Making Progress | 05.16.2025

On May 12, the Trump administration announced a 90-day pause on fully implementing tariffs on Chinese imports. Since then, the stock market has surged. The S&P 500 is now up 1.2% year-to-date and sits just 3% below its all-time high—a remarkable turnaround from only a month ago, when it was firmly in correction territory. With hopes that the worst of the tariff tensions are behind us, investors are showing renewed confidence in stocks.

While this progress is encouraging, tariffs are still high by historical standards. The preliminary trade deal with China includes a 10% baseline tariff, plus an additional 20% surcharge tied to efforts to control fentanyl imports. This mirrors the recently announced trade agreement with the UK, which also includes a 10% baseline. Although some tariffs appear to be permanent, they're unlikely to completely disrupt global trade. Still, these added costs—essentially taxes on imported goods—could slow down economic growth by making everyday items more expensive.

In 2025, tariffs have distorted economic data. Gross Domestic Product (GDP) took a substantial hit in the first quarter, largely because businesses rushed to import goods before tariffs increased. Since imports are subtracted when calculating GDP, the quarter looked weaker on paper than it truly was. This trend may continue during the 90-day pause, as companies take advantage of the temporary relief. In contrast, employment data may offer a more accurate picture of the economy's health. So far, the labor market remains solid, with job growth continuing at a steady pace and unemployment holding at 4.2%.

Consumers, however, are just beginning to feel the impact of tariffs. In April alone, the U.S. government collected about $17 billion in tariff revenue. Concerns about rising prices are growing, and many households could use some financial relief. Congress is currently working on a tax bill aimed at extending the 2017 tax cuts while introducing new incentives for both consumers and businesses. Potential measures include an expansion of the child tax credit, tax breaks on tips and overtime wages, and increased deductions for research, development, and capital investment. These pro-growth policies could help cushion the economic impact of tariffs.

Since the pause on China tariffs was announced, investors have become more willing to take risks. Sectors hit hardest by tariffs—like semiconductors, manufacturing, and retail—have rebounded. Meanwhile, more conservative sectors such as consumer staples and utilities have lost some ground. While these trends may continue, the ongoing presence of tariffs suggests that companies less reliant on international trade may still have an advantage. Any short-term dips in these stocks could offer attractive opportunities for discerning investors.

Thanks,
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