

BULL & BEAR *Bulletin*

February 2025



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Trade Terror or Shifting Strategy

The opinions were all written and waiting to be published. They reflexively explained that tariffs are either recklessly dangerous or boldly appropriate. Investors today are operating in a noisy information environment that is moving quickly. Market practitioners generally are accustomed to absorbing volatility and changing circumstances while trying to distill insights and meaning through an investment process. Noise, therefore, is nothing new. However, what may be new is a growing awareness that by the time the ink is dry, these opinions are already dated and don't appear to contribute a significant amount to the conversation. Additionally, recent historical market patterns may be lending less insight. Old economic and trade systems do not seem to be working as intended and strategy shifts seem to be afoot.

Assessing the tactical merits of tariffs would probably deliver us nothing but more "noise" without first attempting to understand the fundamentals motivating these larger trade, foreign, and economic policy shifts. Only then can we begin to understand whether any given course of action against its alternatives is meritorious or not.

If country A imports the same amount that it exports to country B, then there is no trade surplus or deficit. If each party is better off from the trading arrangement, then everyone is happy. Reality in 2025 is different. The nations of the world are trading with multiple countries and products have complex, trans-national supply chains such as those that exist for semiconductors, autos, durables, and other goods. What could go wrong?

It is essential to understand the importance of what is on the opposite side of the good or service exchanged, and that is, the dollar. The U.S. has the power to consume a great deal in aggregate, and at the same time, we possess the depth of markets to absorb the capital flows in dollars gained from trade back into our economy rather freely. We have been more than willing to remain open for business to do just that. Not all countries are willing to do this as they are often limited by their size, form of government, and stage of development.

Perhaps up until now, the U.S. has been willing to be the consumer, spender, and debt accumulator of last resort, accepting any economically deleterious impacts on our people, because these resulting costs could be compensated for in previously acceptable ways. The tactical questions are then, are tariffs the best course of action, what degree should they be utilized, and are there complementary and accompanying policy prescriptions necessary to achieve policy goals? This new strategy being organized over trade is likely coming to the forefront due to the larger problems of over-indebtedness, income inequality, lack of broad job opportunity, and arresting threats to our standard of living.

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