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Trump Tariff Scenarios

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We want to offer a competing view to some comments in a recent [CNBC.com](https://www.cnbc.com) article highlighting that tariffs by President Trump may come sooner than expected if he wins in November. We, in fact, think it might take *longer* for Trump to implement his tariffs beyond the time frame that we believed was already the market consensus view.

1. Trump might choose to tie the well telegraphed ~60% Chinese tariffs and a well telegraphed worldwide 10-20% tariff to an extension of the expiring 2017 tax bill. In this scenario, tariffs would be used as an important payfor. This situation could complicate and delay the timing but also foreshadow the policy since Trump would likely have to settle on a tariff rate(s) to include in a tax proposal/bill. Beyond using the green energy tax breaks in the Inflation Reduction Act as a pay-for, which could raise as much as \$500 billion to \$1 trillion-plus over 10 years, we don't see any big payfors that Republicans could agree to raise for a tax bill that is expected to cost \$4.5 trillion over 10 years if they extend it for that long.
2. Trump might choose to implement the ~60% tariff on Chinese imports unilaterally, before consideration of the tax bill. In other words, he could impose the Chinese tariff hikes quickly but marry the across-the-board 10-20% tariffs on the rest of the world as a payfor for the tax bill. Alternatively, he could use the Chinese tariffs as a payfor and impose the worldwide tariffs unilaterally, though that seems less likely since there might be some legal issues with across-the-board tariffs.
3. Trump might choose to implement the tariffs on both China and the rest of the world, as advertised, by executive action and early in his term.
4. Trump might float the dual tariff idea and take the market's temperature. We all know how important the stock market was to Trump during his first term and any materially sell-off to his tariff idea, which seems reasonable to expect, could cause him to rein in his plan. For example, he might choose to go forward with the China tariffs, instead of the across-the-board tariffs.

To that last point, we believe that Trump's top priority on the trade front is increasing Chinese tariffs to ~60%. In our view, Trump is looking to bring China to the negotiating table and reach a grand headline-making deal. So, we would expect any major tariff increase on the Chinese to be somewhat short-lived as we believe Trump wants to have a deal reached by the end of 2025 or early 2026. Such a scenario may also mean that including the Chinese tariffs as a payfor is less likely.

Across-the-board tariffs will also be very difficult to pass in even a Republican Congress. However, given that there are so few payfors to cover the cost of extending the Trump tax law, the administration might have to give it a shot, nonetheless.

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