



The Markets' Message

May 13, 2025

Long-term market watchers no doubt find it fascinating how the investment markets are engaging in a surprisingly frank dialogue with the White House over the tariffs. Whenever the news involves a hardening stance on tariffs, the markets drop. Whenever there is a pullback or pause, the markets rally.

The unpredictable element in all this is when, where and how the Trump Administration, and President Trump himself, bows to the pressure of the markets—or not, and the plan seems to change weekly if not daily.

The reason for this 'conversation' is that the announced level of taxes placed on goods and services coming into the United States are unprecedented in modern times, more severe even than the infamous Smoot Hawley assessments which were one of the triggers of the Great Depression. Then, as now, the purported logic behind the tariffs has something to do with protecting American industries—except that now, many of those industries have been built on an international system of free trade. 'Protecting' them by raising their costs means that there will be short-term hits to profits (if they swallow some of the additional costs going into the Treasury) or sales (if they pass on those additional costs in the form of higher prices). Neither option raises the value of a company's stock or long-term prospects.

But... Won't the tariffs eventually bring manufacturing jobs back to the U.S.? At present, in part due to automation, just over 8% of Americans work in manufacturing, and economists have calculated that closing the borders altogether to foreign trade might increase that by one or two percentage points at most. There would be no surge in employment for the middle class.

But... Won't the high tariffs bring other countries to the U.S. on bended knee, to beg for relief? Basic psychology suggests that when somebody attacks you, and then invites you to negotiate, you're less, than more, likely to respond cooperatively. The more likely result, which has been seen around the world, is reciprocal tariffs designed to punish the United States economy and force the White House to negotiate. The question to ponder is whether the United States can win an economic trade war with the entire rest of the world while, at the same time, here at home, the markets are sending their own messages.

Sources:

<https://www.hks.harvard.edu/faculty-research/policy-topics/public-finance/explainer-how-do-tariffs-work-and-how-will-they>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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