

# What Tariffs and Trade Wars Mean for Long-Term Investors



**Michael Rossi, CFA, CFP® | Chief Client Wealth Officer | Portfolio Manager**

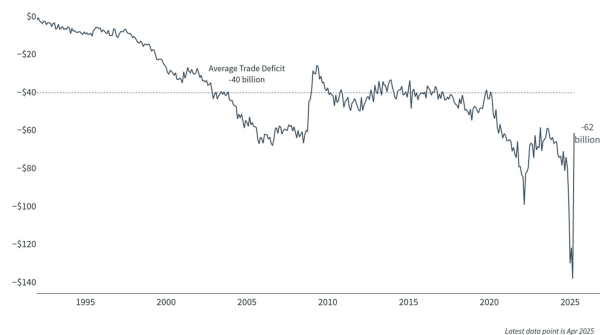
February 10, 2025

Investors have faced several market concerns early in the year around tech stocks, interest rates, and government policy. Among these factors, it's no surprise that trade policy has emerged as particularly significant for markets. President Trump has launched various trade measures, including tariffs on Canada, Mexico, China, and the European Union. How should investors react to these news headlines?

## The U.S. runs a significant trade deficit

Market and Economic Chartbook | July 1, 2025

### U.S. Trade Balance Goods and Services, Monthly



Intelligent  
Capitalworks

Sources: Clearmatics,  
U.S. Bureau of Economic Analysis  
© 2025 Clearmatics, Inc.

For long-term investors, it's important to maintain perspective as the situation evolves and to stay focused on what you can control. Recent events have shown how quickly headlines can shift, and tariff threats are not a guarantee that they will be enacted. This is because the Trump administration has multiple objectives when imposing tariffs beyond protecting American industries. Tariffs are also used as a means of negotiating with other countries to impose border control, prevent the influx of illegal drugs, and to raise government revenue.

The U.S. has a long history of using tariffs to protect domestic industries, a concept known as protectionism. This dates back to at least the Industrial Revolution when tariffs supported American manufacturing. Later, the McKinley Tariff of 1890 raised import duties to nearly 50% on many goods, marking one of the highest tariff rates in U.S. history. The Smoot-Hawley Tariffs of

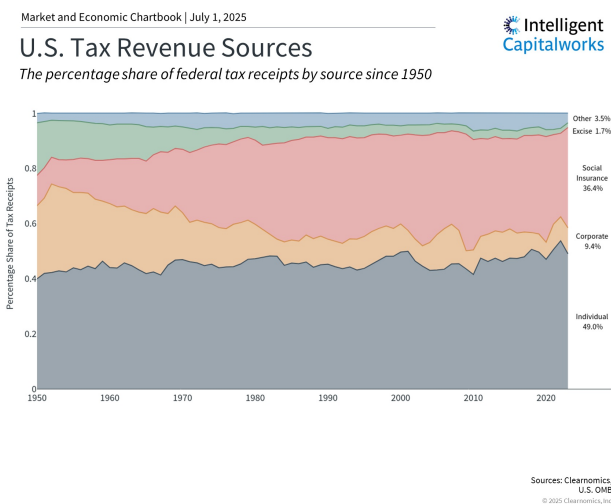
1930 still serve as a cautionary tale since they slowed global trade and are thought to have worsened the Great Depression.

These historical experiences led to decades of more open trade, including the establishment of international trade organizations. In theory, free trade works well when each country can focus on what it does best, selling its products and services to benefit all nations. While this fueled global economic growth, it also had the negative effect of displacing American workers as manufacturing shifted to countries with lower labor costs.

In many ways, the pendulum has swung back toward protectionist policies, with President Trump's renewed focus on using tariffs as a key policy tool, just as he did during his first administration. The chart above shows that the U.S. operates with a significant trade deficit since we import far more than we export.

Recent trade actions include a new 25% tariff on steel and aluminum that could apply to all trading partners, reciprocal tariffs on those that impose duties on American goods, postponed tariffs on Canada and Mexico, and additional tariffs on China. China's counter-response includes new 15% tariffs on energy imports and 10% on various U.S. industrial and agricultural products, echoing the 2018-2019 trade disputes. This pattern of escalating tariffs has sparked concerns of an emerging "trade war."

### The role and importance of tariffs have changed over time



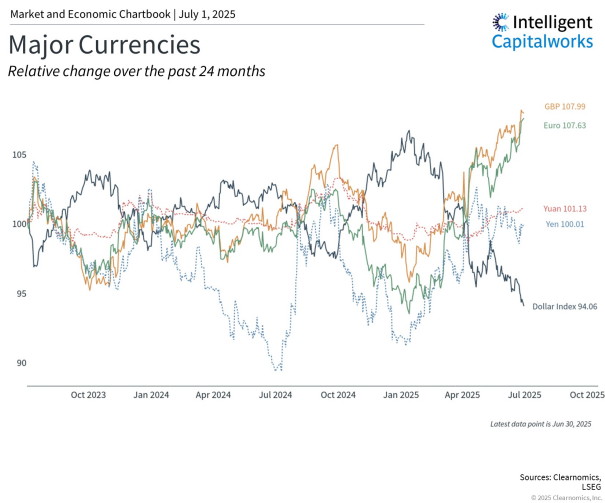
Market reactions to tariff announcements often prove more dramatic than their actual economic impact. During Trump's first term, markets generated healthy returns despite fears of trade wars. The trade disputes of 2018 and 2019 did not result in the severe global consequences many anticipated. Tariffs during this time were used as a negotiating tool, resulting in the United States-Mexico-Canada Agreement (USMCA) and a trade deal with China.

In the chart above, tariffs fall under the "Other" category and contribute only 1% to 2% of total government revenue, highlighting how insignificant they are

relative to taxes. That said, many politicians and economists would like to see the trade balance improve. This could potentially strengthen domestic manufacturing, increase employment in export-oriented industries, and reduce reliance on foreign borrowing.

On the other hand, the trade deficit also reflects the underlying strength of the U.S. economy and consumer purchasing power. When Americans have more disposable income, they can afford to buy more imported goods, naturally leading to a larger trade deficit. Furthermore, the deficit is partially offset by significant capital inflows into U.S. markets, as foreign investors seek the stability and opportunities available in American assets. This investment helps fund innovation, business expansion, and job creation domestically.

## The dollar has strengthened since the election



Trade concerns have also led to a stronger dollar since last year's presidential election. This is because trade and currencies are fundamentally linked. Importing foreign goods requires selling dollars to buy other currencies, so reducing these imports strengthens the dollar. As the chart above shows, the dollar has risen in value against many major currencies over the past several months.

Another impact of tariffs is the potential effect on consumer prices and inflation. When tariffs are imposed on imported goods, businesses often pass these additional costs on to consumers in the form of higher prices. This inflationary

pressure is particularly noticeable in sectors heavily reliant on international trade, such as consumer electronics, automobiles, and household goods.

So, it's important for investors to keep these developments in perspective. Tariffs have multiple objectives, not all of which should affect financial markets in the long run. While they can cause financial uncertainty, impact the U.S. dollar, and potentially lead to higher consumer prices, past episodes also show that markets can perform well in spite of these concerns.

**The bottom line? While trade and tariffs are important for the global economy, history shows that their effects on financial markets are often overstated. Investors should continue to focus on their long-run financial goals and not overreact to short-term headlines.**

Intelligent Capitalworks is the tradename for ICW Investment Advisors LLC ("ICWIA"). ICW Investment Advisors LLC is registered as an investment adviser with the Securities and Exchange Commission (SEC) and only transacts business in states where it is properly registered, or is excluded or exempted from registration requirements. SEC registration does not constitute an endorsement of the firm by the Commission, nor does it indicate that the firm has attained a particular level of skill or ability.

This publication has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities, or to participate in any trading strategy.

ICWIA believes the information presented in this publication is factual and up-to-date, but does not guarantee its accuracy and you should not regard this publication as a complete and exhaustive analysis of the subjects discussed herein.

All opinions expressed reflect our judgment as of the date of publication and are subject to change. You should not construe the content of this publication as being personalized investment advice. You should engage a professional advisor before pursuing any of the investment ideas or implementing any of the strategies presented in this publication.

Past performance may not be indicative of future results. All investment strategies have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for your portfolio. There can be no assurances that an investment or portfolio will match or outperform any particular benchmark.

Working with a financial advisor is not a guarantee of future financial success.

Always consult an attorney or tax professional regarding your specific legal or tax situation. ICWIA does not provide legal, tax, accounting, actuarial, or pension consulting advice or services.

Clearnomics® is the author this material and the legal entity responsible for the production of this publication.

---

Copyright (c) 2025 Clearnomics, Inc. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via [www.clearnomics.com](http://www.clearnomics.com) or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful

infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

