

Why Did Prices of Most Common Stocks Fall Sharply After “Liberation Day”? — April 9, 2025

Answer: The magnitude of tariffs announced by President Trump on April 2, 2025 significantly exceeded most investors’ expectations, and the collective sentiment was that those tariffs will increase unemployment, raise inflation, and reduce economic growth.

International trade involves goods (physical items) and services. Tariffs are fees that are often charged when goods owned by a seller in one country are bought by a buyer in another country. The seller pays the tariff to the national government of the buyer’s country. Consequently, the seller’s net revenue from that sale is lower to the extent of the tariff, unless that seller correspondingly raises the price of the good being sold.

In 2024, 13 nations accounted for 71% of international trade of goods with the United States of America (“USA”).¹

- Mexico accounted for 16% (\$837 billion²) of that trade;
- Canada accounted for 14% (\$762 billion) of that trade;
- China (including Hong Kong and excluding Taiwan) accounted for 12% (\$616 billion) of that trade;
- Japan, South Korea, Taiwan, Vietnam, and India collectively accounted for 16% (\$862 billion) of that trade; and
- Germany, the Netherlands, Ireland, Italy, and France collectively accounted for 13% (\$692 trillion) of that trade.

In 2024, goods worth \$1,352 billion were exported from USA to the 13 nations listed above, and goods worth \$2,418 billion were imported to USA from those 13 nations. Consequently, USA experienced a \$1,066 billion “trade deficit”³ with those 13 nations in 2024.

Under the terms of a “free trade” agreement⁴, many 2024 USA exports to Canada and Mexico were not subject to tariffs.

On February 1, 2025, President Trump stated, “The extraordinary threat posed by illegal aliens and drugs, including deadly fentanyl, constitutes a national emergency” and authorized 25% tariffs on imports from Canada and Mexico “until the crisis is alleviated”⁵

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¹ The source for data presented in this paragraph, and the paragraph immediately below it, is “U.S. International Trade in Goods and Services, December 2024”; U.S. Department of Commerce; February 5, 2025; Release Number: CB 25-17-, BEA 25-04.

² It is difficult to grasp the magnitude of international trade. Consider this: \$837 billion of Mexico | USA trade in 2024 was an average of over \$26,000 per second.

³ \$1,352 billion of exports from USA minus \$2,418 billion of imports to USA equals a \$1,066 billion (\$1.1 trillion) trade deficit.

⁴ Agreement between the United States of America, the United Mexican States, and Canada (“USMCA”) was approved in 2018, and a corresponding enforcement agreement was approved in 2019. Donald Trump’s first term as President of USA was from January 20, 2017 to January 20, 2020.

⁵ “Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico, and China”; The White House; February 1, 2025.

In 2024, the weighted-average tariff rate on USA exports to China (excluding Hong Kong) was about 3%, and the collective weighted-average tariff rate on USA exports to Japan, South Korea, Taiwan, Vietnam, India, Germany, the Netherlands, Ireland, Italy, and France was about 4%.⁶

On April 2, 2025, President Trump declared “... foreign trade and economic practices have created a national emergency ...” and authorized “... responsive tariffs to strengthen the international economic positions of the United States and protect American workers ...” that “... will remain in effect until ... the threat posed by the trade deficit and underlying nonreciprocal treatment is satisfied, resolved, or mitigated.”⁷ For sellers of goods from China, the tariff rate on imports to USA became 54%, and was increased to 104% on April 9th. For sellers of goods from the other 10 countries listed in the paragraph above, the collective new weighted-average tariff rate on imports to the USA became about 26%.

On April 4, 2025, Jerome Powell (Chairman of the Board of Governors of the Federal Reserve System) stated, “... higher tariffs will be working their way through our economy and are likely to raise inflation in coming quarters. Reflecting this, both survey and market-based measures of near-term inflation expectations have moved up. By most measures, longer-term inflation expectations (those beyond just the next few years) remain well anchored and consistent with our 2% inflation goal. ... Turning to monetary policy⁸, we face a highly uncertain outlook with elevated risks of both higher unemployment and higher inflation. The new administration is in the process of implementing substantial policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. ... We have stressed that it will be very difficult to assess the likely economic effects of higher tariffs until there is greater certainty about the details, such as: what will be tariffed, at what level, and for what duration; and the extent of any retaliation from our trading partners. While uncertainty remains elevated, it is now becoming clear that tariff increases will be significantly larger than expected, and the same is likely to be true of the economic effects, which will include higher inflation and slower growth. The size and duration of these effects remains uncertain. ... We are well positioned to wait for greater clarity before considering any adjustments to our policy stance. It is too soon to say what will be the appropriate path for monetary policy.”⁹

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⁶ World Trade Organization. “Indicators by economy.” WTO Tariff & Trade Data, ttd.wto.org/en/profiles. Accessed April 7, 2025.

⁷ “Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National Economic Security”; The White House; April 2, 2025.

⁸ In the context of the Federal Reserve System, “monetary policy” refers to its actions to influence the “money supply”, such setting “federal funds (interest) rates” on loans of surplus reserves between USA’s national (federally chartered) banks. On March 19, 2025, the target range of 4.25 to 4.50% was affirmed in a press release.

⁹ Excerpts from “A conversation with Fed Chair Jerome H. Powell” at the Society for Advancing Business Editing and Writing’s annual conference; April 4, 2025.