HIGHTOWER
Investment Solutions

THE EVOLUTION OF TARIFFS

The United States' Historical Implementation, Economic Impacts, and Maintaining Emotional Resiliency

> "Not only the wealth, but the independence and security of a country, appear to be materially connected with the prosperity of manufactures. Every nation… ought to endeavor to possess within itself all the essentials of national supply."
>
> – ALEXANDER HAMILTON

> "Tariffs are a tax on consumers, paid to the government, to protect a few producers at the expense of the many."
>
> – MILTON FRIEDMAN

WHAT IS A TARIFF, AND WHY ARE THEY USED?[1]

A tariff is a tax imposed by a government on goods and services imported from another country. It is typically calculated as a percentage of the value of goods or as a fixed amount per unit. Tariffs can be thought of as an extra cost added to foreign products entering a country.

[1] Source: Library of Congress. As of November 2, 1928

> "I don't know much about the tariff, but I know this: if I buy a coat in England, I get the coat and England gets the money. If I buy a coat in America, I get the coat and America gets the money."
>
> – ABRAHAM LINCOLN

While they may feel modern, tariffs are not a new phenomenon and are widely used around the globe. The Tariff Act of 1789 was the first national source of revenue for the U.S., taxing imports between 5-15%. The legislation was encouraged by Alexander Hamilton (the first U.S. Treasury Secretary) to promote U.S. manufacturing, fund debt payments, and reduce foreign reliance.

Fast-forwarding to today, nearly every country in the world utilizes tariffs to some extent. According to the World Trade Organization (WTO), no country operated with a 0% tariff rate across all imports in 2024. Globally, the trade-weighted average tariff rate was 2.6% last year.[2]

Governments use tariffs for several reasons, depending on economic, political, or strategic goals:

01 **PROTECT DOMESTIC INDUSTRIES.** Tariffs raise the price of foreign goods with the goal of making them less competitive compared to locally produced alternatives. This shields domestic businesses (example: U.S. farmers) from cheaper imports, helping them maintain market share, jobs, and profits. U.S. tariffs in 1828 (nicknamed the "Tariff of Abominations") raised wool and iron prices by nearly 45% to protect Northern manufacturers from cheap British imports.[3]

02 **RAISE GOVERNMENT REVENUES.** Especially in the beginning years of a country's founding, tariffs provide a straightforward way to fund government operations. Before the introduction of income taxes in 1913, tariffs were the primary source of U.S. federal revenue, ranging anywhere from 50% to 90% of federal income.[4]

03 **REDUCE TRADE DEFICITS.** Through discouraging imports, tariffs aim to balance trade when a country buys more from abroad than it sells. Policymakers argue that tariffs can boost domestic production, although economists debate their effectiveness.

04 **RETALIATION OR NEGOTIATION LEVERAGE.** The U.S. has used tariffs to counter perceived trade violations such as subsidies or intellectual property (IP) theft. The most recent example is the tariffs placed on China in 2018-2019, citing China's forced technology transfers, IP theft, and state subsidies as distortions of fair competition.

05 **NATIONAL SECURITY.** Tariffs can be used to protect industries deemed vital to defense, such as rare earth metals, energy, or semiconductors. If a country relies too heavily on foreign supplies, tariffs encourage domestic production and self-sufficiency. Tariffs on oil imports during the Cold War were justified by citing potential supply disruptions amid geopolitical tensions, which would be detrimental to the U.S. economy.

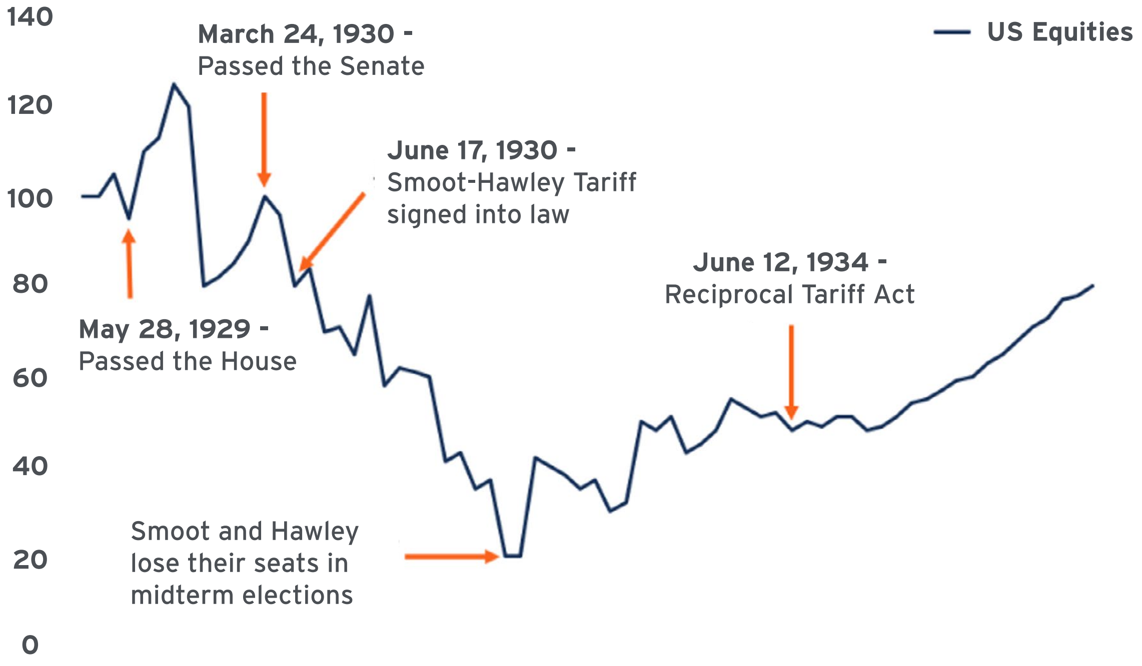
[2] Source: World Trade Organization. As of 2024.
[3] Source: Britannica. As of March 26, 2025.
[4] Source: U.S. Global Investors. As of February 10, 2025.

The United States' Historical Use of Tariffs

Although tariffs have not been excessively used by the U.S. over the last 100 years, they are nothing new for the country. Tariffs were originally introduced in the U.S. in 1798 to raise federal revenue and enhance domestic competitiveness. Up until 1913, tariffs accounted for 50% to 90% of U.S. federal income. The Smoot-Hawley Tariff Act was enacted in June of 1930, which added a 20% import duty on foreign agricultural products and manufactured goods to protect American industries. The act raised import duties on 800-900 goods, covering 25% of total U.S. imports, with the average tariff rate reaching 45-50%. The bill was signed into law on June 15th, 1930, and the Dow Jones Industrial Average declined by 5.8% the following day – the largest single-day decline that year. Between 1929 and 1934, international trade declined by 66%, and over 25 countries retaliated against the Smoot-Hawley act.

World War II began a few years later, and following the end of the war, tariff rates decreased significantly. In response to the fallout of the war, the U.S. formed the General Agreement on Tariffs and Trade (GATT). The agreement was signed in 1947 by 23 countries with the goal of minimizing barriers to international trade by reducing quotas, tariffs, and subsidies, intended to boost the economic recovery. GAAT was refined over the years and ultimately led to the creation of the World Trade Organization (WTO) in 1995.

THE SMOOT-HAWLEY TARIFF ACT PUT U.S. EQUITIES INTO A FREEFALL

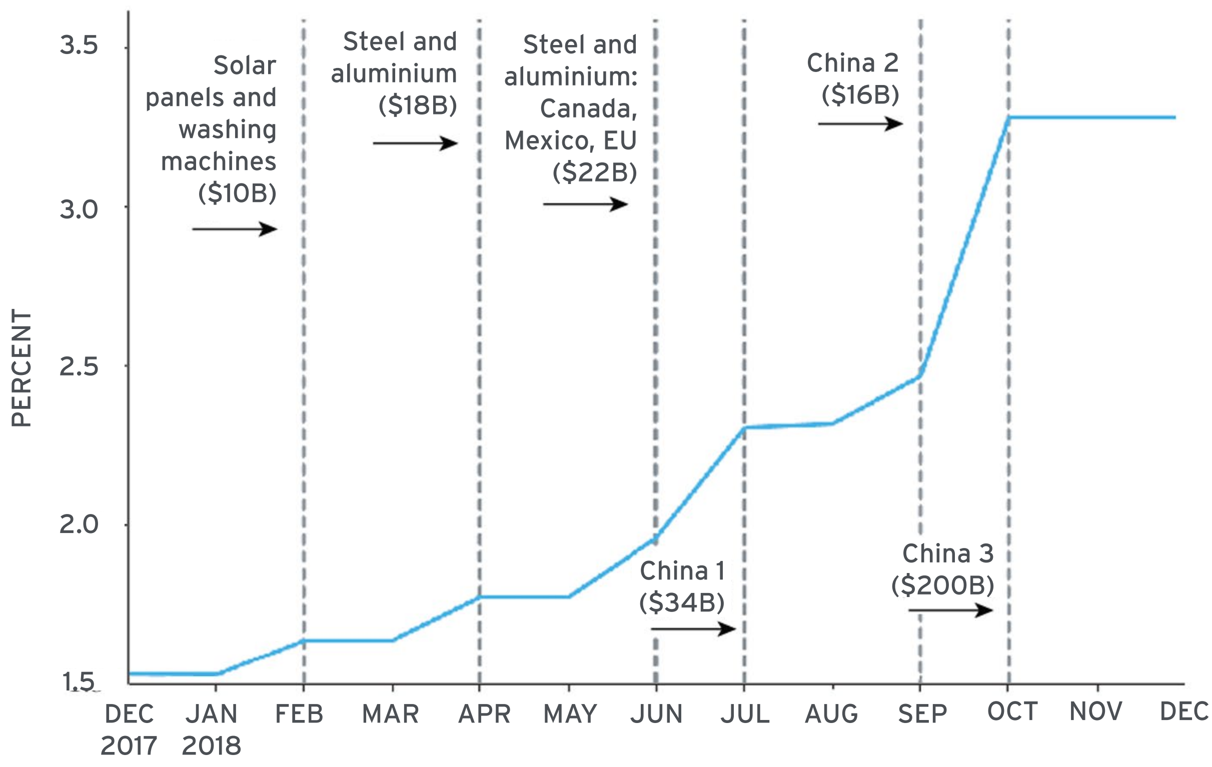


From the end of World War II to the beginning of President Trump's first term in 2017, tariffs were not a widely used foreign policy for the U.S. In January 2018, President Trump imposed 30% to 50% tariffs on imported solar panels and washing machines, arguing that a flood of cheap imports, particularly from Asia, harmed U.S. manufacturers. A couple of months later, a 25% tariff on steel and a 10% tariff on aluminum imports were applied to most countries, and additional 10% tariffs were placed on China, covering $50 billion worth of Chinese goods. Both the European Union (EU) and China retaliated, with the two countries imposing tariffs on $3.2 billion and $110 billion worth of U.S. goods, respectively.

The market reaction was as one might think: the S&P 500 declined 6.8% in 2018, but strong economic growth led the Federal Reserve to raise interest rates four times throughout the year. Speaking on the newly exacted tariffs in September 2018, Fed Chair Jerome Powell stated that "If this goes to a place where we have widespread tariffs that remain in place for a long time—a more protectionist world—that is going to be bad for the United States' economy and for American workers…"

In mid-2019, President Trump raised tariffs on Chinese goods from 10% to 25%. As a result, the ten-year Treasury yield proceeded to decline 100 basis points in five months on economic concerns, and the Fed cut rates to "insure against downside risks from weak global growth and trade policy uncertainty." The Fed continued to cut rates in September and October on fears of an economic slowdown from tariff-related implications.

THE AVERAGE U.S. TARIFF RATE DURING 2018[5]



There is a debate as to whether the 2018-2019 tariffs were effective. Studies have indicated that the steel sector added 3,200 jobs, reduced reliance on foreign nations, and improved government revenues.[6] Other studies have shown a darker picture – estimating that washer prices rose $86 per unit, dryers rose $92 per unit, with annual increased consumer costs of $1.5 billion compared to $82 million collected in tariff revenue.[7] Additionally, retaliatory tariffs hurt the U.S. The EU's retaliation decreased U.S. bourbon whiskey producers' exports by 33%[8], and Harley-Davidson faced an estimated cost increase of $100 million.[9] Overall, the tariffs during Trump's first term had a mixed economic impact.

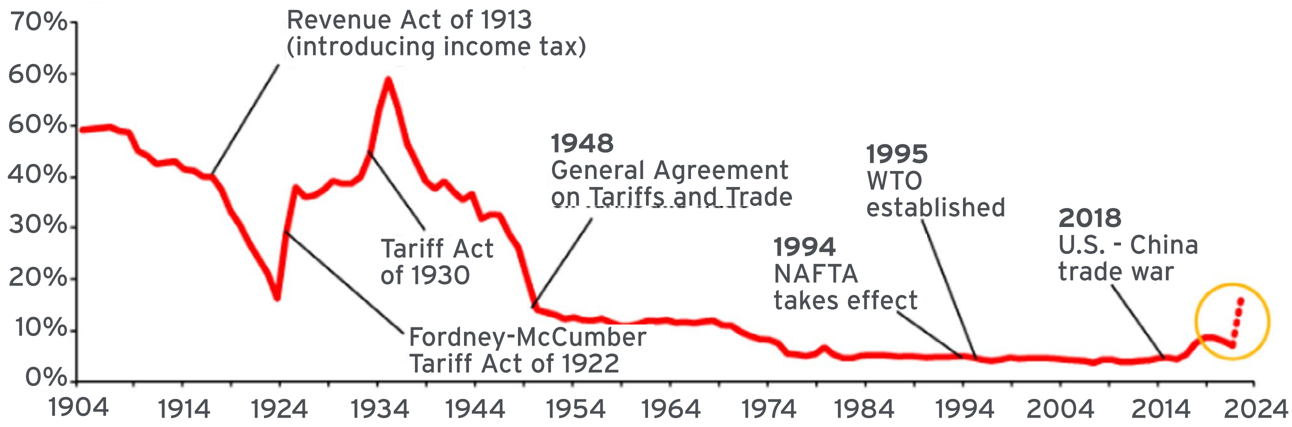
[6] Source: Economic Policy Institute. As of March 24, 2021.
[7] Source: The Production Relocation and Price Effects of US Trade Policy: The Case of Washing Machines. As of July 2020.
[8] Source: Drinks International. As of June 23, 2020.
[9] Source: AP News. As of July 24, 2018.

Today's Tariff Environment

On April 2nd, 2025, President Trump announced a new set of sweeping tariffs on nearly all U.S. imports. The U.S. imposed a minimum 10% tariff on all imports, effective April 5th, and an individualized reciprocal higher tariff on the countries with which the U.S. has the largest trade deficits, effective April 9th.[10] The respective tariff rates represent half of what the specific country taxes the U.S., according to the administration. The rate is a combination of all the tariffs, non-monetary barriers, and other forms of cheating. Altogether, roughly 60 countries have a tariff rate above 10%, bringing the effective U.S. tariff rate north of 20%.[11] The tariffs enacted this year equal $620 billion of revenue for the U.S., approximately 2% of GDP and $100 billion greater than total U.S. corporate tax revenue.

THE NEWLY ENACTED TARIFFS WOULD BE THE LARGEST SINCE WORLD WAR II[12]

Average Tariffs on Dutiable Imports | 1900 - 2024



Trump declared a national emergency to address what he described as a persistent U.S. goods trade deficit. With the tariffs now in place, there is a debate regarding how long they will stay in place. Is this a negotiation tactic or a sustained policy for the foreseeable future? Analysts have stated that the longer the tariffs remain in place, the more damage they will likely have on the U.S. economy. Estimates show that inflation could rise by 2% and GDP growth could decline by 1-3% if the tariffs are maintained for a sustained period.[13]

In 2024, the U.S. imported over $3 trillion worth of goods. The country's top partners were Mexico ($509 billion), China ($462 billion), and Canada ($422 billion). Altogether, the new sweeping tariffs cover anywhere from $1 to $3 trillion in goods annually – dwarfing all tariffs rates the U.S. has previously implemented. Additionally, increased goods prices will ultimately need to be borne by companies or the U.S. consumer. That said, it is unknown as to which countries will look to negotiate for lower tariffs and free trade, as the tariff environment is evolving by the second.

The Federal Reserve is also in a predicament. Core inflation is still above their long-term goal of 2%, growth is solid, and the labor market is balanced. The Fed is attentive to the potential risks at hand: slowing growth, increasing inflation, and a weakening labor market as a result of tariffs. On April 4th, Jerome Powell mentioned that "While

[10] Source: The White House. As of April 2, 2025.
[11] Source: Strategas. As of April 3, 2025.
[12] Source: U.S. Global Investors. As of February 10, 2025.
[13] Source: Goldman Sachs Asset Management. As of April 3, 2025.

uncertainty remains elevated, it is now becoming clear that the tariff increases will be significantly larger than expected. The same is likely to be true of the economic effects, which will include higher inflation and slower growth." Similar to 2018-2019, the Fed will need to conduct a balancing act and be keenly aware of deteriorating economic activity from the effects of prolonged tariffs.

As of April 9th, President Trump announced a 90-day pause on higher reciprocal tariffs that hit over 60 countries, while raising the tariff rate on China to 125%. The country-specific tariffs were reduced to a universal rate of 10%, with tariffs on Canada and Mexico remaining at the previous 25% rate. In response to the news, the S&P 500 rose 8% and the Nasdaq 100 had its second-best day in history.

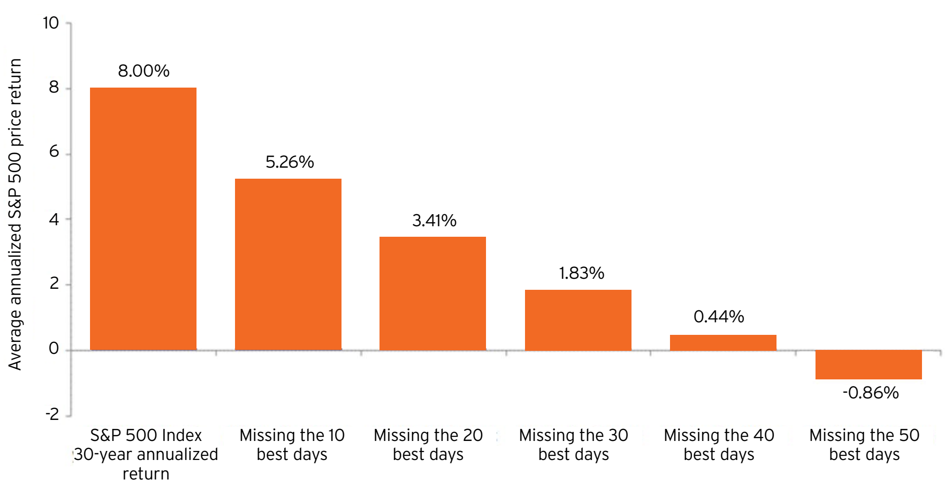
Managing Portfolios Through Market Volatility

Diversification is an important feature of portfolio construction during market volatility - being fully allocated to a singular asset class may entice unwanted portfolio volatility. As seen below the diversified portfolio provides steady returns, never being the best, while never being the worst.[14] Investing in a diversified portfolio of stocks and bonds across domestic and international markets provides a way to limit volatility during market swings.

ANNUAL RETURN	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BEST	Commodities 21.36%	REITs 34.35%	Commodities 16.23%	Bonds 5.24%	Large Cap Growth 37.21%	REITs 27.58%	Bonds 7.84%	REITs 20.14%	Small/ Mid Cap 36.80%	REITs 27.15%
	International 13.54%	International 26.34%	Large Cap Growth 11.81%	Global Bonds 4.79%	Small/ Mid Cap 34.39%	Small/ Mid Cap 26.71%	REITs 7.28%	Small/ Mid Cap 17.88%	Large Cap Growth 33.48%	Large Cap Value 13.45%
	REITs 8.29%	Large Cap Value 22.25%	International 11.17%	Cash 1.80%	International 31.78%	Commodities 16.83%	Global Bonds 5.64%	Large Cap Value 17.51%	Large Cap Value 32.53%	Large Cap Growth 13.05%
	Small/ Mid Cap 8.11%	Small/ Mid Cap 16.17%	Global Bonds 9.48%	Diversified Portfolio -27.54%	REITs 27.45%	Large Cap Growth 16.71%	Large Cap Growth 2.64%	International 17.32%	International 22.78%	Small/ Mid Cap 7.07%
	Diversified Portfolio 7.92%	Diversified Portfolio 15.02%	Bonds 6.97%	Commodities -35.65%	Diversified Portfolio 23.72%	Diversified Portfolio 15.73%	Large Cap Value 0.39%	Large Cap Growth 15.26%	Diversified Portfolio 13.41%	Bonds 5.97%
	Large Cap Value 7.05%	Large Cap Growth 9.07%	Cash 4.74%	Small/ Mid Cap -36.79%	Large Cap Value 19.69%	Large Cap Value 15.51%	Cash 0.08%	Diversified Portfolio 12.02%	REITs 3.21%	Diversified Portfolio 5.32%
	Large Cap Growth 5.26%	Global Bonds 6.64%	Diversified Portfolio 4.69%	Large Cap Value -36.85%	Commodities 18.91%	International 7.75%	Diversified Portfolio -0.16%	Global Bonds 4.32%	Cash 0.05%	Global Bonds 0.59%
	Cash 3.00%	Cash 4.76%	Small/ Mid Cap 1.38%	REITs -37.34%	Global Bonds 6.93%	Bonds 6.54%	Small/ Mid Cap -2.51%	Bonds 4.21%	Bonds -2.02%	Cash 0.03%
	Bonds 2.43%	Bonds 4.33%	Large Cap Value -0.17%	Large Cap Growth -38.44%	Bonds 5.93%	Global Bonds 5.54%	International -12.14%	Cash 0.07%	Global Bonds -2.60%	International -4.90%
WORST	Global Bonds -4.49%	Commodities 2.07%	REITs -17.83%	International -43.38%	Cash 0.16%	Cash 0.13%	Commodities -13.32%	Commodities -1.06%	Commodities -9.52%	Commodities -17.01%

ANNUAL RETURN	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	ANNUALIZED RETURN
BEST	Large Cap Growth 5.67%	Small/ Mid Cap 17.59%	Large Cap Growth 30.21%	Cash 1.86%	Large Cap Growth 36.39%	Large Cap Growth 38.49%	REITs 39.88%	Commodities 16.09%	Large Cap Growth 42.68%	Large Cap Growth 33.36%	Large Cap Growth 12.56%
	REITs 2.29%	Large Cap Value 17.34%	International 25.03%	Bonds 0.01%	REITs 28.07%	Small/ Mid Cap 19.99%	Large Cap Growth 27.60%	Cash 1.50%	International 18.24%	Large Cap Value 14.37%	Small/ Mid Cap 8.78%
	Bonds 0.55%	Commodities 11.77%	Small/ Mid Cap 16.81%	Global Bonds -1.20%	Small/ Mid Cap 27.77%	Diversified Portfolio 10.58%	Commodities 27.11%	Large Cap Value -7.54%	Small/ Mid Cap 17.42%	Small/ Mid Cap 12.00%	Large Cap Value 7.89%
	Cash 0.03%	REITs 9.28%	Large Cap Value 13.66%	Large Cap Growth -1.51%	Large Cap Value 26.54%	Global Bonds 9.20%	Large Cap Value 25.16%	Bonds -13.01%	Diversified Portfolio 12.81%	Diversified Portfolio 9.04%	REITs 6.53%
	International -0.81%	Diversified Portfolio 8.72%	Diversified Portfolio 13.21%	REITs -4.10%	International 22.01%	International 7.82%	Small/ Mid Cap 18.18%	Diversified Portfolio -13.61%	REITs 11.48%	Cash 5.45%	Diversified Portfolio 6.22%
	Small/ Mid Cap -2.90%	Large Cap Growth 7.08%	REITs 9.27%	Diversified Portfolio -5.98%	Diversified Portfolio 20.33%	Bonds 7.51%	Diversified Portfolio 17.45%	International -14.45%	Large Cap Value 11.46%	Commodities 5.38%	International 4.81%
	Global Bonds -3.15%	Bonds 2.65%	Global Bonds 7.39%	Large Cap Value -8.27%	Bonds 8.72%	Large Cap Value 2.80%	International 11.26%	Global Bonds -16.25%	Global Bonds 5.72%	REITs 4.33%	Bonds 3.01%
	Diversified Portfolio -3.33%	Global Bonds 2.09%	Bonds 3.54%	Small/ Mid Cap -10.00%	Commodities 7.69%	Cash 0.58%	Cash 0.05%	Small/ Mid Cap -18.37%	Bonds 5.53%	International 3.82%	Global Bonds 1.86%
	Large Cap Value -3.83%	International 1.00%	Commodities 1.70%	Commodities -11.25%	Global Bonds 6.84%	Commodities -3.12%	Bonds -1.54%	REITs -25.10%	Cash 5.26%	Bonds 1.25%	Cash 1.63%
WORST	Commodities -24.66%	Cash 0.27%	Cash 0.84%	International -13.79%	Cash 2.25%	REITs -5.86%	Global Bonds -4.71%	Large Cap Growth -29.14%	Commodities -7.91%	Global Bonds -1.69%	Commodities -0.30%

Managing investment emotions during volatile financial markets is no easy task, but timing the market is a near-impossible task. Data shows that when missing the ten best days in the market during a given year, the average annualized return falls from 8% to 5.26%, over a 30% decline.[15] Furthermore, the best days do not come during good times - 50% of the best days in the market come during a bear market, hitting on how important it is to stay invested during difficult times.[16]

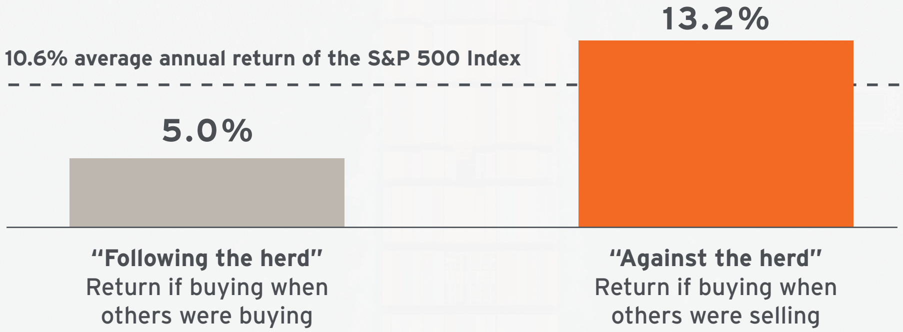


[14] Source: MFS. As of December 31, 2024.
[15] Source: Wells Fargo. As of February 29, 2024.
[16] Source: Hartford Funds. As of January 2024.

When emotions creep into investment decisions, performance tends to lack. Following the crowd and selling when markets are in free-fall or chasing when markets are rallying are usually not the optimal portfolio decisions. Periods that followed investors cashing out of the market have provided above-average returns, while periods that followed investors adding to the market have provided below-average returns.[17] In times of market volatility, maintaining your investment horizon, staying true to your investment plan, and disregarding short-term impulses provide an opportunity to long-term portfolio appreciation.

THE AVERAGE INVESTOR GETS THE TIMING WRONG

3-year annualized returns based on direction of quarterly stock flows (1993-2024)



[17] Source: BlackRock. As of December 31, 2024.

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