



# COLBERT INVESTMENT MANAGEMENT

April 4, 2025

## Implications of the Trump Tariffs Announced on April 2

**Summary:** *It may take several months to know the effective (final) tariffs imposed by the U.S. on every major country. The Trump announcements were the worst case expected, injecting great uncertainty about future economic impacts. Stock markets hate uncertainty, and they are reacting in a negative manner. It seems improbable that the tariffs remain as announced in the end, and Trump will therefore probably declare some form(s) of victory. Hence, it would be reasonable to expect that markets will gradually stabilize and recover from their recent decrease in the months ahead.*

### **First, some background.**

Stock markets had been exuberant since the November 4 election of Donald Trump based upon expectations for the most pro-business incoming administration ever. The actions sponsored by Elon Musk's Department of Government Efficiency ("DOGE") acolytes to dramatically shrink government bureaucracy further excited bullish sentiment. In addition, U.S. stock markets had been in a two-year long period of enthusiasm around the world-changing possibilities for businesses (and humanity) implied by advances in artificial intelligence.

What changed? In late January, there was the Deepseek news. Deepseek is a China-based firm developing open-source large language models ("LLMs") whose AI ("Artificial Intelligence") training models were disclosed to be developed at a fraction of the cost of leading western firms like Open AI, Google, Anthropic, Meta, and Mistral. This shocked the AI world. Deepseek's incredible cost advantage caused stock prices of AI-related technology companies to drop from their recently inflated market valuations.

Another change was the negative implications of the chainsaw-like action from the DOGE, resulting in seemingly indiscriminate slashing of government employees. These negative consequences begun to worry consumers, and thus contributed to retrenching stock prices. On top of this, an almost daily equivocating by Trump about new tariff threats (or not) was also deflating confidence in the administration.

It's in this context that stock markets were already slipping, while bracing themselves for the forthcoming "Liberation Day" tariff announcement. The announcement was even worse than expected, and markets have been very weak ever since.

## **Why is trade so vital?**

World trade has been on a roughly 80-year track of improvement with economies (and populations) at large benefitting from the increasing standards of living and wealth. The only countries that were not on the bandwagon for about 60 of these years were communist-bloc countries (the Soviet Union, China and other satellites or allies). Quasi socialist countries like India also lost great amounts of economic progress for some of those decades due to misguided economic policies and heavy bureaucracies. The countries mentioned here have all had dramatic improvements in standards of living after dumping many discredited measures and thus joined the globalization gravy train.

Many people believe that trade is unfair to their country, that if you have a trade deficit, another country is taking advantage of you. That may have some superficial truth to it, but like most populist messages, it's generally false. For example, Taiwan Semiconductor Manufacturing Company (TSMC) became the best integrated circuit (chip) manufacturer in the world through decades of smart, hard work. Nothing was handed to them. They didn't do it by cheating. They are the best. Period. And because of the whole world buying the best from the best, the whole world has a chip trade deficit with Taiwan.

Telling your electorate that you can bring this production back into your country is a fallacy. In fact, Biden tried to do something like that through the so-called "Chip Act". TSMC would tell you that there also societal reasons why their factories are mostly in Taiwan and some in China. Chinese are willing to live in campuses right near (or within) their factory complexes, endure long work days, with high work tempos. TSMC can't do that in Texas, not because Texans are lazy, but perhaps because there are different work/life balance or habits.

(\*By the way, I highly recommend you read "Chip War" by Chris Miller\*).

Those 8 decades of trade progress resulted in specialization, whereby some cities, some regions, some countries are better at doing some things than others. Each one specializes in the product or service they do best and sell to the others. That way all countries benefit. China was the lowest cost of labor for decades which is why they exported low-cost TVs or washing machines and benefitted from rising employment, increased industrialization, increasing living conditions, and wealth, becoming one of the largest consumers of western goods (Cadillac, Mercedes, Louis Vuitton, etc.). Yes, they cheated and stole intellectual secrets from their western partners, and China has become a very bullying, aggressive government internationally in the last 8 years. But world's living conditions also benefited by keeping prices much lower than they would have been if they were still produced in much higher-cost countries like the USA or in Europe for example. Obviously, it's bad for the people who lose their jobs or see their way of life changed. Tariffs will not reverse that, though. It's a fallacy.

Trade is good. Tariffs are a tax that the government collects, that companies and, ultimately, consumers pay for. In most cases, trade tariffs are bad.

Many people think that tariffs are the solution versus relatively-free-trade. Many people believe socialism is a better economic model than capitalism. Both of these misconceptions have been proven wrong by decades of experimentation, of experience.

## Why have markets received the announced Trump tariffs as the worst case possible?

Trump's huge scale of tariffs is a complete rupture of 8 decades of proven success. There is no model from the past on which to base any future forecast of what may happen next. Markets are swooning now because if these new tariffs stay that universal and that high, world economies probably would go into recession *and* inflation (or worse). That combination is stagflation, the almost forgotten dirty word of the 1970s. Instead of "Liberation Day", what Trump is proposing is "Forever (Trade) Wars", the worst-case scenario.

### Possible scenarios.

- 1) Trump is simply shocking trade partners into bargaining for a better deal for America. Most countries make some minor or major concessions. No new tariffs are finalized, or perhaps even lower tariffs on all sides are agreed upon. If that happens, markets will snap right back as those wins are BROADCAST, LOUD. Stock markets could be positive by year-end.
- 2) Trump categorically believes tariffs are unquestionably great. We will get some deals done, but some tariffs will stick. Every little "win" will be PROCLAIMED. The resulting mixed result for companies will then depend on how much of their business is impacted, and most stocks could be up. Definitely a case-by-case outcome which could also result in a positive market by year-end.
- 3) Countries refuse to even appear to be bullied into submission and respond with corresponding tariffs. An ongoing destructive tit-for-tat would possibly ensue. That would be very bad for everybody.

### What is likely to happen?

The current administration is full of very wealthy business and financial markets people who understand that bad stock markets usually mean bad times. Bad times mean the party in majority will lose elections in 18 months. Trump loves to challenge the status quo and announce he WON. Odds are we fall somewhere in the middle of first two scenarios. In other words, much fear in waiting for deals, but not too much harm done. In this scenario, stock markets would resume their upward march sometime in the next weeks and months.

Please let me know if you have any questions or comments, and thank you for your continued support.

Sincerely yours,



Karim Armand  
President

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