Wealth Management

Ameritas Investment Partners, Inc.

Market Commentary

Quarter Ended March 31, 2025

Tariff Time

What is a tariff? The International Trade Administration[1] defines a tariff as "a tariff or duty (the words are used interchangeably) is a tax levied by governments on the value including freight."

This tariff, or tax, is "paid to the U.S. Customs and Border Protection Service at the border by a U.S. broker representing a U.S. importer," according to The Tax Policy Center. [2]

Using a simple example, if 20 toasters are entering the United States and each is valued at $50, including freight, the total value of the toasters is $1,000. If a tariff is 20%, the U.S. broker will pay a $200 tariff (tax) to the U.S. Customs and Border Protection Service.

In our example, the cost is $1,200, including the newly levied tariff. Prior to the imposition of the tariff (assuming the toasters entered the U.S. duty-free), the buyer would have paid $1,000 to the importer.

So, ultimately, does the burden fall on the importer, the foreign manufacturer or the U.S. consumer? Or, will the tariff be shared?

This question has enormous implications.

Let's review the results of tariffs levied during the first Trump administration.

Who's Paying for the U.S. Tariffs? A Longer-Term Perspective[3] "found that in most sectors, U.S. tariffs have been completely passed on to U.S. firms and consumers." Regarding steel tariffs, "foreign countries (bore) close to half the cost."

A paper published by the National Bureau of Economic Research[4] reflected comparable results. The study also noted "more mixed evidence regarding retail price increases, which suggests that many U.S. retailers reduced the profit margin on affected goods."

If enacted, today's tariffs are expected to be significantly broader than those imposed in 2018. Consequently, we might expect major retailers to aggressively negotiate concessions with foreign suppliers. But they may also attempt to pass along as much of the tariff as possible.

Several major retailers, including Walmart[5], Target[6] and Best Buy[7] have warned that consumers may face higher prices. Perhaps they are laying the groundwork, preparing consumers for the inevitable—higher prices. If these are one-time price hikes, investors may simply look past them. If we see a secondary round of increases, the situation becomes more tenuous.

While retailers recognize that many have grown weary of higher prices, in today's inflationary environment, it may be easier to pass along higher costs if falling consumer sentiment doesn't deter buyers.

Tariff motivation

Are tariffs about protecting and rebuilding the U.S. industrial base, raising tax revenue or using the threat of tariffs as a bargaining chip to increase U.S. exports?

Since 2000, U.S. industrial production has increased by 14%, while manufacturing production, which excludes utilities and mining, has risen by about 4%, according to the St. Louis Federal Reserve. During the same period, Gross Domestic Product (GDP), which is the broadest measure of goods and services for the economy, is up 70%.

Given efficiencies and changes in the mix of products produced, manufacturing employment over the same period has *declined by* 26%, according to the U.S. Bureau of Labor Statistics.

Free trade has been a big benefit to consumers who have access to a broad array of products at lower prices. However, free trade has also forced businesses at home to either relocate production overseas, where it's cheaper to produce goods, or close altogether.

Bottom line

Investors have not welcomed the possibility of tariffs.

Key Index Returns as of 3/31/25

	MTD %	YTD %
Dow Jones Industrial Average	-4.06	-0.87
Nasdaq Composite	-8.14	-10.26
S&P 500 Index	-5.63	-4.27
Russell 2000 Index	-6.86	-9.57
MSCI World ex-USA*	-0.58	6.20
MSCI Emerging Markets*	0.63	2.93
Bloomberg U.S. Agg Total Return	0.04	2.78

*in U.S. dollars

Source: Morningstar

Indices are unmanaged, do not incur fees or expenses and cannot be invested into directly. The above returns include the impact of both price appreciation (depreciation) and dividends. Equity markets fluctuate in value and smaller companies and foreign investments often are more volatile than larger domestic companies. Past performance is not indicative of future results.

Investors are fretting that higher inflation may slow rate cuts by the Federal Reserve. Furthermore, consumer reluctance to purchase higher-priced goods could slow the economy and hinder profit growth.

Final thoughts

Market pullbacks aren't unusual. They are to be expected.

Since 1980, the average intra-year pullback in the S&P 500 Index has been 14%, according to LPL Research. As of quarter end, the S&P 500 index had shed 10.1% from its peak.

A diversified portfolio cannot completely shelter you from market pullbacks, but it helps reduce volatility while tapping into the wealth-creating potential that stocks have offered over the long term.

What has worked?

Historically, a disciplined approach helps strip the emotional component out of investing. Taking a diversified approach to allocating investments across a range of investment types typically helps contain overall volatility during difficult times. The table above shows the mix of returns this year and displays the wide range of reactions to the current environment.

What hasn't worked?

Timing the market. No one can consistently exit stocks near a high and re-enter near a low.

In times like these, it is perfectly acceptable to feel anxious. This is a tough time. You are not alone, and many are feeling these same emotions. We will weather this uncertainty with you one day at a time.

We trust this review has been informative. If you have any questions or would like to discuss other matters, contact your financial professional.

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[1] Source: International Trade Association, *Important Tariffs Overview and Resources* [https://www.trade.gov/import-tariffs-fees-overview-and-resources]

[2] Source: Tax Policy Center, Sept. 25, 2018, "*What Is A Tariff And Who Pays It?*" [https://taxpolicycenter.org/taxvox/what-tariff-and-who-pays-it]

[3] Source: AEA Papers and Proceedings 2020, 110: 541-546, May 2020, *"Who's Paying for the US Tariffs? A Longer-Term Perspective"* [https://www.princeton.edu/~reddings/pubpapers/ARW-May-2020.pdf]

[4] Source: NBER Working Paper Series, October 2019, *"Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy"* [https://www.nber.org/system/files/working_papers/w26396/w26396.pdf]

[5] Source: NBC News, Feb. 20, 2025, *"Walmart says it's 'not going to be completely immune' from Trump's tariffs"* [https://www.nbcnews.com/business/business-news/walmart-tariffs-how-will-prices-change-trump-trade-policy-rcna192958]

[6] Source: Barron's, March 4, 2025, *"Target Says It Will Hike Prices to Offset Tariffs. What Products-and When"* [https://www.barrons.com/articles/target-best-buy-walmart-tariffs-prices-6fcf0084]

[7] Source: Modern Retail, March 4, 2025, *"Best Buy warns of potential price hikes as executives say tariffs will 'impact the whole industry'"* [https://www.modernretail.co/technology/best-buy-warns-of-potential-price-hikes-as-executives-say-tariffs-will-impact-the-whole-industry/]

The information provided should not be construed as tax or legal advice. Consult your tax advisor or attorney regarding your specific situation.