TARIFFS IN CONTEXT: IMPACT & POSITIONING

INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

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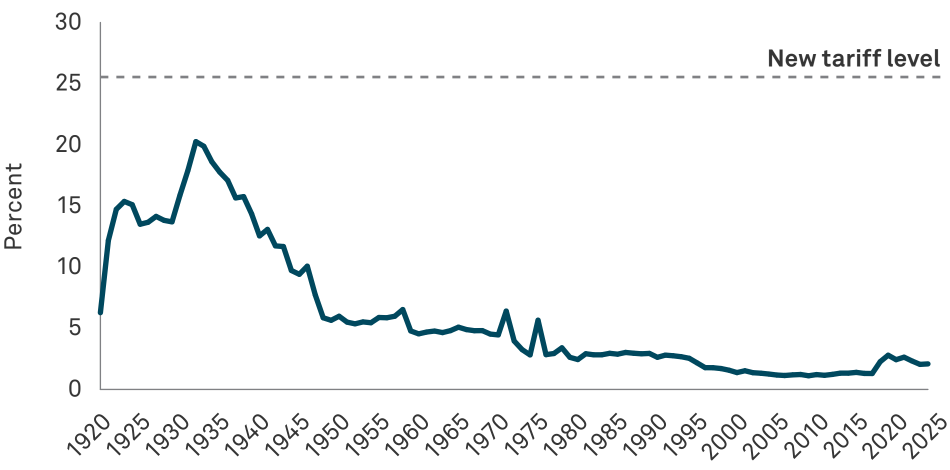
The Trump administration is imposing tariffs on US trading partners worldwide. These new trade policies raise the effective tariff rate to the highest level since 1903. The impact could be a meaningful growth slowdown in the US in 2025.

What happened

President Trump announced a minimum 10% tariff on all exporters to the US. A number of countries will see greater rates. Notably, the European Union, South Korea and Taiwan will face rates of 20%, 25% and 32%, respectively. Meanwhile, China is hit with an additional 34% in levies, which brings its overall tariff rate to 54%.

These developments bring the US' effective tariff rate to ~25.5%, up from just 2.5% before President Trump took office for his second term in February. This figure takes into account the newly announced tariffs, a 25% levy on foreign-made motor vehicles that had been announced in March, and our assumption of 10% tariffs on Mexico and Canada.

US — EFFECTIVE TARIFF RATE



Source: BNY Investment Institute, Macrobond. Data as of March 31, 2025.
Chart for illustrative purposes only.

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Potential impact on the economy

Based on what we saw during 2018–2019, when tariffs were on an uptick under the first Trump administration, we extrapolate that a 1 percentage point increase in the effective tariff rate could increase core inflation by as much as 0.1% and decrease US GDP growth by as much as 0.2–0.3% for some time.

Importantly, tariffs' impact on GDP occurs largely due to the uncertainty created for businesses and households, which dampens business investment and consumption growth. We believe this means that trade policy uncertainty — already much higher than it was in 2018–19 — can have a negative impact on GDP growth even if tariffs implementation is suspended or rolled back, once announced. The direct impact on GDP — e.g., via higher prices of imports squeezing consumer spending — is also significant.

We recently revised our forecast for US GDP to slow to 1.3% in 2025, a level that is below the long-term average growth trend of 2%.

We had previously estimated US recession risks to be relatively low at 20%. Whether the US is now at greater risk of recession, depends on whether growth-friendly policies will be introduced later in the year. Without fiscal support on top of the extension of the 2017 tax cuts, the large rise in the effective tariff rate seen so far, especially if met with retaliation from trade partners, would increase the probability of a small US GDP contraction within 12-months closer to 40–50%.

For a deeper dive into various scenarios, see **Vantage Point,** our global economic and markets outlook.

Positioning amid volatility

Trade policy is likely to remain fluid, and the volatility of portfolio positions may be elevated.

Historically, companies that grow and pay dividends tend to be more resilient in downturns. Read more in **Why dividends are set to shine.**

We see potential opportunities and value in value stocks. See our report: **Inflation and Magnificent 7 volatility could point to large cap value opportunities.**

Meanwhile, diversification is key. We believe in international equity opportunities in Europe, Japan and China. Read more in our report: **The "Golden Age."**

BNY Investments will continue to monitor the situation and bring you our latest analysis.

About the BNY Investment Institute

Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

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