

# TRUMP'S PROPOSED TARIFFS

## ECONOMIC WEAPON OR UNINTENDED CONSEQUENCE?

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## Table of Contents

Section	Title
1	Introduction to Tariffs
2	How Tariffs Work
3	Why Politicians Use Tariffs
4	Potential Positive Impacts of Tariffs
5	Potential Negative Effects of Tariffs
6	Tariff Impacts: Positive vs. Negative

# About the Author



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# Introduction to Tariffs

Tariffs have long been a critical tool in global trade policy, shaping economies, industries, and international relations. At their core, tariffs are **taxes imposed on imported goods**, making foreign products more expensive in comparison to domestic alternatives.

Governments use tariffs for various reasons, from protecting local industries and jobs to raising revenue and influencing trade negotiations. While tariffs can provide economic benefits, they also introduce risks, such as **higher consumer prices, supply chain disruptions, and potential retaliatory trade measures from other countries**.

## Definition of Tariffs:

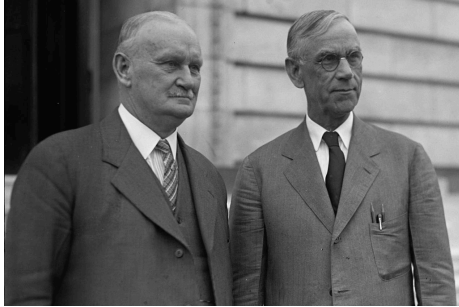


A **tariff** is a tax levied on goods as they cross national borders. The purpose of this tax is to **increase the cost of imported goods**, making them **less competitive** with domestically produced alternatives. The logic behind tariffs is simple: by making imports more expensive, domestic industries receive a competitive advantage, encouraging local production and job creation. However, tariffs also come with economic trade-offs that affect both businesses and consumers.



# Historical Context of Tariffs in the U.S.

Tariffs have played a significant role in shaping U.S. economic policy since the country's founding. Historically, they have been used both as a **source of government revenue** and as a **protective measure** for American industries. Some key historical examples include:



## The Smoot-Hawley Tariff Act (1930):

One of the most infamous tariff policies in U.S. history, this act significantly raised tariffs on imported goods. While intended to protect American businesses during the Great Depression, it instead led to global retaliation, worsening economic conditions worldwide.



## NAFTA (1994) and USMCA (2020):

The North American Free Trade Agreement (NAFTA) reduced tariffs between the U.S., Canada, and Mexico. It was later revised into the U.S.-Mexico-Canada Agreement (USMCA) to modernize trade policies while still maintaining certain protective measures for American industries.



## U.S. - China Trade War (2018-2020):

Under the Trump administration, the U.S. imposed billions of dollars in tariffs on Chinese goods, triggering retaliatory tariffs from China. This trade conflict impacted multiple industries, from agriculture to technology, and raised concerns about the long-term effects of protectionist policies.

## Why Tariffs Matter

Understanding tariffs is crucial because they directly impact **economic growth, inflation, trade balances, and international relations**. While some argue that tariffs **protect domestic jobs and industries**, others warn that they lead to **higher consumer prices, retaliatory trade wars, and inefficiencies in the global supply chain**.

“ Tariffs are crucial because they directly impact **economic growth, inflation, trade balances, and international relations**. ”

In the following sections, we will explore **how tariffs work, why politicians like Donald Trump use them, their potential benefits and drawbacks, and their broader implications for the U.S. and global economy**.

Many investment firms like to try to estimate exact impacts to GDP or inflation from new tariffs. We refrain from making these forecasts. The number of assumptions that can change overnight make this a useless exercise. It is important to note that the currently proposed tariffs likely reduce GDP overall and increase specific prices of goods which will reduce other goods prices. There could be offsets in GDP such as reductions in tariffs from other nations or larger domestic investment. However, overall, the impact in 2025 is likely marginally negative, which has led to stock market volatility.

# How Tariffs Work

Tariffs are a fundamental component of international trade policy, influencing everything from consumer prices to diplomatic relations. While they are often framed as a tool to protect domestic industries, their actual economic effects depend on **who pays them, how they are applied, and how other countries respond**. This section explains the **mechanics of tariffs, who bears the financial burden**, and the **role of global trade regulations** in managing tariff policies.

## Who Pays for Tariffs?

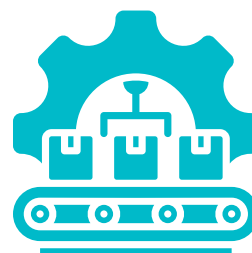
There is a common misconception that tariffs are paid directly by foreign governments or manufacturers. In reality, the **financial burden is distributed in several ways**.



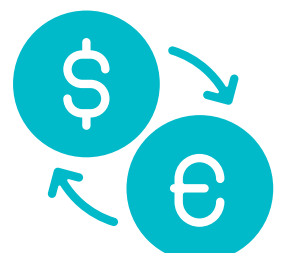
Importers



Consumers



Foreign  
Manufacturers



Currency Offsets

## Tariffs as a Policy Tool

Governments use tariffs **strategically** for various economic and political objectives, including:





#### Revenue Generation:

Tariffs provide a direct source of government income.



#### Domestic Industry Protection:

Raising the cost of imports encourages consumers to buy locally produced goods.



#### Trade Negotiation Leverage:

Tariffs are used to pressure other countries into making trade concessions.

While tariffs can be **effective in protecting domestic industries**, they can also **disrupt global trade, increase specific costs for consumers, and provoke retaliatory actions**.

## Conclusion

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Tariffs disrupt the free market, changing how businesses operate and how consumers spend. They **drive up prices, alter supply chains, and spark trade disputes** that can ripple across industries. More importantly, **they create uncertainty in the market** - something businesses and investors try to avoid, as it makes planning and decision-making more difficult

In the next section, we will examine **why politicians, including Donald Trump, advocate for tariffs** and how they use them to shape trade policy and economic strategy.

# Why Politicians Use Tariffs

Tariffs have long been a tool in the arsenal of policymakers, serving various economic and political objectives. Politicians, notably former President Donald Trump, have employed tariffs to address trade imbalances, protect domestic industries, and as leverage in international negotiations.

## Economic and Political Motivations

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## **1. Protecting Domestic Industries and Jobs**

One primary rationale for imposing tariffs is to shield domestic industries from foreign competition. By taxing imports, governments can make foreign goods more expensive, encouraging consumers to buy domestically produced products. This protectionist approach aims to preserve local jobs and prevent industries from being undercut by cheaper imports.

## **2. Addressing Trade Deficits**

Politicians may use tariffs to reduce trade deficits—the situation where a country imports more than it exports. For instance, President Trump highlighted the significant trade imbalance between the U.S. and other nations, particularly China, as a justification for implementing tariffs. The goal was to discourage imports and promote domestic production, thereby narrowing the trade gap.

## **3. Leveraging Trade Negotiations**

Tariffs can serve as a bargaining tool in international relations. By imposing or threatening tariffs, a country may compel trading partners to negotiate more favorable terms. During his tenure, President Trump utilized tariffs to press countries like China, Canada, and Mexico into renegotiating trade agreements, aiming for conditions perceived as more equitable to the U.S.

## **4. National Security Considerations**

Tariffs are sometimes justified on the grounds of national security. By protecting industries deemed vital for defense and infrastructure, governments aim to reduce dependence on foreign suppliers. The Trump administration, for example, imposed tariffs on steel and aluminum imports, citing the need to safeguard these critical sectors.

# **Case Study: The 1st Trump Administration's Policies**

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The first Trump administration's approach to tariffs was marked by a series of aggressive trade measures:



China

In response to concerns over intellectual property theft and trade imbalances, the U.S. imposed tariffs on a wide range of Chinese goods.

This action aimed to pressure China into altering its trade practices.



Canada and  
Mexico

Tariffs were levied on imports from these neighboring countries, with the stated objectives of addressing illegal immigration and drug trafficking issues.

These measures were also intended to encourage the renegotiation of trade agreements.



European Union

The U.S. threatened tariffs on European automotive imports to address perceived unfair trade practices and to reduce the trade deficit with EU countries.

## Public Perception and Political Strategy

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The use of tariffs can resonate with certain voter bases, particularly those in manufacturing sectors affected by global competition. By implementing tariffs, politicians like Donald Trump signal a commitment to protecting domestic jobs and industries, appealing to constituents concerned about the impacts of globalization. This approach can strengthen political support among key demographics.

## Conclusion

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Politicians employ tariffs as multifaceted tools to achieve economic protection, rectify trade imbalances, exert leverage in international negotiations, and address national security concerns. While these measures can offer short-term benefits, they also carry the risk of retaliatory actions and potential negative impacts on the global economy. The effectiveness of tariffs depends on their strategic implementation and the broader context of international trade relations.

While tariffs are often framed as a tool to **protect domestic industries and reduce trade deficits**, their impact is complex and multifaceted. In some cases, tariffs can provide **economic benefits**, such as strengthening local industries, safeguarding jobs, and even generating government revenue. However, these benefits come with trade-offs, and understanding their



full impact requires a deeper examination of both **the positive and negative consequences of tariff policies**.

In the next section, we will explore the **potential positive impacts of tariffs**, looking at how they can **benefit domestic industries, create jobs, increase government revenue, and serve as leverage in trade negotiations**.

# Potential Impacts of Tariffs

Tariffs have been used throughout history as a means to **support domestic industries, protect jobs, and create economic stability**. While they often face criticism for raising costs and disrupting global trade, there are several **potential benefits** associated with tariffs when implemented strategically.

## 1. Protection of Domestic Industries and Jobs

One of the primary justifications for tariffs is their role in **protecting domestic industries from foreign competition**. By making imported goods more expensive, tariffs create a **price advantage** for locally produced alternatives. This protection can be particularly beneficial in:

1. **Manufacturing & Industrial Sectors:** Industries like steel, automotive, and textiles benefit from reduced foreign competition, leading to **higher domestic production and job retention**.
2. **Emerging Industries:** Tariffs can act as a **temporary shield** for **developing industries** that may not yet be competitive on a global scale. This concept, known as **"infant industry protection,"** allows new sectors to grow and establish themselves before facing full international competition.

## 2. Encouraging Domestic Investment & Innovation

Tariffs **incentivize domestic companies to invest in production capacity and innovation** since they face less pressure from cheaper foreign competitors. This can lead to:

- **Increased Capital Investment:** Companies may expand production facilities, purchase new equipment, and hire more workers.
- **Technological Advancement:** With **less reliance on foreign suppliers**, industries may invest in **new technologies and processes** to improve efficiency and maintain competitiveness.



#### Example: Semiconductor Industry

The U.S. imposed tariffs on Chinese **semiconductor imports**, which helped push investment into **domestic chip manufacturing**, leading to increased funding for semiconductor production facilities in the U.S.

### 3. Government Revenue Generation

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Tariffs can serve as a **source of government revenue**, particularly in countries with large import volumes. This revenue can be used to:

- **Fund infrastructure projects, education, and public services.**
- **Offset budget deficits** without relying solely on income or corporate taxes.



#### Example: Tariff Revenue in the U.S.

During the **U.S.-China trade war**, tariffs generated **billions of dollars in additional government revenue**. While some of this revenue was offset by economic disruptions, the funds provided financial resources for **farmer relief programs** and infrastructure investment.

### 4. Reducing Trade Deficits & Promoting Fair Trade

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A key argument for tariffs is their role in **reducing trade deficits**—the imbalance where a country imports more than it exports. By discouraging imports, tariffs can:

- Encourage **domestic consumption of locally made goods**.
- Reduce reliance on foreign markets, keeping more money circulating within the national economy.

Additionally, tariffs are sometimes used to **combat unfair trade practices**, such as:

- **Dumping:** When foreign companies **sell goods below market value** to drive competitors out of business.
- **Currency Manipulation:** Countries that artificially **devalue their currency** to make exports cheaper and imports more expensive.



#### Example: The U.S. - China Trade War & Intellectual Property Theft

One of the justifications for **U.S. tariffs on Chinese goods** was to address China's **intellectual property theft and forced technology transfers**. By imposing tariffs, the U.S. sought to pressure China into **negotiating fairer trade policies** and **curbing unfair business practices**.

### 5. Tariffs as a Negotiation Tool

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Governments **strategically use tariffs** as leverage in trade negotiations, forcing other countries to the table to discuss better trade agreements. This approach can:

- **Pressure foreign governments** to lower their own tariffs and trade barriers.
- **Encourage the renegotiation of trade agreements** to better serve national interests.
- **Force compliance with international regulations** on labor, environmental policies, and fair market competition.



#### **Example: USMCA Trade Agreement**

The **Trump administration imposed tariffs on Canadian and Mexican imports**, using them as leverage to renegotiate **NAFTA into the United States-Mexico-Canada Agreement (USMCA)**. The new agreement was designed to **strengthen labor protections and increase U.S. manufacturing opportunities**, showing how tariffs can be used to achieve diplomatic and economic goals.

## **Conclusion**

While tariffs often face criticism for **raising costs and disrupting trade**, they can serve **strategic economic and political purposes** when used carefully. Potential benefits include:

- ✓ **Protecting domestic industries and jobs.**
- ✓ **Encouraging investment and innovation.**
- ✓ **Generating government revenue.**
- ✓ **Reducing trade deficits and combating unfair trade practices.**
- ✓ **Serving as leverage in trade negotiations.**

However, **the effectiveness of tariffs depends on how they are implemented**—poorly designed tariff policies can lead to **retaliatory measures, price inflation, and supply chain disruptions**.

In the next section, we will examine the **potential negative consequences of tariffs**, including their impact on **consumer prices, inflation, global trade relationships, and supply chain efficiency**.

# **Potential Negative Effects of Tariffs**

While tariffs are often promoted as a tool to **protect domestic industries and jobs**, they can also lead to **unintended economic consequences** that ripple across industries, consumers, and international trade relations. When tariffs are implemented without strategic consideration, they can drive up costs, disrupt global supply chains, and provoke retaliatory measures from other countries.



# 1. Consumer Disruption

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One of the most immediate and visible effects of tariffs is **higher prices for consumers**. However, when looking at the overall price level in the economy, it would be difficult to pinpoint exactly when tariffs were implemented in 2018. Instead, **their impact is seen more clearly in specific product categories**. When tariffs increase the cost of importing goods, businesses often pass those costs down to consumers, leading to higher prices for certain items.

1. **Imported Goods Become More Expensive** – Products subject to tariffs become pricier, making everyday consumer goods less affordable.
2. **Price Increases on Domestically Produced Goods** – Even American-made products may become more expensive, as they often rely on imported components affected by tariffs.

## Example: The U.S. China Trade War



The first **Trump administration** imposed tariffs on **\$370 billion worth of Chinese imports**, covering goods such as **electronics, appliances, clothing, and food**.

A study by the **Federal Reserve Bank of New York** estimated that these tariffs **cost the average American household \$1,277 per year** due to **higher retail prices and supply chain disruptions**.

# 2. Supply Chain Disruptions & Business Costs

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Many modern industries depend on **global supply chains**, where raw materials and components are sourced from multiple countries. Tariffs disrupt these supply chains by:

- **Increasing production costs** – Companies that rely on imported raw materials (e.g., steel, aluminum, semiconductors) must pay more, leading to higher costs for manufacturers and consumers.
- **Forcing businesses to seek alternative suppliers** – If tariffs make certain imports too expensive, companies must find new suppliers, which can slow down production and reduce efficiency.

## Example: Auto Industry Tariffs



In 2018, **tariffs on imported steel and aluminum** raised costs for **U.S. automakers** like Ford and General Motors, who rely on foreign metals for manufacturing.

Ford estimated that tariffs **increased its production costs by over \$1 billion**, leading to **job losses and factory closures**.

# 3. Retaliatory Tariffs & Export Declines

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When a country imposes tariffs, **other countries often retaliate** by imposing **their own tariffs** on exported goods. This creates **a trade war** that can harm domestic businesses, particularly in

industries that rely on exports. When goods that would have been exported remain stateside due to retaliatory tariffs, their increased domestic supply can put downward pressure on prices, further demonstrating why tariffs are not inherently inflationary.

- **U.S. Farmers and Agricultural Exports** – When the U.S. imposed tariffs on Chinese goods, China retaliated by slapping tariffs on American agricultural products, including soybeans, pork, and corn.
- **Impact on Manufacturing** – U.S. companies that export to Europe and Asia have faced reduced demand due to higher costs imposed by retaliatory tariffs.

#### **Example: Chinese Retaliatory Tariffs on U.S. Agriculture**



In response to U.S. tariffs, **China imposed 25% tariffs on American soybeans**, significantly reducing U.S. exports to China.

As a result, **U.S. farmers faced billions of dollars in losses**, and the U.S. government had to step in with **subsidies to offset the damage**.

## **4. Inflationary Pressures**

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Inflation is defined as "ongoing increases in the general price level for goods and services in an economy over time." While tariffs can **raise prices on specific imported goods**, they simultaneously **reduce consumers' disposable income**, leading to **weaker demand for other goods and services**.

This shift in spending behavior creates offsetting downward pressure on prices elsewhere in the economy. Without an expansionary monetary policy to accommodate these higher prices, overall inflation is unlikely to accelerate significantly. The Federal Reserve has indicated that it does not intend to loosen monetary policy in response to tariffs, meaning any price increases will not be broadly inflationary.

Historical examples show that **tariffs tend to shift consumption patterns** rather than cause sustained, economy-wide inflation. In fact, the Fed may even use tariffs as a reason to maintain higher interest rates, reinforcing disinflationary pressures instead of fueling inflation.

Consumers will see impacts in:

- ✓ **Higher costs for everyday goods (clothing, food, electronics, household items).**
- ✓ **Increased construction and housing prices (due to higher material costs).**
- ✓ **Higher interest rates as central banks combat inflationary pressure.**



### Example: Impact on U.S. Inflation

A 2019 study by the **National Bureau of Economic Research (NBER)** found that tariffs imposed during the **U.S.-China trade war contributed to an overall rise in inflation**.

In response, the **Federal Reserve adjusted interest rates** to counteract inflationary pressure, impacting borrowing costs for businesses and consumers.

## 5. Job Losses & Economic Slowdowns

While tariffs are designed to **protect domestic jobs**, they often have the opposite effect, especially in industries reliant on global supply chains.

- **Higher production costs = fewer jobs** – Companies facing increased costs may cut jobs or relocate operations to countries with lower costs.
- **Retaliatory tariffs = export-driven job losses** – Industries that rely on exports (e.g., agriculture, manufacturing) suffer when foreign buyers shift to other suppliers.



### Example: U.S. Manufacturing Job Losses Due to Tariffs

Despite tariffs aimed at reviving **U.S. manufacturing**, data from the **Bureau of Labor Statistics** showed that **manufacturing job growth slowed after tariffs were introduced**.

Companies like **Harley-Davidson and Caterpillar** faced higher costs and **moved some operations overseas** to avoid tariffs, resulting in **job cuts at U.S. plants**.

## 6. Strained Relations & Reduced Trade Cooperation

Tariffs don't just impact the economy—they also **strain diplomatic relations** between countries. Protectionist policies can lead to:

- **Weakened alliances** – Countries may hesitate to cooperate on trade deals and security agreements.
- **Trade fragmentation** – Nations may shift to regional trade blocs, bypassing traditional partners.
- **Loss of credibility in global markets** – If a country frequently changes its tariff policies, international investors may view it as unstable, reducing foreign investment.



### Example: U.S. - Europe Trade Disputes

The first Trump administration **threatened tariffs on European automotive imports**, leading to tensions with **Germany and France**.

The European Union **retaliated with tariffs on U.S. whiskey, motorcycles, and dairy products**, impacting American exporters.



# Conclusion

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While tariffs are intended to **protect domestic industries and jobs**, they often come with significant downsides:

- ✗ Disruptions to global supply chains.
- ✗ Retaliatory tariffs that harm U.S. exports.
- ✗ Job losses in industries affected by higher costs.
- ✗ Deterioration of international trade relations.

As history has shown, **poorly designed tariff policies can do more harm than good**, particularly when they provoke **trade wars and economic uncertainty**.

In the next section, we will analyze **how tariffs impact different industries and countries**, examining both the winners and losers of protectionist trade policies.

## Tariff Impacts: Positive vs. Negative

The table below outlines the potential positive and negative impacts of tariffs across various industries and countries. While tariffs can provide benefits such as protecting domestic industries and increasing government revenue, they also introduce challenges such as higher consumer prices, trade disruptions, and economic slowdowns.

Industry/Country	Positive Impact	Negative Impact
U.S. Steel & Aluminum	Higher domestic production	Higher material costs for automakers, increased prices
U.S. Agriculture	Temporary price relief for farmers	Retaliatory tariffs reduced exports, farm losses
U.S. Manufacturing	Less foreign competition for domestic manufacturers	Higher costs for raw materials, reduced global competitiveness
Technology Sector	Incentive to develop domestic chip production	Increased prices for electronics, supply chain disruptions
Retail & Consumer Goods	Potential growth for U.S. textile industry	Higher prices for consumers, inflation risk
China	Encourages internal consumption	Export losses, reduced access to U.S. markets
European Union	Increased protection for local businesses	Tariffs on U.S. goods led to retaliatory measures
Mexico & Canada	Possible renegotiation of trade agreements	Reduced trade volumes with U.S.
Vietnam & Southeast Asia	New manufacturing investments	Gains at the expense of U.S. trade partners
U.S. Government Revenue	Increased tariff revenue for government	Economic slowdown from reduced trade

## Conclusion

While the intention behind President Trump's proposed tariffs is to protect domestic interests and address trade imbalances, the potential negative consequences—such as inflation, supply chain disruptions, and strained international relations—must be carefully weighed. Alternative strategies that promote fair trade, domestic innovation, and investment may offer more sustainable solutions without the adverse side effects associated with broad tariff implementations.

In crafting trade policies, it is essential to balance protectionist measures with the benefits of global economic integration, ensuring that actions taken bolster the economy without inadvertently causing harm.

# Get Professional Guidance



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# Appendix



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## Important Disclosures

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