PACIFIC GLOBAL
Investment Management Company

MARKET*Insights*

Periodic commentary from our portfolio managers assessing the impact of news events on the equity and fixed income markets.

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TARIFFS

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Headline news reflects the incredibly fluid nature of U.S. tariff policies. Our portfolio managers discuss why it will take time to assess their impact and the importance of maintaining a long-term investment strategy that makes reasoned adjustments in light of evolving economic trends.

What is the purpose of tariffs?

A tariff is essentially a tax charged by one country on goods or services imported from another country. Tariffs are typically imposed with the goal of protecting and promoting domestic production or influencing trade negotiations.

What is the relationship between tariffs and inflation?

U.S. tariffs raise prices on imported goods. Tariffs may also increase the cost of domestic goods that utilize imported parts or products. Businesses often pass on their increased costs to consumers. The extent to which they do so depends on a variety of factors including the range and availability of alternative products as well as their pricing strategy. Costs may rise further if other countries reciprocate by imposing tariffs on goods imported from the U.S.

How do tariffs impact the economy?

The potential, or anticipated, economic impact may be the most debated issue surrounding tariffs. Notable concerns include the impact of tariffs on inflation, business profitability, consumer demand, domestic production and exports. The economic impact is difficult to predict because it depends on various dynamics with diverse effects on the economy.

Certain industries could benefit from tariffs. For example, U.S. steel and aluminum producers have advocated for tariffs to make them more competitive against imported Chinese steel and aluminum which China is selling below the cost of production.

In other cases, like the U.S. auto industry, tariffs pose potential hurdles. Many cars made in the U.S. rely on parts or services provided by Canada and Mexico. The complex cross-border activity during the production process could become more expensive for these businesses and their consumers.

What is the main takeaway from ongoing tariff headlines?

Tariff policies and strategies are complicated. It's not a straightforward issue with readily discernable outcomes or impacts. Headline news may influence market volatility but isn't the basis for prudent long-term investment decisions. The evolutionary nature of tariff policies complicates the process of estimating the ultimate impact on various industries, individual companies and the overall economy.

How are companies responding to the tariff uncertainty?

Responses will continue to vary by industry and by company. A company's approach depends on a multitude of factors including the direct and indirect impact of tariffs – those imposed by the U.S. or by other countries – competition from alternative products, and consumer demand.

Some companies are taking a more defensive approach: responding to the uncertainty and potential headwinds by revisiting staffing plans or contemplating layoffs, retooling production processes, sourcing alternative parts, or factoring increased costs into their pricing. Others are strategizing but waiting to see how the process plays out before making any significant changes to their operations.

How is tariff policy impacting our investment decisions?

Our value-oriented approach seeks to identify individual companies with strong long-term growth potential. Tariff policy and uncertainty does not change our fundamental investment process; but it is one of the many factors we consider in assessing growth prospects for individual companies. In our company analysis we evaluate the potential impact of any significant trends in the economy or the company's industry.

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