

Tariffs – Key Takeaways

- **Sweeping Import Tariffs Implemented** – Beginning April 5, a **10% universal tariff** will apply to all imported goods, with an **additional tariff** for countries running a trade deficit with the U.S. starting April 7. This move signals a broad protectionist shift in U.S. trade policy

Reciprocal Tariffs		Tariffs Charged to the U.S.A. (including existing trade agreements and trade barriers)	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%	
European Union	39%	20%	
Vietnam	90%	46%	
Taiwan	64%	32%	
Japan	46%	24%	
India	52%	26%	
South Korea	50%	25%	
Thailand	72%	36%	
Switzerland	61%	31%	
Indonesia	64%	32%	
Malaysia	47%	24%	
Cambodia	97%	49%	
United Kingdom	10%	10%	
South Africa	60%	30%	
Brazil	10%	10%	
Bangladesh	74%	37%	
Singapore	10%	10%	
Israel	33%	17%	
Philippines	34%	17%	
Chile	10%	10%	
Australia	10%	10%	
Pakistan	58%	29%	
Turkey	10%	10%	
Sri Lanka	88%	44%	
Colombia	10%	10%	

Reciprocal Tariffs		Tariffs Charged to the U.S.A. (including existing trade agreements and trade barriers)	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%	
Nicaragua	36%	18%	
Norway	30%	15%	
Costa Rica	17%	10%	
Jordan	40%	20%	
Dominican Republic	10%	10%	
United Arab Emirates	10%	10%	
New Zealand	20%	10%	
Argentina	10%	10%	
Ecuador	12%	10%	
Guatemala	10%	10%	
Honduras	10%	10%	
Madagascar	93%	47%	
Myanmar (Burma)	88%	44%	
Tunisia	55%	28%	
Kazakhstan	54%	27%	
Serbia	74%	37%	
Egypt	10%	10%	
Saudi Arabia	10%	10%	
El Salvador	10%	10%	
Côte d'Ivoire	41%	21%	
Laos	95%	48%	
Botswana	74%	37%	
Trinidad and Tobago	12%	10%	
Morocco	10%	10%	

- **Existing Tariffs Remain Intact** – The new tariffs **do not replace** prior trade restrictions, such as the **2018 China tariffs**, compounding the overall cost of imports for businesses and consumers.
- **Key Exemptions for North America & Select Sectors** – **Canada, Mexico, and certain industries** (e.g., **pharmaceuticals, autos**) are exempt.
- **Historic Economic Impact** – If fully implemented, these tariffs would **increase the U.S. effective tariff rate from 2% to 20%**, generating **~\$640 billion in revenue**, comparable to **doubling corporate tax revenue**. If we called a tariff a tax, this would represent the **largest tax increase in modern U.S. history**.



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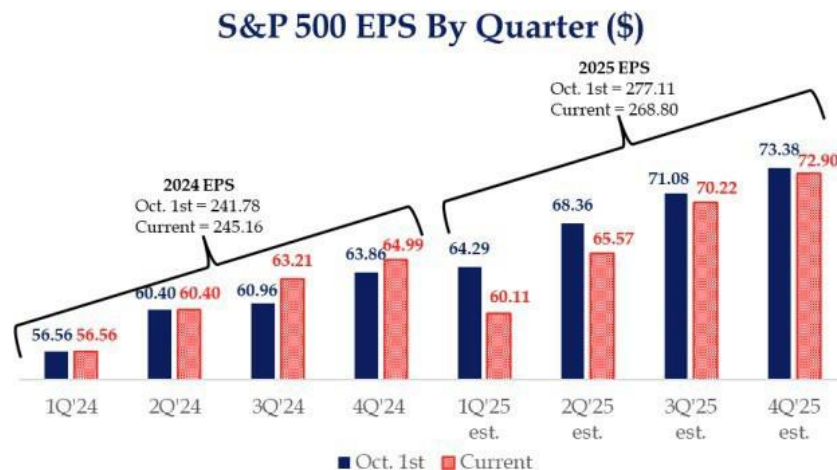
Economic Implications – Key Takeaways

- **Recession Risk Has Increased Significantly** – If the tariffs remain, the economy may face a **manufactured downturn** similar to the COVID-19 lockdown-induced recession in which we “did it to ourselves”. The Administration’s aggressive restructuring of trade flows could **disrupt economic activity**, amplifying recession risks.
- **Near-term Inflationary** – Tariffs **directly increase costs**, particularly in **consumer electronics (China, Vietnam, Malaysia), apparel & footwear (Vietnam, Cambodia), and autos (Canada, Mexico)**. Given the scale of the tariffs and their weight in CPI, **inflation levels could spike 1%–3%** in the near term.
- **HOWEVER, PRICE IS FOLLOWS DEMAND** – While tariffs push prices higher in the short-term, **demand ultimately dictates inflation**. If consumers **pull back spending** due to rising costs, lower confidence or **higher unemployment**, inflationary pressures would likely ease, making the price surge transitory.
- **Restrictive Policies Add to Headwinds** – Both **fiscal and monetary policy remain tight**, as we discuss in for our March Review with the government cutting spending while raising “revenues” via tariffs. Additionally with near-term inflation concerns still present, the **Fed is likely to maintain its restrictive stance**, potentially prolonging economic strain. **This is the leading risk at the moment.**



Market Implications – Key Takeaways

- **Heightened Volatility** – As we noted in our annual outlook, elevated **valuations and market concentration** are already increasing downside risks, and the tariff shock adds another layer of uncertainty, fueling market swings.
- **Earnings Expectations Under Pressure** – While **earnings estimates have been gradually revised down**, 3Q and 4Q forecasts remain intact. As earnings optimism fades, **equity prices may adjust lower** to reflect weaker profit expectations.



- **Flight to Safety Continues** – Investors are **rotating into defensive sectors** (staples, energy, utilities), **shifting geographically** toward Europe, and **increasing exposure to bonds and cash**, seeking protection from volatility.
- **Value Over Growth Sector Rotation** – Growth-heavy sectors like **tech (46%)**, **consumer discretionary (15%)**, and **communication (13%)** which include **Alphabet and Meta** are under pressure, while **value-oriented sectors** such as **financials (23%)**, **healthcare (14%)**, and **industrials (14%)** have provided relative stability. Percentage are Russell 1000 Growth vs Russell 1000 Value.
- **Short-Term Rates Rally, Long-Term Uncertain** – **Short-term rates are rallying** as investors move to cash. Frankly this reflects market timing rather than a strategic allocation. **Long-term bond yields will depend on growth and inflation trends**, making them highly volatile and any positioning there will be a big bet one way or the other.
Intermediate-term bonds present an attractive risk-reward balance.
- **Credit Risk Skews Negative** – We are underweight high-yield with tight spreads and underlying risks underestimated in our view. Maintaining an **underweight position in credit** remains prudent in our view given deteriorating fundamental as risk is to the downside.



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Portfolio Implications – Key Takeaways

- **Well-Positioned for Volatility** – Our **balanced approach** entering the year has helped navigate market turbulence.
 - **Fixed Income:** Managed the **inflation vs. economic risk trade-off** by **adding TIPS, cutting global bonds, and increasing unconstrained strategies**, while maintaining **low credit exposure**.
 - **Equities: Underweight U.S. positioning** has added value, with **active management delivering strong results despite small cap headwinds**
 - **Real Assets:** Outperformance vs. U.S. equities, with **REIT reduction in favor of broader real assets** benefiting allocations.
- **Key Themes Playing Out Early** – We’re one quarter of the way through the year so far too early to count chickens. That said, **Fragility, durability, ‘Age of Alpha’** are proving timely. The **“Mag 7” have turned into the “Lag 7”**, resilient portfolios need self-evident and active risk management broadly performing well and our managers in particular holding up.
- **Our Opinions Will Change as the Facts Change** – **Portfolio allocations remain unchanged**, but we are **actively monitoring risks and opportunities**. If warranted, we will react. In all likelihood that action would be toward the bull side if markets materially decline from here rather than trying to “bet” on how the next leg of a potential drawdown may occur.



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