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TARIFF TALK

A "Total Reset"?

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Tariff Rollbacks Ease Tensions

A major de-escalation occurred in U.S. and China trade tensions on May 12th, with a rollback of 91% of previously imposed tariffs and a suspension of an additional 24% for 90 days. This leaves a uniform 10% tariff in place for now. The U.S. will continue to levy an additional 20% tariff on fentanyl-related charges, but for the time being, markets seem to be welcoming this "total reset" announced by President Trump.

They have responded positively because modest tariffs, unlike the previous 145% levy, could function more like a moderate consumption tax. Such tariffs would be unlikely to dramatically impact global supply chains (or to bring back low-value-added manufacturing to the U.S.).

Moreover, the economic impact of modest tariffs could be offset by tax cuts. The Committee for a Responsible Federal Budget (CRFB) estimates that the proposed reconciliation bill would cost roughly $3.3 trillion through FY 2034[1], potentially offsetting the contractionary effect of new trade barriers.

Long-Term Uncertainty Remains

Despite these developments, significant uncertainty remains for investors and businesses planning for the long term. The current administration's negative view of trade deficits should not be overlooked. And even if modest tariffs stick, they remain materially higher than prior to the election.

Combine the effects of modest tariffs with Moody's recent downgrade of the U.S. credit rating, and a case for downward pressure on growth and upward pressure on longer-term Treasury yields becomes evident. For investors, relying on sources of income other than bonds could take on greater importance.

1 CRFB, Adding Up the House Reconciliation Bill, 5/14/25.