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Due Diligence on Tariff Duties

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GLENMEDE

Executive Summary

- A second Trump administration may seek to address persistent trade deficits through tariffs, reflecting his long-standing view that current trade dynamics disadvantage the U.S.
- The tariffs proposed by the president-elect may be a headwind to economic growth, but they likely are not large enough by themselves to knock the U.S. out of its late-stage expansion.
- Tariffs are net inflationary, but the extent that prices react to new duties are dependent on complex market structures for the various goods affected.
- Globalization may be at a turning point, with potential shifts toward more localized production amid debates over the benefits and risks of free trade.
- Higher tariffs may put pressure on corporate profit margins but could benefit more domestic-oriented small cap equities as production onshore gains momentum.

A Brief History of U.S. Trade

In the summer of 2015, Donald Trump descended the golden escalator of the eponymous Trump Tower to officially announce his candidacy for President of the United States. In hindsight, it is telling that within the first 50 words of his prepared remarks, he was already making the case for an aggressive stance on trade.

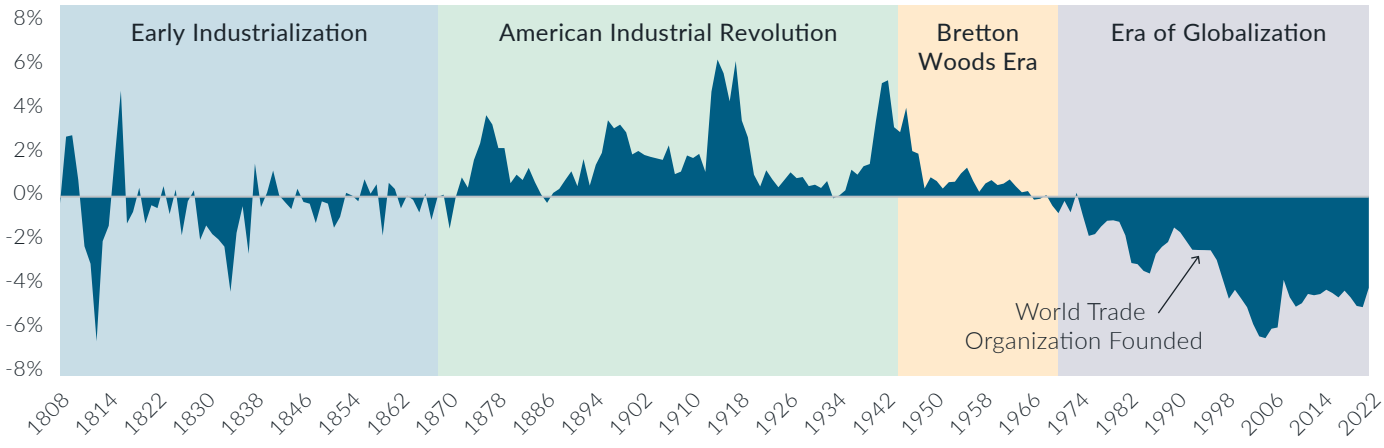
"When was the last time anybody saw us beating, let's say, China in a trade deal? They kill us."
- Donald Trump (June 16, 2015)

Of course, he went on to win the 2016 election, and trade policy was a key pillar of his first term in office. After Inauguration Day 2025, he will join Grover Cleveland as only the second president in U.S. history to serve nonconsecutive terms, and trade is likely to once again be a focus of the administration. Until then, markets and economists are doing their best to read the tea leaves on the path forward for trade policy in a second Trump term.

The simplest way to describe Trump's trade philosophy is mercantilism – that is, using trade as a means for enhancing national wealth and power. He consistently refers to persistent trade deficits (i.e., imports outpacing exports) as a suboptimal arrangement for the U.S., its companies and its workers, proposing remedies like tariffs and other trade interventions. Trump probably looks at a chart like Exhibit 1 and sees a raw deal.

Exhibit 1: President-elect Trump is likely to prioritize policies to address the perceived unfairness of trade imbalances[1]

U.S. Goods Trade Balance as a Share of GDP



Source: Glenmede, U.S. Census Bureau

Data as of 12/31/2022

[1] Data represent the U.S. trade balance in goods as a share of gross domestic product (GDP), measured by the dollar value of exports minus the dollar value of imports divided by nominal GDP.

Antebellum America certainly had periods of large trade deficits as a share of gross domestic product (GDP), but there was very little persistence to those deficits as they often swung back to surpluses during the early industrialization of the U.S. This was a period of early economic development, highlighted by the rise of Eli Whitney's cotton gin, the New England factory system and the rapid expansion of a network of canals and railroads. After the Civil War, the U.S. entered its industrial revolution; mass steel production, commercial electricity usage and the expansion of large-scale corporations spurred rapid growth in domestic manufacturing capacity, with strong demand for American products overseas leading to large trade surpluses. After World War II, the U.S. emerged as the de-facto world superpower, and global economic relationships were dictated by the Bretton Woods Agreement. The agreement created a system of international monetary management that pegged currencies to a gold-backed U.S. dollar in an effort to facilitate bilateral trade. It established fixed exchange rates and created institutions such as the International Monetary Fund (IMF) and the World Bank. The exchange rate portion of that system broke down in 1971 when President Richard Nixon ended the dollar's convertibility to gold. Since then, and particularly after the founding of the World Trade Organization (WTO), the U.S. has run persistently large trade deficits as a share of GDP.

In theory, large trade deficits should be self-correcting. A country that sells more than it buys should end up with excess currency from its trading partners, which should lower its value. A weaker currency then makes exports more competitive in the global marketplace, encouraging exports, reducing imports and restoring balance. However, as with many economic theories, reality is often more complex. This mechanism often does not strictly apply for the U.S., because trade is not the only force pushing and pulling on the dollar. The U.S. operates the world's reserve currency, which creates persistent demand for dollars regardless of trade deficits. This is especially so during periods of uncertainty when global demand for Treasury bonds typically spikes. In addition, some of America's major trade partners do not have truly free-floating currencies that can self-correct to rebalance trade.

For much of American history, tariffs have been a cornerstone of U.S. trade and federal revenue policies. Protective tariffs were actively promoted by the first Secretary of the Treasury Alexander Hamilton to fund the government and support domestic industry. In fact, the federal government was once bankrolled mainly by customs duties (Exhibit 2). Since then, individual and corporate income taxes have become the lion's share of federal receipts.

Exhibit 2: The federal government was once primarily funded by tariffs[2]

Share of U.S. Federal Revenues from Customs Duties

Source: Glenmede, The Budget Lab at Yale, U.S. Census Bureau

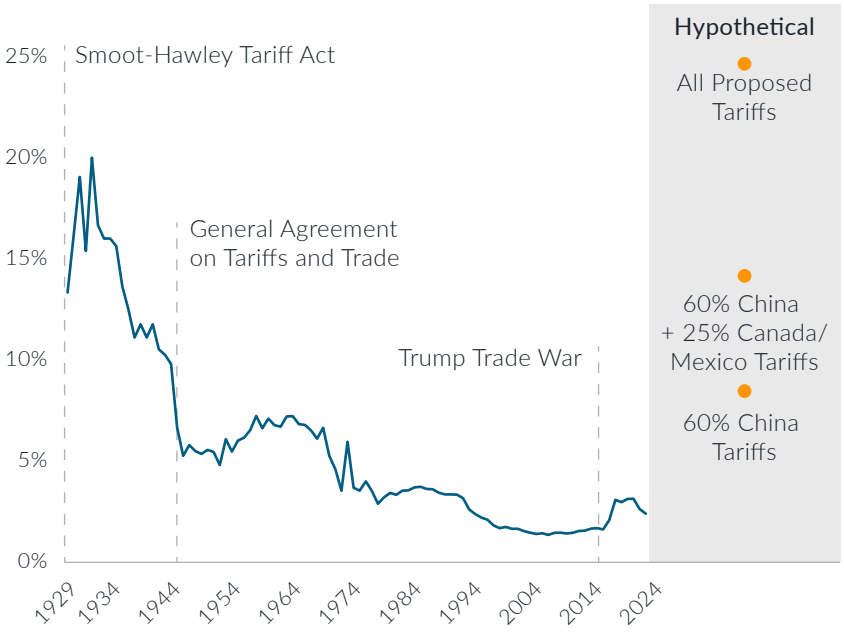
Data as of 12/31/2023

The share of federal revenues from tariffs has fallen as other forms of taxation have come into greater favor, such as individual and corporate income taxes. In parallel, effective tariff rates have steadily declined (Exhibit 3). The Smoot-Hawley Tariff Act of 1930 was the last gasp for protective tariffs in the U.S. for nearly a century. A few years later, the General Agreement on Tariffs and Trade of 1947 worked to reduce or eliminate many barriers to trade. Even the duties imposed during Trump's first term did not materially move the needle from a historical perspective.

[2] Data shown are the share of U.S. federal government revenues derived from customs duties.

Exhibit 3: Investors may begin to consider the impact of a return to a higher tariff regime[3]

U.S. Effective Tariff Rate



60% China Tariffs

- Trump likely can unilaterally impose these tariffs (Section 301)
- May be used as a bargaining chip in bilateral trade negotiations

25% Canada/Mexico Tariffs

- Trump likely can unilaterally impose these tariffs (Section 232)
- Side letters to the USMCA specify processes for Section 232 tariffs and include exclusions for some auto imports
- May be used as a bargaining chip for border-related issues or prompt early review of USMCA (scheduled for 2026)

10% Universal Tariffs

- Would require an act of Congress, unlikely to pass
- Trump could attempt to effectively get there via a series of individual tariffs targeting major trade partners (Sections 232 & 301)

Source: Glenmede, Piper Sandler, U.S. International Trade Commission

Data as of 11/18/2024

With that said, in his campaign for re-election, Trump turned his trade rhetoric up a notch. He proposed two new tariffs on the campaign trail: 60% tariffs on all Chinese imports and 10% universal baseline tariffs that would apply to all imports entering the U.S. In addition, he recently announced plans to immediately impose a 25% tariff on imports from Canada and Mexico once he takes office. If enacted as proposed, effective tariff rates could return to early-20th century levels.

There's good reason to question the likelihood of implementation for this tariff program at face value. Article 1 Section 8 of the U.S. Constitution states that "Congress shall have power to lay and collect taxes, duties, imposts and excises." Under a select few scenarios, Congress has delegated this authority to the Executive Branch, of which the most relevant are Section 232 and 301 authorities. Section 232 of the Trade Expansion Act of 1962 authorizes the president to impose import restrictions that threaten national security, which was exercised for Trump's first-term steel and aluminum tariffs. Section 301 of the Trade Act of 1974 allows the president to take appropriate action in response to unreasonable or discriminatory burdens to U.S. commerce. Trump has used Section 301 authority to impose tariffs on China, citing unfair trade practices. Finally, side letters to the U.S.-Mexico-Canada agreement (USMCA) already specify processes for scenarios when the U.S. seeks Section 232 tariffs, including a 60-day negotiation period and exclusions for some auto imports.

Altogether, this means that the Trump administration can likely on its own impose the 60% China and 25% Canada/Mexico tariffs, though it is possible it may use the threat of tariffs as a negotiating tool and ultimately settle for something lower. In contrast, the 10% universal tariffs would probably require an act of Congress. Such an act appears unlikely at this time, even though Republicans have effectively swept the White House, Senate and House of Representatives. There is not uniform appetite for tariffs in the Republican party. However, the Trump administration could attempt to effectively get there via a series of individual tariffs targeting major trade partners.

[3] Data shown in the left panel in blue are effective tariff rates on U.S. imports over time, which includes nominal tariffs on final goods as well as on imported inputs used in production. The dots in orange are projections for the effective tariff rate if Trump were to implement various proposed tariffs, including 60% tariffs on all Chinese imports, 25% tariffs on all Canadian/Mexican imports and 10% tariffs on all other imports. Article I, Section 8 of the U.S. Constitution states "Congress shall have power to lay and collect taxes, duties, imposts and excises". The Trade Expansion Act of 1962: Section 232 delegates congressional authority to the president to impose import restrictions that threaten national security. The Trade Act of 1974: Section 301 further authorizes the president to take appropriate action in response to unreasonable or discriminatory burdens to U.S. commerce. USMCA refers to the U.S.-Mexico-Canada Agreement. Actual results may differ materially from projections.

Economic Impacts of Tariffs

It is worth considering the possibility that these proposed tariffs may be a negotiating tactic for the higher purpose of extracting concessions from trade partners. For instance, President Trump's nominee for Treasury Secretary Scott Bessent told Bloomberg Television in August that "President Trump speaks in a different way than many politicians, he speaks like a NYC real estate developer, and I think that is the opening gambit… It is a maximalist negotiating position."[4] Time will tell if that is the case; few ideas in politics are strictly black and white. In some cases, the concessions sought may not even be strictly trade-related — the rationale cited for the Canada/Mexico tariffs was border policy.

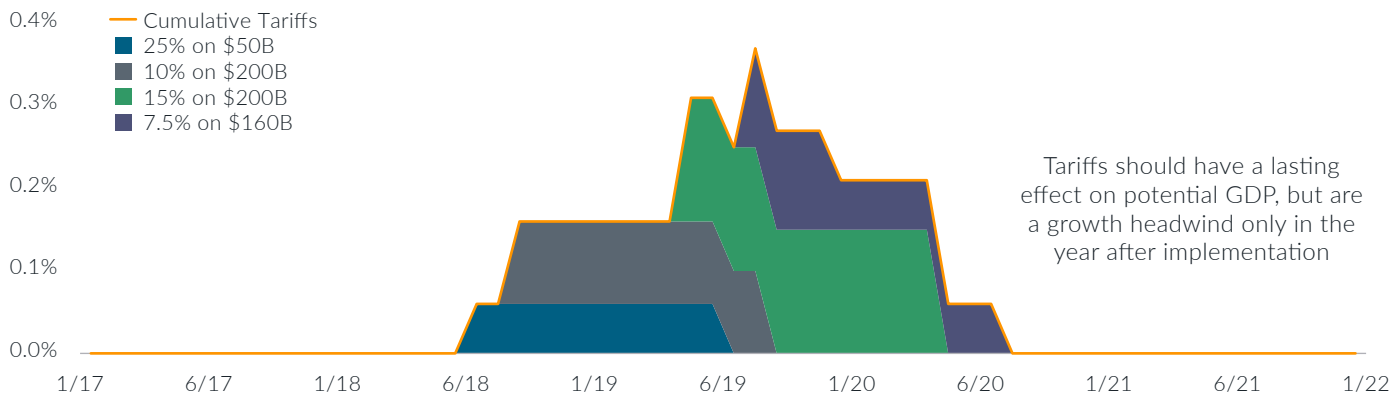
In the meantime, it is worth considering their economic impact at face value, with the understanding that there may be shades of gray for trade policy in practice. Importantly, the following analysis is not an exercise meant to cast judgment on government policy. There may be perfectly valid, non-economic reasons for pursuing such approaches to trade. Nevertheless, vigilant investors must consider the economic impact from such substantial changes to tariff policy or risk getting caught flat-footed when changes occur.

At a high level, tariffs are a near-term headwind to economic growth. They are essentially a tax, making goods more expensive and reducing consumer and business spending power. This is a process referred to as demand destruction, in this case referring to a shift lower in overall demand due to prolonged periods of higher prices. As a result, the level of GDP declines permanently (or for as long as the tariffs stay in effect), but the impact on GDP growth occurs in only the year thereafter.

Trump's first term was a peculiar time for trade economists. Some created Twitter accounts in case the president announced new tariffs via tweet, a common tactic for him. Multiple rounds of tariffs were implemented in the four-years after Trump took office, in some cases applying new levies to existing imports and increasing existing duties in other cases. Accordingly, those tariffs had cascading effects on economic growth in the U.S., as the effects of some new tariffs waxed while those from older levies waned (Exhibit 4). The cumulative impact of those tariffs, assuming maximum demand destruction, was estimated to be a 0.8% GDP growth headwind. Even so, because they were enacted at various intervals throughout his administration, they never represented more than a 0.4% drag on economic growth in any given 12-month period.

Exhibit 4: Trump's first-term tariffs likely reduced GDP growth, though the impact was spread out over time[5]

Trump First-Term Tariffs: Maximum Direct Impact on U.S. GDP Growth



Source: Glenmede, Piper Sandler

Data as of 11/18/2024

[4] "Bloomberg Surveillance." August 12, 2024. Bloomberg TV, [1:11:36], https://www.bloomberg.com/news/videos/2024-08-12/bloomberg-surveillance-08-12-2024.

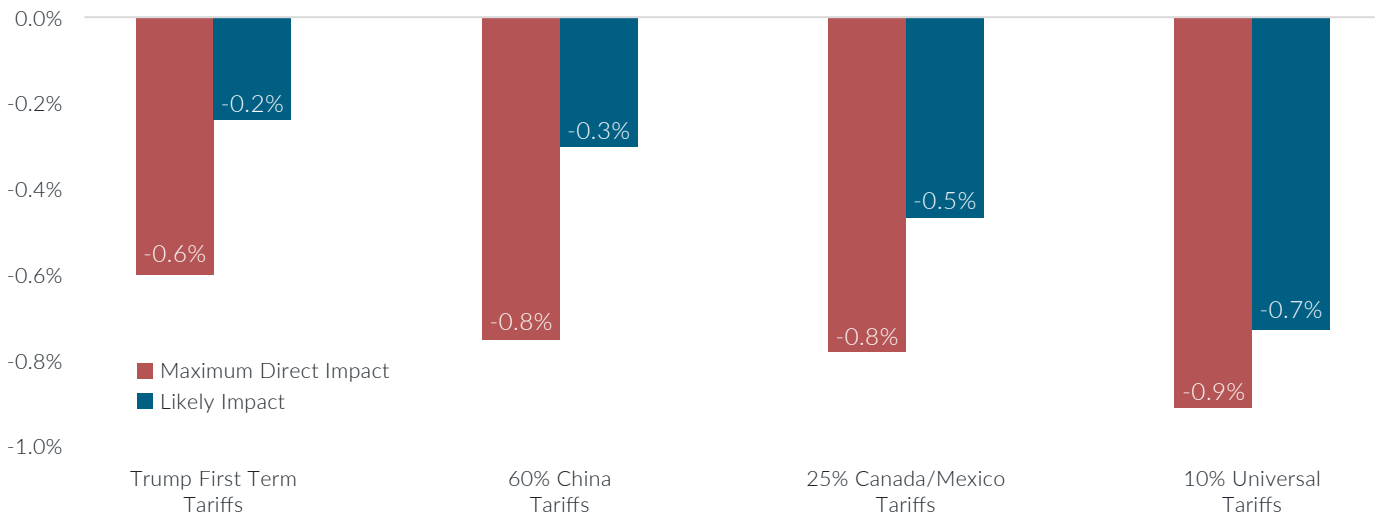
[5] Data shown represent estimates of the impact to U.S. real GDP growth from each tariff imposed in the first Trump administration, assuming full demand destruction via a tariff-induced price shock, meaning a shift lower in overall demand due to prolonged periods of higher prices. Estimates assume that tariffs, while they remain in place, will likely have a lasting effect on the level of real GDP, causing it to run below potential. However, their effect on the growth of real GDP lasts only in the 12-month period after which they go into effect. This analysis does not account for the impacts of retaliatory tariffs from other nations.

In contrast, tariffs proposed by Trump since then are of a larger magnitude than those imposed in his first term. The 60% China tariffs, 25% Canada/Mexico tariffs and 10% universal tariffs are each, by themselves, of a roughly similar scale to all those imposed in his first term. Actual implementation of the tariffs may look a lot different than campaign proposals. It is possible that they could be broken up into smaller increments, allowing the economic impact to be digested over time. But taken at face value, Glenmede estimates that the maximum direct impact of the combined program would represent a 2.4% GDP growth headwind, which is large enough that it cannot be ignored (Exhibit 5).

It is probable that this type of analysis overestimates the economic impact of tariffs because it does not fully account for indirect effects. For instance, not all tariffs uniformly impose a one-for-one cost on consumption, since products can be substituted locally or from countries with free trade agreements for a marginal cost lower than the tariff. Also, companies facing tariffs may try to avoid them by routing supply chains through other countries. Others may decide to onshore production to avoid tariffs entirely. On the flip side, countries may respond with tariffs of their own. The possible impact after accounting for indirect effects is likely an order of magnitude lower than the direct impacts themselves. More specifically, they are possibly a 1.5% GDP growth headwind in practice. In either case, given the extraordinary resilience of this late-stage economic expansion, a growth headwind of that magnitude is unlikely to induce a downturn or recession on its own.

Exhibit 5: Trump has proposed meaningful tariffs, though businesses may adjust accordingly to offset some of the impact[6]

Estimated Tariffs as a % of GDP



Source: Glenmede, U.S. Census Bureau

Data as of 11/17/2024

Considered alongside other business-friendly policy priorities such as tax cuts and regulatory reform, tariffs at this scale are unlikely to be the proverbial straw that breaks the camel's back. In fact, the revenue raised from tariffs could potentially offset some of the budgetary costs of tax cuts, giving the administration more latitude to lean more heavily into pro-growth policies.

Tariffs can also influence inflation, which remains a key concern after the post-COVID spike in consumer prices. While tariffs are certainly not deflationary, their effects on inflation in practice tend to be nuanced, as increased duties do not always have proportional impacts on the underlying prices for goods actually consumed. For example, take the 60% China tariffs. Since the U.S. already has a 12% effective tariff rate on Chinese imports, that would be a 48% inflation impact if prices simply increased one-for-one with tariffs. In practice, the impacts that tariffs have on inflation are much more nuanced.

[6] Estimated tariffs reflect the tariff rate applied fully to all associated imports and are shown as a percent of GDP. The maximum direct economic impact of proposed tariffs assumes full demand destruction via a tariff-induced price shock and that tariffs are implemented fully and in isolation, with no changes to the sourcing of the imports, no other offsetting policies and no retaliatory tariffs. Likely impact accounts for offsetting factor such as reconfigured supply chains and substitution effects. Actual results may differ materially from expectations or projections.

Exhibit 6: Tariffs can have nuanced effects on inflation in practice[7]		
Non-Competitive Markets	Competitive Markets	Onshoring/Friendshoring
Scenario		
• Markets for products in which there are only a few sellers • A function of unique access to natural resources or comparative advantage	• Markets for products in which there are many sellers • The forces of supply and demand are the most important determinants of price	• Companies that face high tariffs avoid them by relocating production • Onshore to tariff-charging country or friendlier jurisdictions (friendshoring)
Tariff Impact		
• Lack of alternatives likely means consumers bear the direct costs • Existing sellers have little incentive to make price concessions • Consumers may seek near-substitutes where possible • Higher tariffs may entice new enterprises in more favored jurisdictions	• Impact on inflation more muted given opportunity for substitution • Domestically sourced alternatives may sit below tariff inclusive price • Clearing of goods moves to domestically sourced option • Overseas firms may reduce prices to offset tariffs and maintain market share	• Impact on inflation more muted given opportunity for behavioral remedies • Tariffs prompt businesses to rethink where their products are made • Relocation of manufacturing may not be costless if labor is more expensive • Goods may be re-routed through other countries in tariff-avoidance schemes
Real World Example		
• Approximately 90% of the world's rare earth metals are processed in China	• Most markets with fungible products (e.g., oil, grains, precious metals)	• Many Japanese car manufacturers now operate plants in the U.S.

Source: Glenmede

The market structure for the products facing tariffs can have a material effect on its inflation impact (Exhibit 6). Some markets are non-competitive, where only a handful of firms or locales are responsible for the vast majority of supply. The lack of alternative sellers means the consumers of those products (or businesses that use them as components) often bear the brunt of tariffs directly, especially if there are few near-substitutes. For instance, the gemstone tanzanite can only be found in Tanzania, so consumers who must have it and will not settle for a look-alike, such as iolite, are likely to pay the higher price of a tariff. Another common real world example are rare earth metals, which are a key component in high-end electronics. China is responsible for approximately 90% of the world's rare earth metal processing, so higher electronics prices may be the result of blanket Chinese tariffs.

On the opposite side of the spectrum are competitive markets, in which there are many sellers for a given product. Given the opportunity for substitution, a tariffed good may no longer be the most cost-effective option as alternatives may sit below the tariff-inclusive price. Assume Country A sells widgets for $100 and Country B sells the same product for $105. Without trade restrictions, residents of Country B should prefer the lower cost widgets of Country A. Now assume that Country A imposes 50% tariffs on Country B. Those $100 widgets now cost $150, but the residents of Country B now prefer the domestically priced $105 option. Rather than the tariff increasing realized prices a proportional 50%, they increase only 5%. This is how many markets for fungible products such as commodities tend to work, where the tariffs just end up shifting buyers to the next marginally priced product. Few markets can be strictly described as fully competitive or non-competitive. The reality is that these scenarios are not binary and most markets for goods are shades between competitive and non-competitive.

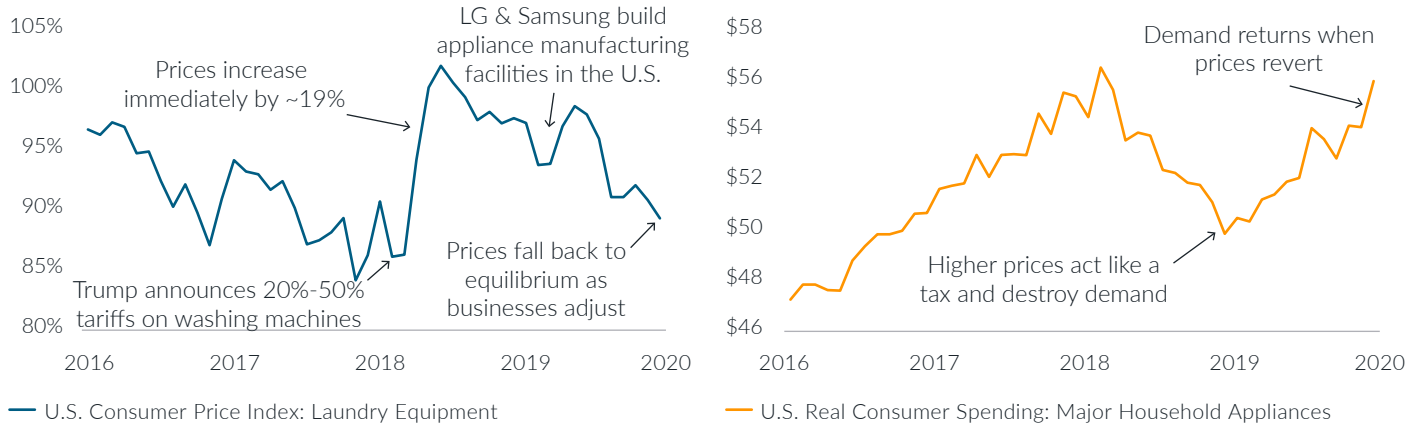
Another factor independent of the competitive state of the market are opportunities for re-siting production. Companies facing tariffs have incentives to avoid the levies. That may mean re-routing goods through lower-tariffed countries, moving production to countries that have free trade agreements with their customers (i.e., friendshoring) or onshoring manufacturing to the country issuing the tariff. Practically speaking, many Japanese auto companies have significant manufacturing capacity in the U.S. — while their ownership remains foreign, the cars themselves are made on American soil with American labor, insulating them from tariff threats.

An excellent case study that brings many of these ideas together in practice are washing machines (Exhibit 7). In January 2018, the Trump administration imposed tariffs of 20% to 50% on large residential washing machines. The market for household appliances leans non competitive, as a few key (mostly foreign-based) companies are responsible for most production. Almost immediately afterward, prices increased by almost 20% given there were few domestic alternatives

[7] The information shown are general thought exercises on the impact tariffs can have on inflation in practice. Actual results may differ materially from those described or may be subject to factors from multiple scenarios.

at the time. Those higher prices acted like a tax, and real consumer spending on household appliances declined notably over the following months. This prompted companies like LG and Samsung to begin constructing appliance manufacturing facilities in the U.S. These companies took the onshoring route to avoid the tariffs. As those factories came online and started selling into the domestic market, prices began to fall back to their pre tariff equilibrium and demand from price-sensitive buyers rebounded. Tariffs proved to be near-term disruptive and inflationary, but markets eventually adapted, adjusting to the new trade terms. There are no perfect examples that encapsulate all the intricacies of global trade, so some markets may adapt more quickly and efficiently while others could face more material constraints.

Exhibit 7: Washing machines offer a real-world example of how markets adjust to tariffs[8]



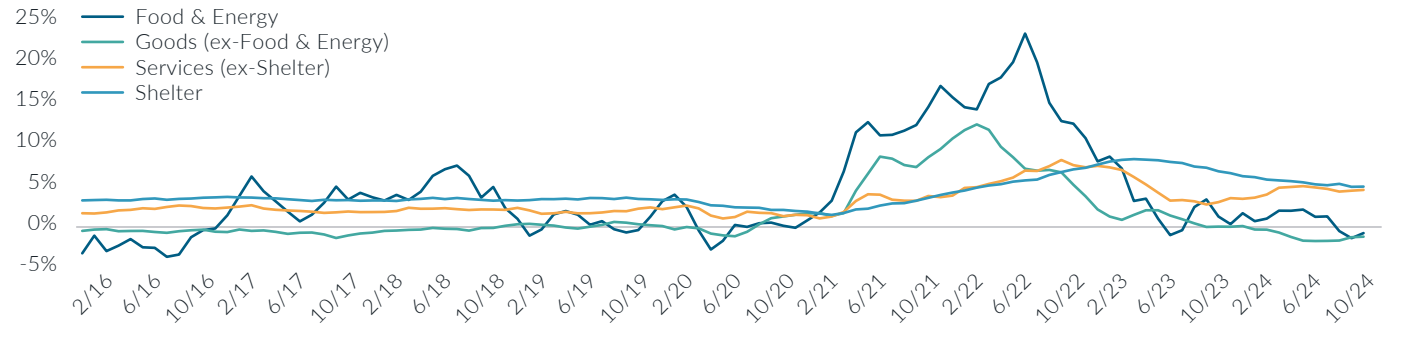
Source: Glenmede, FactSet, U.S. Bureau of Labor Statistics

Data as of 12/31/2019

Given these various cross-currents and the complicated interrelationships of international markets, determining the precise impact of these tariffs on inflation is challenging. Nevertheless, goods are likely to face near-term inflation pressures at a time when they have been a key deflationary force. Of the major components in the Consumer Price Index (CPI), goods have recently been a counterbalance to sticky services prices this year (Exhibit 7). If prices begin to rise materially, it may put at risk much of the progress inflation has made falling closer to the Federal Reserve's 2% target.

Exhibit 8: Outright deflation in goods has helped ease inflation, but tariffs may threaten this trend[9]

U.S. CPI Components: 12M Percent Change



Source: Glenmede, FactSet, U.S. Bureau of Labor Statistics

Data as of 11/18/2024

[8] Data shown in the left panel represent the laundry equipment subcomponent of the U.S. CPI on a seasonally-adjusted basis. Data shown in the right panel represent consumer spending on major household appliances on an inflation-adjusted and seasonally-adjusted basis in billions of U.S. dollars as of 2017 prices.

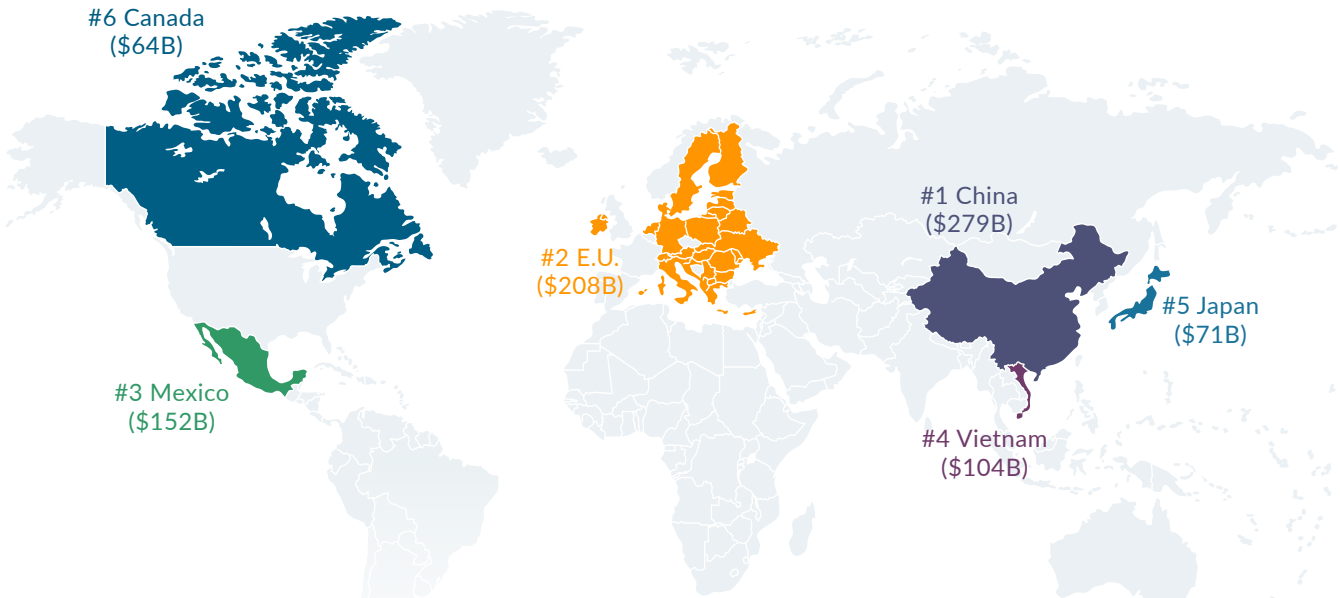
[9] Data shown are the 12-month percent changes in U.S. CPI components. Food & Energy is represented by the food & energy subcomponents. Goods (ex-Food & Energy) is represented by the commodities component (excluding food & energy).Services (ex. Shelter) is represented by Services Less Rent of Shelter. Shelter is represented by Rent of Shelter. CPI measures the price of a basket of goods & services consumed by U.S. households.

Tariffs, Trade and the State of Globalization

Given Trump's known fixation with large trade deficits, it is likely that countries with large bilateral trade surpluses will be in the crosshairs for U.S. trade policy. The top six countries/regions as measured by trade surplus with the U.S. are China, the European Union, Mexico, Vietnam, Japan and Canada (Exhibit 9). It is therefore not too surprising that China, with its almost $300 billion trade surplus with the U.S., has already been singled out as a specific tariff target.

Exhibit 9: Countries with large bilateral trade surpluses may be in the crosshairs for U.S. trade policy[10]

Top 6 Countries with U.S. Trade Surplus



Top Exports	
Petroleum products	15.5%
Cars & car parts	5.9%
Vaccines & related items	2.8%
Soybeans	2.3%
Integrated circuits	2.3%

Top Imports	
Petroleum products	9.2%
Cars & car parts	8.9%
Broadcasting equipment	4.4%
Computers	4.4%
Packaged medicines	3.2%

Source: Glenmede, U.S. Census Bureau, Observatory of Economic Complexity

Data as of 12/31/2023

Those top six together account for two-thirds of the U.S. global trade deficit. So even though Trump may face some pushback on universal 10% tariffs to bring those relationships into a better balance, he might still be able to make meaningful strides in that direction with one-off direct levies on major trade partners.

Some products more than others may be exposed if the U.S. engages in trade conflicts with its largest deficit partners. For instance, the top imports from those six countries/regions are petroleum products, cars and car parts, broadcasting equipment, computers and packaged medicines. On the other side, some of the top exports at risk for retaliatory tariffs are petroleum products, autos, vaccines, soybeans and integrated circuits. A fair amount of goods in those lists are competitive market products, like petroleum and soybeans, so tariffs may simply rearrange supply chains for those products rather than materially impact demand. However, tariffs on other products such as medicines, cars and integrated circuits may be moderately disruptive and potentially incentivize local production in the long run.

[10] Shown is a color-coded map of the top six countries/regions by trade surplus with the U.S., measured in billions of U.S. dollars based on full-year 2023 trade figures. The tables below highlight the top imports and exports in the U.S. trade relationship with the following countries/regions: China, the European Union, Mexico, Vietnam, Japan and Canada. Goods categories are based on the Harmonized System's four-digit international trade codes, though some groups were combined for this analysis, including cars & car parts. Related items with vaccines include blood, antisera, toxins and cultures.

Zooming out to the see the bigger picture, a second Trump term may mark an inflection point in the era of globalization (Exhibit 10). Global trade as a share of GDP has been on a steady rise since the end of World War II, as the U.S.-led peace incentivized greater economic interdependence across borders. However, that era of straight-line globalization may be near its peak.

Exhibit 10: The era of globalization may be at an inflection point[11]

Global Trade as a Share of GDP

Source: Glenmede, Our World in Data, Fouquin and Hugot (Centre d'Etudes Prospectives et d'Informations Internationales 2016)
Data as of 12/31/2022

In many senses, trade is a good thing and is not necessarily a zero-sum game. In economics, the concept of comparative advantage finds that each country has its own strengths that makes them uniquely positioned in certain markets. Those advantages may be higher quality natural resources, lower costs of labor, or other distinct features that attract customers or make production more efficient. Those advantages may vary materially by industry. Unconstrained by the need to meet all its citizens' wants domestically, trade allows countries to focus on producing the goods and services that they excel at producing most and import the rest. The objective of greater cross-border integration is to maximize global economic output. It is perhaps not too much of a stretch to say that globalization has played a hand in lifting millions out of poverty as markets have expanded beyond borders.

With that said, there are credible arguments that free trade comes with its own downsides. Shortages of ventilators, personal protective equipment and key medicines during the COVID-19 pandemic had some questioning the wisdom of relying solely on other countries for vital supplies in a time of crisis. In addition, today's trade partner for essential military material may be tomorrow's war-time adversary. Plus, free trade only works when countries agree to play by the same trade rules, in both word and deed. No country should be permitted to enjoy a comparative advantage on labor costs at the hands of slavery or inhumane working conditions. As with many things in life, the balance is likely somewhere in the middle between truly free trade and economic independence.

What does this mean for investors? Profit margins for large U.S. companies have steadily increased alongside globalization's gains over the last few decades, as lower costs from global trade have been a key tailwind for earnings. That tailwind risks turning to a headwind in a higher tariff regime, but that alone is unlikely to be material enough to lead to widespread profit haircuts. Corporate America is nothing if not resourceful, so expect efforts to onshore production to gain steam as companies adapt to new rules of the game.

This may end up being a tailwind for more domestically-focused small cap equities, which need not contend with tariffs as materially as their larger multi-national counterparts. In fact, smaller domestic companies may find themselves relative beneficiaries if they sell products that become the marginally priced product on an after-tariff basis, potentially increasing demand. At the time of publication, small cap equities were priced much closer to fair value than their larger counterparts, and consensus estimates were pricing in a notable rebound for earnings in 2025.

International equities are likely to face headwinds from higher tariffs as demand from the large U.S. consumer market could cool. In addition, currency markets may prove volatile as trade policy continues to evolve.

Above all else, when faced with an uncertain future, investors would do well to adhere to their goals-based investment plans. An effective goals-based approach assumes unexpected twists and turns in the market are inevitable and can provide investors with the ability and confidence they need to ride out volatility.

For additional information on this topic, clients, partners and friends are encouraged to contact their Glenmede Relationship Manager.

[11] Data shown are the total value of global merchandise exports divided by GDP.

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