Fahnestock Asset Management

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Dear Client,

It has been a hectic week for the markets. On April 2nd the administration imposed the widest tariff regime in over 100 years with a baseline 10% tariff on all countries and higher rates on those deemed to be "the worst offenders". The stated goal is to combat "…a lack of reciprocity in our bilateral trade relationships, disparate tariff rates and non-tariff barriers, and U.S. trading partners' economic policies that suppress domestic wages and consumption, as indicated by large and persistent annual U.S. goods trade deficits…".

Tariffs are a tax on imported goods. They can be imposed by countries to protect domestic industries and jobs from lower cost foreign competition, to raise revenue for the government, to reduce trade deficits, and to influence the behavior of foreign adversaries. **Used properly they can be an effective tool, but the downside is they can also increase prices for domestic consumers of imported goods.**

It is reasonable for the US to impose reciprocal tariffs on countries that engage in unfair trade practices, if they are truly unfair. Examples include:

-Countries that manipulate their currency to make their exports artificially cheaper
-Countries that heavily subsidize their industries, produce goods at a loss and dump them in foreign markets to gain market share
-Countries that force technology transfers as a prerequisite to market access and ignore intellectual property rights
-Countries that freely access foreign markets but restrict domestic competition through tariffs, policies and procedures

We are proponents of free trade as long as it is fair. **But free trade and fair trade does not mean equal trade.** Tariffs were broadcast in advance and widely anticipated, but their magnitude is far more aggressive than expected and their scope is unreasonable.

In addition to unfair competition, the administration is targeting trade deficits with all countries, including close allies. The formula being used to calculate a country's tariff level is heavily influenced by how much more we buy from them compared to how much they buy from us. **It is unrealistic to expect smaller and poorer economies to consume on par with the largest and richest.**

Consider Vietnam's history of high tariffs on American goods. They were dropped over the weekend but that did not assuage the administration, citing a large trade deficit. Vietnam is a developing economy with a third of the population living on an average monthly salary of $300. Their primary exports are textiles and labor intensive manufacturing. How can the Vietnamese people possibly consume enough Harleys and Boeings to even that trade imbalance?

We think this approach is an extremely heavy handed negotiating tactic in a high stakes game of economic chicken primarily between the administration and China. All countries were targeted by the new tariff regime, but of the large global economies, China is the only one who routinely breaks all four unfair trade practices listed above, almost as a matter of economic policy. We suspect the administration is really targeting China and expect to see a series of trade deals with most other countries to remove/reduce trade frictions. While most other countries are negotiating, China is doubling down and escalating tensions. It may not feel like it right now, but there is too much at stake to not find a middle ground. **But it will likely take time as no leader wants to be perceived as weak or subservient.**

As the uncertainty continues, it is our job to remind you of just how resilient markets have been in the past and to use that as a guide for the future. Consider the events of the last 25 years –the internet bubble, 2008/2009, the European debt crisis, Covid, inflation, all intermixed with wars, recessions and bear markets. **Those who panicked and sold anywhere along the way missed out on the recovery and the bull markets than inevitably followed. This has been true for major indices 100% of the time.** It will take time, patience, and maybe a few more gray hairs. We expect this time to be no different.

While nothing is immune to the sort of uncertainty we are currently experiencing, we believe your portfolio is positioned to weather this storm and view the extreme level of volatility as a buying opportunity for those with the financial and emotional capacity to look through the next 2-6 months.

Spring is the season of rebirth and optimism and the flowers are popping here in Summit. As always, please don't hesitate to reach out with any questions or concerns.

Sincerely,

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