March 19, 2025

Policy Points
The Tariff State of Play

Steve Pavlick

CLICK HERE FOR THE SLIDES

Then Vs. Now

Compared to his first term, President Trump has acted considerably faster in imposing tariffs on a much broader range of imports. Also, during his last term, President Trump pivoted to tariffs after Republican lawmakers passed the Tax Cut & Jobs Act (TCJA) in 2017, which reduced the corporate rate from 28% to 21% and the top individual rate from 39.6% to 37%. The reduction in rates provided some headroom for corporations and individuals to weather increased prices associated with tariffs. In contrast, in his second term, President Trump's tariff policy precedes his tax policy. It is also notable that the tax policy that Republicans are likely to consider in Trump's second term appears to be more focused on preventing a headwind in the form of a tax increase on individuals in the highest income bracket who are scheduled to see their tax rate revert to 39.6% unless legislation is passed before the bill expires on December 31, 2017, rather than on providing a tailwind through another reduction in tax rates, though there could be some additional tax cuts if some of President Trump's proposals such as removing the tax on tips, overtime, etc. are included as part of the the GOP's reconciliation effort.

Tariffied

A recent stock market sell-off has been attributed to uncertainty regarding President Trump's tariff policies. In early February, the stock market moved in a slightly positive direction after President Trump granted a 30-day pause to tariffs directed at Mexico and Canada. This was presumably driven by the perception among investors that President Trump viewed tariffs chiefly as a negotiating tool and would be dissuaded from fully enforcing them if markets reacted negatively. However, in early March, President Trump did not provide another pause, and the tariffs went into effect on imports from Canada and Mexico and an additional 10% on imports from China. Trump's action appeared to catch the stock market by surprise as a sell-off ensued. Two days later, President Trump granted an exemption for products covered under the United States-Mexico-Canada Agreement (USMCA). Despite the reduction in scope, the stock market again declined as some investors started to question whether the quick reversal was a sign of additional uncertainty with respect to trade policy moving forward. President Trump's threats to respond to countermeasures from the European Union (EU) and Canada have also raised concern about a potential escalatory trade war based on stock market moves following his announcements.

Reciprocal Tariffs

The next major trade deadline is April 1. Recall that on January 20, President Trump signed a Memorandum directing the Commerce Department and the Office of United States Trade Representative (USTR) to work with other agencies and departments to produce a report on April 1 regarding the "causes of our country's large and persistent annual trade deficits in goods, as well as the economic and national security implications and risks resulting from such deficits, and recommend appropriate measures, such as a global supplemental tariff or other policies, to remedy such deficits." President Trump and his advisers have suggested that tariffs will be announced after the report's release on April 2. President Trump has also threatened/proposed 25% tariffs on autos, pharmaceuticals, and semiconductors to take effect on April 2, but the administration has yet to clarify its specific intention in this regard.

On February 13, President Trump signed a Memorandum directing the Commerce Department and USTR to study how to adjust U.S. tariffs to match those of other countries on a case-by-case basis. A White House Fact Sheet cited examples in Brazil, India, the EU, and Canada, where countries impose a significantly higher duty than the U.S. The Memorandum also directs the review to consider "value-added taxes" and other "nontariff barriers" when assessing the appropriate reciprocal tariff rate. This suggests that countries could face higher tariffs than the duties they impose on U.S. imports. While the Memorandum did not specifically cite currency manipulation, it is possible that it could be considered as one of the "nontariff" barriers. Countries may also look to devalue their currency in response to President Trump's tariffs, which could be identified in the semiannual report that the Treasury Department provides to Congress in November and June.

On February 20, USTR announced it was seeking public comments pursuant to the January 20 and February 13 Memorandums with a March 11 deadline for submission. According to the Federal Register notice, USTR is seeking "information relating to any unfair trade practice by a foreign country or economy or with respect to a non-reciprocal trade arrangement. Unfair trade practices may encompass an expansive range of practices, such as policies, measures, or barriers that undermine or harm U.S. production, or exports, or a country's failure to address a non-market policy or practice in a way that harms the United States." It adds, "USTR is particularly interested in submissions related to the largest trading economies, such as G20 countries, as well as those economies that have the largest trade deficits in goods with the United States, including Argentina, Australia, Brazil, Canada, China, the European Union, India, Indonesia, Japan, Korea, Malaysia, Mexico, Russia, Saudi Arabia, South Africa, Switzerland, Taiwan, Thailand, Türkiye, United Kingdom, and Vietnam." The comments are expected to shape the report that President Trump tasked federal agencies to produce by April 1.

April Fool's Day Framing

The Trump administration has emphasized the April 1 trade report and accompanying tariffs on April 2. However, significant uncertainty remains about what the report will conclude and recommend. This is because the Trump administration is currently negotiating with other countries before the report's release, which suggests it is a very fluid process. Notably, most countries have withheld responding to Trump's tariffs so far, presumably to avoid jeopardizing ongoing discussions. In the case of the EU and Canada, which have announced retaliatory measures, the most severe ones do not take effect until April 1 or later, which provides a potential offramp from them taking effect.

There are some questions worth considering ahead of the April 1 report.

What Will The Tariff Rates Be?
Much of the commentary on financial news networks has been focused on the idea of the U.S. being forced to raise its tariff rates rather than on other countries reducing theirs. If the latter approach is more prevalent, that could be a positive surprise for the stock market and expand market access for U.S. firms. Presumably, the Trump administration will apply a single rate to each country rather than separate rates for different products to reduce the administrative burden.

What Trade Authorities Will Be Used, And When Is The Effective Date?
It will be important to see when the tariffs take effect. During his first term, President Trump was fond of using tariff authorities from Section 301 of the Trade Act of 1974, administered by USTR, to retaliate against unfair trading practices, as well as Section 232 of the Trade Expansion Act of 1962, administered by the Commerce Department for national security concerns. Both processes typically require a 30-day notice and comment period. Therefore, the Trump administration may provide an additional 30-day window that could extend the negotiating timeline for targeted countries to avoid the proposed tariffs from taking effect if it relies on both tariff authorities. Given that USTR has already sought comments, it is unclear whether the Trump administration will provide an additional period. Given that comments were requested before the proposed tariff remedy was announced, some industries harmed by the tariffs could look to challenge them in court, though they would have to weigh the reputational harm from opposing the Trump administration.

How Do Other Countries Perceive President Trump's Tolerance For Political Pain?
Several recent public opinion polls have suggested that President Trump is receiving poor marks on handling the economy and his approach to tariffs. Combined with recent stock market declines partly attributable to the uncertainty associated with tariff policies, other world leaders may perceive President Trump as facing political pressure to avoid following through on more aggressive tariffs. If so, this could impact how they approach their negotiations with the Trump administration and raise the risk of potential political miscalculation, leading to an escalation in tariffs with certain countries. President Trump responded quickly to retaliatory tariffs from the EU

and Canada to deter other countries from pursuing similar moves and combat the perception that he is facing political pressure to pull back. Moreover, if financial markets and trading partners overestimate the political pressure on President Trump, he may be more inclined to dig in his heels, and in the process make it more difficult to reach the intended deals. As we have noted before, even if the Trump administration intends to use some tariffs as mainly a negotiating tactic, the prospect of seeing a deal and relief from the tariff threat will in some large measure depend on the actions of other countries, which is a dynamic worth monitoring.

Does President Trump Face Domestic Political Pressure?
Some members of the Trump administration have suggested that U.S. voters might need to experience some short-term pain in the hope of long-term gain. While President Trump will not face voters again, many GOP lawmakers will next year. These GOP lawmakers who face re-election may have a lower tolerance and shorter timeline concerning the political pain caused by President Trump's approach to tariffs. Many other countries have deliberately targeted industries that are important in areas represented by Republican lawmakers to try to exert political pressure on them, hoping they might be able to influence President Trump to take a less aggressive approach. Notably, the ability of Republican lawmakers to unify recently behind a stopgap measure suggests that President Trump's influence over them remains strong at this point. On April 1, Florida held special elections to replace two vacated congressional seats that the Republicans had previously represented. Both districts are viewed as safe Republican seats, so if the contests are closer than anticipated, some GOP lawmakers start to get antsy.

Fentanyl Tariffs

On February 1, President Trump signed a trio of Executive Orders (EOs) to impose a 25% tariff on imports from Mexico and Canada, with a 10% tariff on Canadian **energy i**mports and a 10% additional tariff on imports from China. According to a White House Fact Sheet, President Trump declared an emergency over his concerns over the flow of fentanyl and migrants to impose the tariffs by invoking authorities under the International Emergency Economic Powers Act (IEEPA) to impose tariffs. No other president had used IEEPA to impose tariffs.

On February 3, President Trump paused the tariffs that would have applied to imports from Mexico and Canada for 30 days after both countries took steps to address his concerns over the flow of fentanyl and migrants. On February 4, China retaliated with tariffs, export controls, unreliable entity designations, and threats to launch an antitrust investigation into Google that took effect on February 10.

On March 3, the White House released aFact Sheet stating that President Trump was ending his 30-day pause, proceeding with tariffs on imports from Mexico and Canada and raising tariffs on imports from China by an additional 10% to 20%. On March 4, Canada announced it would retaliate with tariffs of C$155 billion worth of U.S. imports. The first tranche targets C$30 billion worth of U.S. imports, mostly **consumer-facing goods**, and went into effect. The second tranche targets C$125 billion worth of U.S. imports, such **autos, agricultural** products**, and aerospace** products, and is scheduled to take effect on April 2. Also, on March 4, China announced retaliatory measures with tariffs on U.S. farm exports and an antidumping investigation into U.S. **optical-fiber** products. China also added ten U.S. companies to its unreliable entity list and said it would subject an additional 15 U.S. companies to export controls and impose a ban on Illumina's gene sequencing technology.

On March 6, the White House released Executive Orders amending the March 4 tariffs from Canada and Mexico that satisfy the rules of origin requirements included in the USMCA. During a March 6 address before a Joint Session of Congress, President Trump touted progress on reducing the flow of migrants.

During the first Trump administration, there was an initial focus on Canada and Mexico, culminating in the USMCA. Strategically, there was an emphasis on shoring up the neighboring regional bloc before a more aggressive pivot to China. This time, a similar logic could apply as President Trump may look to accelerate USMCA negotiations ahead of the scheduled joint review scheduled for July 1, 2026. The U.S. has expressed frustrations over China circumventing U.S. trade restrictions by rerouting products through Mexico. China has also placed export restrictions on critical minerals such as gallium, germanium, and antimony needed to make advanced semiconductors. Canada has a supply of critical minerals, and increasing U.S. access could remove an important leverage opportunity for China.

China's initial retaliatory measures were viewed as proportional and an attempt to avoid further escalation. On March 10, the Wall Street Journal reported that Washington and Beijing officials have begun discussing a potential "birthday summit" between Trump and Xi Jinping. Trump's birthday is June 14, and Xi's is June 15. Reports suggest that Beijing prefers a broader negotiation to set the tone for the bilateral relationship. From China's perspective, they do not want to negotiate an agreement over fentanyl flows only to see President Trump return later with tariffs to address other grievances.

National Security Tariffs

On February 10, President Trump announced 25% tariffs on **steel** and **aluminum** imports. The steel Proclamation removes the exemptions and preferential treatment provided by the Biden administration to avoid the 25% duty that Trump imposed during his first term. The aluminum Proclamation raises the existing 10% tariff to 25%. The tariff adjustments stem from ones President Trump put in place in 2018 under Section 232 of the Trade Expansion Act, which allows duties to be imposed for national security purposes. The tariffs went into effect March 12.

On March 12, the EU responded that it would allow the suspension of the existing 2018 and 2020 countermeasures to lapse on April 1. It would apply 50% tariffs to €8 billion worth of U.S. imports, such as **whiskey, motorcycles**, and r**etail** products, with further countermeasures scheduled for mid-April that would apply to €18 billion worth of U.S. imports. The EU statement said, "In the meantime, the EU remains ready to work with the US administration to find a negotiated solution." Also, on March 12, Canada responded by imposing a 25% tariff on C$29.8 billion of U.S. imports, including C$12.6 billion worth of steel products, C$3 billion on aluminum products, and C$14.2 billion of additional products.

On February 25, President Trump signed an Executive Order directing the Commerce Department to initiate an investigation under Section 232 of the Trade and Expansion Act to determine the effects of **copper** imports on national security. The report is due within 270 days. A White House Fact Sheet notes that copper imports have surged from 0% in 1981 to 45% in 2024 and that foreign overcapacity in smelting and refining and potential export restrictions from other countries could disrupt supply chains and availability for defense and industry needs.

On March 1, President Trump signed an Executive Order directing the Commerce Department to initiate an investigation under Section 232 of the Trade and Expansion Act to determine the effects on national security of **timber** and **lumber** imports. A White House Fact Sheet notes that the "wood industry is a crucial part of the U.S. manufacturing and defense industrial base, supporting 500 facilities and over 750,000 direct and indirect jobs."

Recall that in 2018, President Trump directed the Commerce Department to initiate Section 232 investigations that concluded that steel is "important" and aluminum is "essential" to national security, which was used to justify tariffs. Therefore, the Section 232 investigation will likely reach a similar conclusion regarding copper, timber, and lumber and that tariffs will soon follow. One of the uses of tariffs is to protect certain domestic industries, and those under Section 232 are aimed at bolstering U.S. production in these areas.

CLICK HERE FOR THE SLIDES

DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2025. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac.