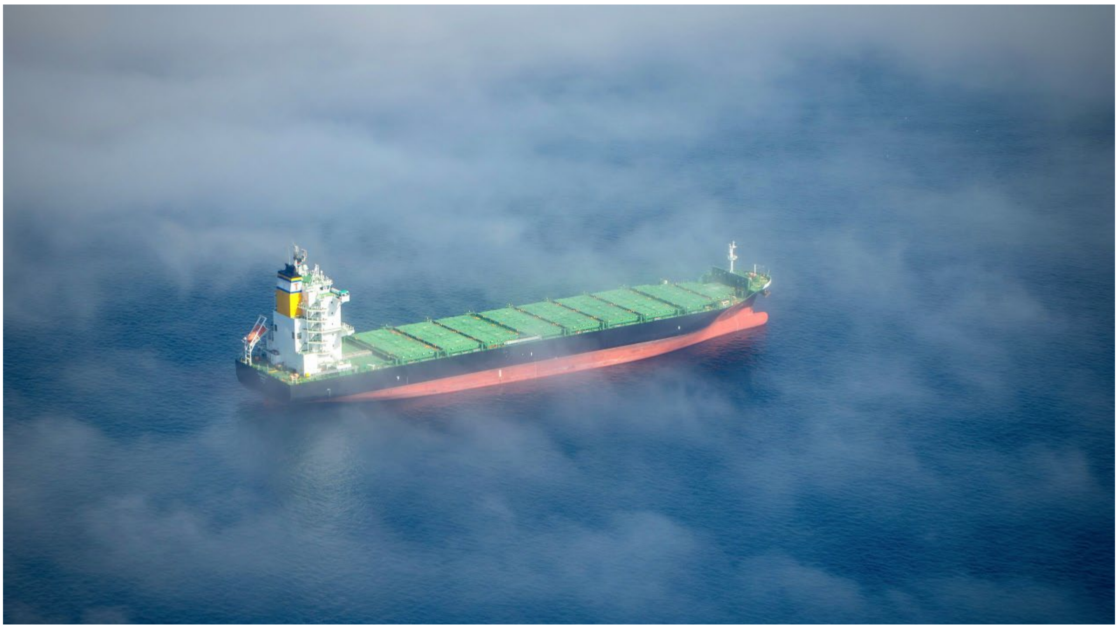
The tariff trap



2nd May 2025

> *"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."*

- commonly (mis)attributed to Mark Twain.

There is no modern-day precedent to April's sweeping tariff announcement in the United States. On which we'd also note, there is little precedent for President Trump's less predictable thinking, which doesn't necessary align to a consistent political ideology. His belief that the US has been disadvantaged in global trade has been publicised since the 1980s. His support for tariffs to correct some of those imbalances was a staple of the campaign trail and his previous stint in the White House. Yet few could have predicted the initial scale of the increases on Liberation Day.

Last year, Trump's now Treasury Secretary, Scott Bessent, said in a memo, "The tariff gun will always be loaded and on the table, but rarely discharged." Recent events have rather contradicted that assurance with a threat to upend 80 years of order within global trade.

At the time of writing, Trump has paused all 'reciprocal' tariffs – besides those levied on China – for 90 days. A new 10% baseline rate still applies to all imports regardless of country of origin. Markets initially sunk, then partially recovered, and now tread water, hanging on any evidence of a trade deal or softening in tone from the president. US bonds and the US dollar have been faltering, raising questions over their usual safe-haven status.

The impact of tariff policy on the wider global economy is unpredictable. There is no economic model that can accurately forecast assumptions for political grandstanding and subsequent retreat. But there are still ways we can respond and plan.

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Today, as in past crises, we are reminded that markets do not reward the certain, but the prepared. Those who are certain, position themselves for one particular outcome. Those who accept they cannot predict the future, position themselves sensibly in the face of what cannot be known – in other words, acknowledging a range of potential future outcomes each with varying probability.

Given Trump's propensity to change direction, that range of outcomes is wide. Nevertheless, it's worth examining the rationale behind his tariff advocacy and to consider what strategic objectives he may be pursuing.

One of the primary objectives behind tariff policy is to revitalise domestic industry. By making imported goods more expensive, tariffs aim to shift demand toward American-made alternatives, thereby supporting US manufacturing and encouraging firms to onshore production. This, in theory, not only fosters job creation but also contributes to supply chain security, reducing reliance on foreign producers in strategically sensitive sectors.

Another key ambition is to reorientate the balance of trade. Tariffs are intended to discourage imports by raising their relative cost, thereby making foreign goods less attractive in the domestic market. At the same time, by shielding domestic producers from cheaper imports, tariffs can improve pricing power and market share at home, enabling greater investment and scale. This, in turn, may enhance international competitiveness by narrowing cost gaps with overseas rivals. Through this mechanism, policymakers hope to shrink or eliminate the US trade deficit, a longstanding concern that has often been portrayed as a sign of economic vulnerability or decline.

Tariffs also serve as a tool of economic statecraft, designed to exert pressure on trading partners. By imposing targeted duties, the US can seek to deter unfair trade practices, such as dumping (selling at a loss) or intellectual property theft, that undermine domestic industries. In some cases, tariffs can be used more tactically to force other countries to the negotiating table, creating leverage in broader diplomatic or economic discussions.

Finally, while rarely their primary justification, import duties do generate income for the US Treasury, which can help fund domestic initiatives or offset other forms of taxation. However, this benefit is typically weighed against the economic costs imposed on consumers and import-dependent industries.

Taken at face value, tariffs have therefore been introduced with some ostensibly appealing objectives: to support domestic manufacturing, reduce trade deficits, encourage exports, strengthen supply chain resilience, and deter unfair trade practices. However, the route to achieving them is far from straightforward and the consequences are often complex.

Tariffs are taxes in disguise. They raise prices for consumers and businesses alike, disrupt global supply chains, and invite retaliatory measures from trading partners. While they may protect a handful of industries, they risk harming many more in the process. The result is frequently 'stagflationary': weaker growth coupled with rising prices.

Studies into the steel and aluminium tariffs introduced in 2018 during Trump's previous term, found they likely resulted in an increase of 1,000 US jobs linked to the production of those metals[1]. However, higher input costs for US firms relative to overseas rivals meant the same tariffs also likely resulted in 75,000 fewer jobs in industries that use steel and aluminium in manufacture. The cost of protecting one industry was the quiet erosion of many others.

Nor can manufacturing capacity elsewhere be reshored overnight. Infrastructure takes time to build, and domestic labour shortages – exacerbated by a strict immigration stance – constrain any rapid shift. Firms are understandably reluctant to invest in long-term capacity based on trade policies that could be revised or reversed with the next political cycle[2].

Tariffs also ignore the argument that the US trade deficit – importing more goods than it exports – arises not from unfair trade, but because the country under saves and consumes beyond its means. A problem that requires a wholly different solution[3].

Since the Second World War, global trade has underpinned one of the most constructive periods in economic history. Through comparative advantage, countries specialised in what they produced best, leading to greater efficiency, lower prices, and higher standards of living worldwide. The attempt to unpick this model, however well intentioned, risks undermining the very fabric that has supported decades of US-centric prosperity.

The US has long enjoyed a unique position as issuer of the world's reserve currency, allowing it to borrow cheaply and at scale. Should that privilege erode, the cost of capital would rise, deficit financing would become more painful, and the fiscal outlook would darken – outcomes that Trump is eager to avoid ahead of the key 2026 mid-term elections.

Trade wars are typically lose-lose scenarios. The short-term disruption to supply chains, prices and domestic production rarely pay off. Most leaders seem to recognise this – or come to realise it – which explains why most major trade conflicts steer towards negotiation rather than escalation.

There is a chance the tariff war escalates, with severe economic consequences. The negatives would be immediate and the positives (if any), years in the making. Recent evidence suggests that cooler heads *may* prevail. A wobble in the US Treasury market was regarded as the catalyst for Trump's 90-day reprieve which lifted markets. Scott Bessent's appointment as lead trade negotiator was welcomed by markets who ultimately see him as a pragmatist.

Recent events reinforce the importance of distinguishing between what is knowable and what it not – particularly with policy decisions. It is tempting to draw definitive conclusions from bold announcements but acting on false certainty risks misjudgement. Far better to ground conviction in thoughtful analysis and a recognition that trade policy is only one variable in a much larger and dynamic global equation.

Tariffs, ultimately, treat symptoms rather than causes. Tackling the US trade deficit will likely require a different direction altogether. Where markets head in the meantime is unknowable and should not be mistaken as predictable. Despite the financial industry's perennial obsession with forecasts, successful investing lies not in prediction, but in preparation.

Tariffs treat symptoms, not causes

If history is any guide, the US equity market has demonstrated remarkable resilience over time. This is why a clear, repeatable process is essential to avoid wavering at precisely the wrong moment. History affirms another truth: some of the best periods of investment opportunity emerge when the outlook feels most bleak.

A glance at any long-term performance chart for the US S&P 500 index shows troughs turn into peaks time again – though the emotional cost of acting in those moments is high. As Wall Street veteran Walter Deemer puts it, "*When the time comes to buy, you won't want to.*"

As with tariffs, so with markets: misplaced certainty carries greater risk than recognised uncertainty. A disciplined, structured approach, anchored by long-term thinking, is the most effective safeguard through episodes of volatility and recovery.

You can read more about us and our investment service by visiting our website www.edisonwm.com.

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Insight piece source:
[1] Econofact, 2020.
[2] Are tariffs bad for growth? Yes, say five decades if data from 150 countries. Journal of Policy Modeling, 2020. https://pmc.ncbi.nlm.nih.gov/articles/PMC7255316/
[3] Research Affiliates, 2025.

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