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Trump Tariffs Update

We have the following comments about President Trump's recent trade pronouncements, which are generally consistent with our views before he became president.

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- We are skeptical that the 25% tariffs on Mexico and Canada, in response to illegal immigration / fentanyl and ostensibly targeted for a Feb. 1 announcement, will ever be *implemented*, but will rather lead to negotiations between the two countries.
- Of course, in the unlikely event that such issues cannot be resolved the tariffs would take effect with retaliatory actions likely to follow.
- The same is likely true for the 10% tariffs being considered for Chinese imports in response to the same illicit drug considerations.
- These pronouncements are consistent with our view that Trump will invoke the threat of tariffs more for *non-trade* reasons than was the case during his first term.
- In our view, this makes the tariffs themselves less likely to be implemented – or perhaps more short-lived – given the relatively easier policy adjustments / commitments that can be taken by counterparties in response, as opposed to a broader rebalancing of import / export dynamics.
- Trump will of course still use tariffs in an effort to rectify trade imbalances, which is where the ~60% Chinese / 10%-20% worldwide levies come into play, but it would not surprise us if these more material efforts are delayed out beyond more imminent market expectations.
- While we *do* expect these trade-related tariffs to be implemented – starting with China – and to have a longer shelf-life than the *non-trade* threats above, we think a blanket 60% levy on *all* Chinese products is unlikely.
- We would instead expect an increase in *existing* product tariffs, potentially omitting consumer-facing items, with Trump presumably citing China's failure to live up to its end of the [Phase One Agreement](#) reached during his first term.
- The tail risk here is that Trump argues Chinese consumer item manufacturers have had plenty of time to adjust supply chains.

It is only after these China issues are addressed that we would expect Trump to focus on worldwide tariffs, but here too we suspect them to be more targeted, and to exclude consumer-facing items.

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