Larger Than Expected Tariffs Worry Investors

- The new tariff announcement surpassed investor expectations.
- This creates uncertainty for economic growth, inflation, and financial markets.
- This is a fluid situation and uncertainty is high, making diversification even more prudent.

After market close Tuesday, President Trump announced the long-awaited new tariffs set to begin in the coming days. The magnitude of the tariffs was greater than investors had anticipated, leading equity futures markets to sell off when they opened Wednesday night.

What Happened:
The White House issued a statement saying President Trump is imposing tariffs under the International Emergency Economic Powers Act of 1977 (IEEPA) to address the national emergency posed by the large and persistent trade deficit. A summary of the tariffs is below:

- A 10% tariff on all countries that will take effect on April 5, 2025.
- An individualized reciprocal higher tariff will be imposed on the countries with which the United States has the largest trade deficits. This will take effect on April 9, 2025.
- There are exceptions already carved out, which include copper, pharmaceuticals, semiconductors and lumber. Also, bullion and energy and other minerals that are not available in the U.S. are excluded.
- Canada and Mexico are unaffected by this order, and all USMCA compliant goods will continue to see a 0% tariff. Non-USMCA compliant goods will be subject to pre-existing tariffs.

What this means for markets and the economy:
Implications of the tariffs are complicated for many reasons. Often it is hard to gauge the impact until after the fact. Exporting companies may absorb some of the cost and countries will likely weaken their currencies to make their goods cheaper for Americans. Additionally, prices could rise for American consumers. All these factors depend on the country, tariff rate, and availability of substitutes. If a product manufactured in America or another country's goods are cheaper, it is harder to pass price increases on to the American consumer. Also, once there is more clarity around the impacts of the tariffs, there will likely be more exceptions made.

Adding to uncertainty there are questions regarding how long tariffs will persist. President Trump likely made the deadline for reciprocal tariffs April 9 to allow time for negotiation and it is possible this deadline could be extended. A lot of these negotiations are likely to play out very publicly in the media only adding to market turbulence.

This is a very fluid situation but, broadly speaking, China was hit harder by tariffs, while Canada and Mexico may have fared better. The European Union and Japan fall somewhere in between. Economic research firm Capital Economics estimates the tariffs could increase annual customs duties to around $700 billion for the U.S. government, which is roughly 2.3% of GDP. If the money is used to pay down the budget deficit, a recession could be likely. However, if the money is used to finance tax cuts or given back to consumers, Capital Economics estimates GDP growth could average round 1.5% in 2025. Other countries will also take hits to GDP, but to a lesser degree. China could see a 0.5% cut to GDP while the euro-zone, UK and Japan could see 0.2% cuts to GDP. The impact to U.S. inflation is estimated to be an additional 2.4% to the CPI price level, making CPI inflation far north of 4% by year-end and putting the Fed in a bind with higher inflation and yet slower economic growth.

What this means for you:
We think it is prudent to be well diversified to mitigate risk. It is important to stay focused on your own long-term financial goals and avoid getting caught up in the latest headlines. Remember this is a very fluid situation and negotiations happen quickly. As always, please consult your financial professional for guidance during these times.

About Cetera® Investment Management
Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group
"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), and Cetera Financial Specialists LLC. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

About Avantax
Avantax, Inc. (Avantax) is a wholly owned subsidiary of Aretec Group, Inc. (dba Cetera Holdings). Avantax is a unique community within Cetera Holdings, delivering tax-intelligent wealth management solutions for financial professionals, tax professionals, and CPA firms.

Avantax operates two distinct, but related, models within its business: the independent Financial Professional model and the employee-based model. The independent Financial Professional model, known as Avantax Wealth Management®, works with a nationwide network of Financial Professionals operating as independent contractors. Avantax Wealth Management offers its services through its registered broker-dealer, Avantax Investment Services, Inc., Member FINRA/SIPC, registered investment advisor (RIA), Avantax Advisory Services, Inc., and insurance agency subsidiaries.

The employee-based model, known as Avantax Planning Partners℠, offers services through its RIA, insurance agency, and affiliated broker-dealer, Avantax Investment Services, Inc. Avantax Planning Partners collaborates with CPA firms to provide their consumer and small-business clients with holistic financial planning and advisory services.

Avantax Investment Services, Inc. is located at 3200 Olympus Blvd, Suite 100, Dallas, TX, 75019. Avantax and Cetera Financial Group are under common ownership. For additional information, please visit www.avantax.com.

Disclosures
Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The **S&P 500** is an index of roughly 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of large cap universe.