%
MSCI Emerging Markets	-0.68%	-1.38%	+1.13%
MSCI Asia ex-Japan	-0.58%	-0.75%	+0.80%
iShares Gbl Agg Bond UCITS ETF USD (AGGG)	+1.44%	+0.22%	+4.07%
iShares Core US Aggregate Bond ETF (AGG)	+0.53%	+0.09%	+3.64%

Source: Bloomberg and MSCI as of April 4, 2025 close. Total return indices shown. US and Global aggregate bond indices are represented by the respective iShares ETFs noted above.

The abrasive sell off in global markets that started Thursday accelerated Friday. Most of the day's movement was driven by more bad news on the trade front — China hit back with another round of tariffs, tacking on a hefty 34% to U.S. goods.

We did get a bit of calm from the March US employment report that, thankfully, didn't throw any surprises our way. Investors came into the day on edge, bracing for signs of layoffs, but those fears didn't play out.

Still, it's hard to care much about March's jobs data in light of everything going on with trade. That said, the report showed 228K new jobs added — solidly above expectations (140K) and better than February's 151K. Unemployment ticked up slightly to 4.2%, but that was actually a good sign, since more folks entered the labor force (participation rose from 62.4% to 62.5%).

### *Why are the markets convulsing?*

Because no one expected Trump to follow through on the tariffs in the manner that he did. No one on Wall Street thought the tariffs would be this high, and as recently as last month Trump called them "reciprocal tariffs." The sense that these tariffs are so much larger than expected shocked traders.



### *Why didn't the world convulse this much during Trump 1.0?*

During Trump 1.0, he implemented a 25% tariff on China. While there's ample evidence that this hurt American consumers, the impact wasn't as severe as it could have been. There are two main reasons for this:

First, during Trump 1.0, the U.S. dollar appreciated. A stronger dollar makes non-USD goods less expensive, which helps offset the price impact of those tariffs. This time around, the dollar has depreciated relative to other major currencies. The U.S. is becoming relatively poorer, which means tariffs now bite harder.

Second, transshipment. In response to the original tariffs, many Chinese manufacturers shifted production to places like Mexico and Vietnam. This allowed them to circumvent some of the tariff impact. Under Trump 2.0, the new tariffs are hitting nearly every country, making it far more difficult to reroute supply chains. That said, we do expect some high-end EU shipments to be funneled through the U.K., effectively reducing tariff exposure by about 50%.

*This is just a negotiating tactic!*

Is it? We just do not know. We cannot know. But if it is not a negotiating tactic, then the US does not have the facilities, the infrastructure, or the trained labor to pick up the manufacturing slack. The US could have all of this, but it would have been wiser to say "In four years, we are going to have huge tariffs on everyone. But today, we need to make US manufacturing a reality and prepare." That plan could work. That is not where we are today, so if tariffs remain, prices will just increase.

*How were these tariffs calculated?*

Equations give us false confidence. "Oh wow, they used math, it must be legit." This is one of those scenarios where the math raises more suspicion than answers. Case in point, Lesotho. Goods from Lesotho will have the highest tariff possible under the Trump plan – 50%.

*What is Lesotho?*

Lesotho is a small, mountainous country in southern Africa with a population of about 2.3 million people and a land area of roughly 11,700 square miles — about the size of Maryland. It's one of the few countries in the world entirely surrounded by another nation (South Africa) and sits at the highest minimum elevation of any country on Earth.

*Okay, what about its tariffs?*

The 50% tariff imposed by President Donald Trump's administration on Lesotho was calculated using a specific formula aimed at addressing trade imbalances. This formula involved dividing



the U.S. goods trade deficit with a country by the total value of goods imported from that country, and then halving the resulting percentage. In Lesotho's case, the U.S. had a trade deficit of approximately \$234.5 million in 2024, with imports totaling around \$237.3 million. Applying the formula:  $(\$234.5 \text{ million} \div \$237.3 \text{ million}) \div 2 \approx 49.4\%$ . This value was then rounded up to the nearest whole number, resulting in a 50% tariff.

What does Lesotho sell to the US? Diamonds. Lesotho is a relatively poor country. Per capita GDP in 2023 was \$3,234/person. What does such a small country buy from the US? Nearly nothing. Hence its huge trade deficit with the US, hence Trump's 50% tariff on the country. Lesotho literally cannot afford to buy American things. Basotho are not going to buy Teslas, Steinway Pianos or RGM Watches. They cannot afford to, they probably spend most of their money on food, shelter and health. (The plural name for citizens from Lesotho is Basotho (pronounced *bah-SOO-too*.)

The same absurdist equations apply to *most* countries (see Russia below). How are these countries supposed to rid themselves of a trade deficit with the US if they have no money?

Economists and markets love scalpels, not chainsaws. The imprecision of these tariffs sniff at carelessness, inattention, and laziness. Jerome Powell, the venerated President of the US Federal Reserve is beloved because he embodies attention, perfection and diligence. Warren Buffett, Mitt Romney, Ray Dalio – none of these guys is praised for his imprecision or laziness.

*Are we going to ask why there are no tariffs on Russia?*

No.

The markets hate the tariffs. They have always said they would. In the sin of hopium we assumed, "ah Trump won't really do these crazy tariffs in a blunt manner." We were wrong. We are sorry.

It seems remote to expect a similar apology or reversal from Mr. Trump.

*Trump plays 4-D Chess, you're not appreciating his brilliance.*

Sure enough an RPG client sent along a note that is seductively interesting. The thesis is that the administration is purposely tanking the US economy to push the rates on the US Treasuries down. This should happen. Once rates are way down, the US Treasury will refinance its debt. And then the US will be better positioned to manage its considerable long term debt. This theory has immediate flaws: one, that is a lot of short term pain that will diminish a generation. Two, once you break the economy, why do you think you can rebuild it? It took about a decade to rebuild from the 2008 crisis. Three, you are talking about people's livelihoods.



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Past performance is not indicative of future results charts...

### S&P 500 after 2 consecutive days of -4.5% declines

Date	1 Day Later	2 Days Later	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	1 Year Later
10/29/1929	12.53%	18.21%	4.60%	-5.82%	5.97%	1.13%	6.90%	26.63%	5.24%
11/6/1929	3.69%	2.77%	-14.31%	3.20%	10.29%	3.01%	7.23%	24.84%	3.30%
11/12/1929	-5.71%	2.72%	10.52%	10.30%	13.03%	13.67%	22.42%	35.02%	7.69%
7/20/1933	-8.70%	-8.14%	0.19%	-0.76%	1.80%	2.37%	-3.22%	-8.14%	-7.00%
10/19/1933	2.90%	-0.46%	11.85%	4.07%	12.54%	19.40%	13.94%	23.58%	4.18%
5/14/1940	0.97%	1.95%	-4.77%	-10.02%	-9.24%	-3.89%	-1.95%	2.92%	-2.43%
10/19/1987	5.33%	14.92%	1.26%	13.75%	8.09%	8.07%	10.89%	14.71%	22.94%
11/6/2008	2.89%	1.58%	0.71%	-16.85%	0.53%	0.54%	-3.87%	0.48%	18.17%
11/20/2008	6.32%	13.21%	19.11%	16.43%	15.84%	10.57%	2.75%	20.98%	45.05%
3/12/2020	9.29%	-3.81%	-2.87%	6.02%	11.33%	15.70%	21.02%	34.61%	58.96%
<b>Median</b>	3.30%	2.34%	0.99%	3.64%	9.19%	5.54%	7.07%	22.28%	6.47%
<b>Min</b>	-8.70%	-8.14%	-14.31%	-16.85%	-9.24%	-3.89%	-3.87%	-8.14%	-7.00%
<b>Max</b>	12.53%	18.21%	19.11%	16.43%	15.84%	19.40%	22.42%	35.02%	58.96%
<b>Average</b>	2.95%	4.30%	2.63%	2.03%	7.02%	7.06%	7.61%	17.56%	15.61%
<b>% positive</b>	80%	70%	70%	60%	90%	90%	70%	90%	80%

Data: Bloomberg, subtrade.com



### S&P 500 after VIX reaches 45

Date	1 Day Later	2 Days Later	3 Days Later	4 Days Later	1 Week Later	2 Weeks Later
10/28/1997	-0.29%	-1.97%	-0.78%	1.86%	2.05%	0.21%
8/31/1998	3.86%	3.47%	2.61%	1.74%	6.91%	8.40%
9/21/2001	3.90%	4.81%	4.27%	5.47%	7.78%	10.93%
7/23/2002	5.73%	5.14%	6.91%	12.69%	13.17%	7.76%
9/29/2008	5.42%	4.94%	0.71%	-0.65%	-4.48%	-9.32%
5/20/2010	1.50%	0.19%	0.23%	-0.34%	2.94%	-0.63%
8/8/2011	4.74%	0.12%	4.75%	5.30%	7.60%	0.39%
10/3/2011	2.25%	4.08%	5.98%	5.12%	8.70%	9.25%
8/24/2015	-1.35%	2.50%	4.99%	5.05%	4.17%	4.02%
2/6/2018	-0.50%	-4.24%	-2.80%	-1.45%	-1.19%	0.23%
2/28/2020	4.60%	1.66%	5.95%	2.36%	0.61%	-8.23%
8/5/2024	1.04%	0.25%	2.56%	3.04%	3.05%	8.14%
<b>Median</b>	3.06%	2.08%	3.44%	2.70%	3.61%	2.21%
<b>Min</b>	-1.35%	-4.24%	-2.80%	-1.45%	-4.48%	-9.32%
<b>Max</b>	5.73%	5.14%	6.91%	12.69%	13.17%	10.93%
<b>Average</b>	2.58%	1.75%	2.95%	3.35%	4.28%	2.60%
<b>% positive</b>	75%	83%	83%	75%	83%	75%

Data: Bloomberg, subtrade.com



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