TARIFF WATCH: EYES ON FISCAL INTERVENTION

April 2025

INVESTMENT VIEWS
IN PARTNERSHIP WITH
THE BNY INVESTMENT INSTITUTE

US trade policy continues to evolve rapidly. While the exact rates and mix of tariffs on US imports are yet to be determined, we believe that relatively high levels of tariffs will be in place for the long term, with strong fiscal support being one of the few routes for avoiding a potential recession.

Scope for tariff reductions?

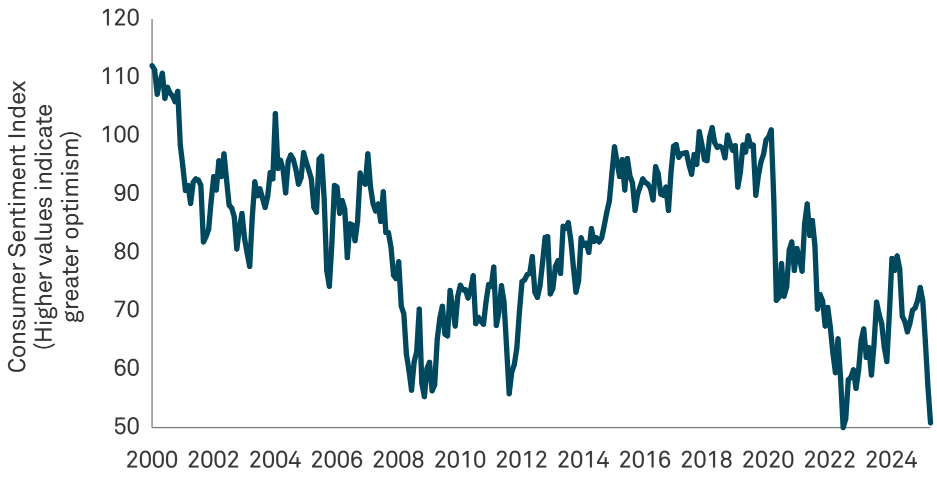
At the start of the year, the US was expected to collect around $100 billion in tariffs. That quickly became $200 billion, $300 billion, and with the April 2 announcement of worldwide reciprocal tariffs, that figure ballooned to potentially $800 billion.[1]

"The size of tariffs has grown significantly enough to represent a meaningful tax on consumers and corporations alike. It's possible that negotiations could reduce these figures, but if the administration views tariffs as a revenue source — and we believe revenue is one of the motivations of this administration — then there may be limited meaningful scope for tariff reductions," according to Eric Hundahl, Head of the BNY Investment Institute.

Drag on sentiment

Policy uncertainty is already affecting consumer behavior. The University of Michigan Consumer Sentiment report, released on April 11, 2025, showed a significant drop to 50.8, its second-lowest reading on record. "On one end, households face rising prices and must make tough decisions about purchases. On the other end, due to market fluctuations, a certain amount of wealth that was invested may not be there anymore. Some of this wealth may have been ear-marked for big purchases, and that capital would have gone back into the economy," says Hundahl. "In this way, uncertainty is eroding growth."

UNIVERSITY OF MICHIGAN CONSUMER SURVEYS

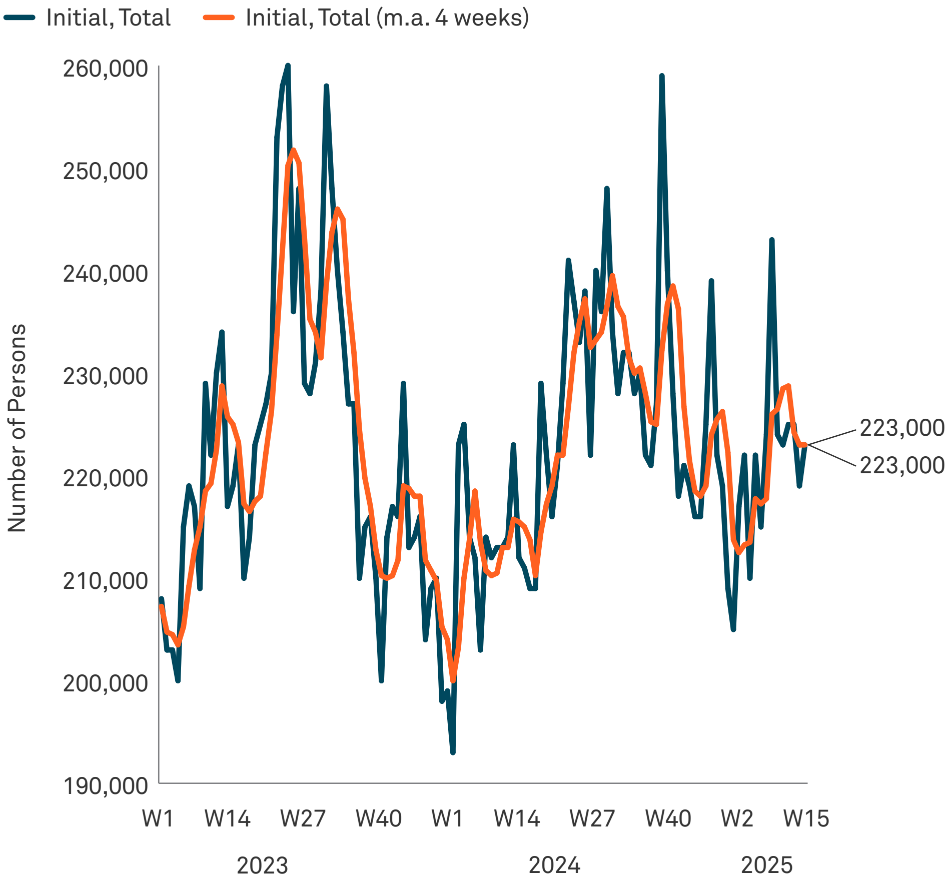


Source: University of Michigan. Data as of April 16, 2025.

We believe that fiscal intervention in the form of tax cuts may be key to avoiding a recession. Targeted tax cuts, including reductions in corporate taxes, personal income taxes, taxes on tips and taxes on Social Security, could provide much-needed relief. In addition to boosting liquidity for both consumers and companies, policymakers may need to introduce pro-growth measures to counteract the economic drag of tariffs. We believe there may be deregulation and other pro-growth policies later this year or in 2026.

As for the Federal Reserve (the Fed), we've long held the viewpoint that the Fed may struggle to cut rates and we believe the central bank is now in "wait and see" mode. The central bank is unlikely to cut rates until it's clear the labor market is struggling. Therefore, the weekly jobless claims report is, in our view, the single most important data point these days. However, these claims can be noisy week-to-week, so it's the trend over a few weeks that yields the most reliable signal, points out Hundahl.

INITIAL JOBLESS CLAIMS



Source: US Labor Department. Data as of April 16, 2025. W = week.

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 seeking international equity opportunities in Europe, Japan and China. Read more in our report: **The "Golden Age."**

Finally, this could be a particularly meaningful time to consider global fixed income, given it's likely that a number of global central banks will lower rates more substantially than in the US. Investing in global fixed income, particularly on a hedged basis, can provide diversified sources of return to a domestic-only fixed income portfolio. See our report: **Vigilantes Stay Home**.

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.

[1] BNY Investment Institute estimate, based on assuming no reduction in trade flows and extrapolating using 2024 import figures and an estimated 25% effective tariff rate.

MARK-723561-2025-04-17

BNY | INVESTMENTS