TARIFF TALK

A Tariff-Centric World Takes Shape

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Roughly a month on from Liberation Day one thing is clear: While actual tariff numbers may not be set, markets have certainly been liberated from complacency. Since President Trump's April 2 announcement, volatility remains elevated and tariffs aren't the only issue. His saber-rattling approach toward policymakers at the Federal Reserve has unsettled the U.S. dollar and Treasury markets. Fears of global recession have driven down oil prices, while other commodities like copper have been on a roller coaster. Even anticipated tax cuts are less certain as talk of a "millionaire tax" gains traction. Meanwhile, gold—the classic safe haven—seems to be doing its job. Whether market woes leave you nervous or you're looking for buying opportunities, keep an eye these trends.

1 The Declining Dollar

Degrading expectations for the U.S. economy, driven by tariff uncertainty, are a core source of potential continued dollar weakness. But other sources of concern, such as the Federal Reserve's independence and a potential global impetus to reduce reliance on the U.S., put the dollar's status as the world's reserve currency at risk for the first time in more than half a century. While the dollar bears appear to be in the driver's seat, keep an eye on U.S. interest rates. Higher rates could attract flows into dollar-denominated assets.

2 Treasurys Look Less Resilient

It came as a bit of a shock in April when stocks and bonds dropped at the same time. An increase in downside risks to the U.S. economy, usually expected to drive down longer-term interest rates on Treasurys, were seemingly overwhelmed by the "de-dollarization" trade. Did other central banks sell some of their U.S. debt holdings? Did Trump's rhetoric that some saw as challenging the independence of the Fed increase the risk premium investors demand from Treasurys? And let's not forget S&P Global's mid-April hint of potential risks that could prompt a U.S. credit downgrade. Still, it's worth remembering the Fed still has quantitative easing in their toolkit. Even for investors keeping much of their fixed income exposure in short-dated bonds, some exposure to longer-duration U.S. Treasurys may still make sense.

3 Infrastructure Seems Sturdy

The potential for a combination of low economic growth and inflation has many pointing to infrastructure investments as a potential haven. Details matter, however. Companies that build infrastructure can be cyclical, and often depend heavily on robust government spending. A potentially better fit could be the companies that own and operate infrastructure assets. The DJ Brookfield Global Infrastructure Composite Index measures the performance of companies in developed markets that are owners and operators of pure-play infrastructure assets including airports, toll roads, ports, communications hardware, and systems providing electricity transmission and distribution, oil and gas storage and transportation, and water.

Infrastructure assets often have limited competition and consumer demand for their services is less elastic, making their business models less cyclical in nature. Owners and operators of infrastructure can often raise revenues in a manner that is consistent with inflation. These qualities have historically enabled infrastructure companies to generate stable cash flows, which has translated to attractive yields for shareholders. The dividend yield of the DJ Brookfield infrastructure index is just over 4%. It's up 10.3% so far this year.[1]

1 Source: Bloomberg, 12/31/2024-4/29/2024