BRACING FOR IMPACT

Timing: A Window of Opportunity… for Now. Unexpected wider and larger-scope tariff announcements have sent tremors through bond and equity markets, resulting in a brisk sell-off that signals investors' caution. Companies, wary of the looming cost increases, are ramping up their activities in a bid to secure inventory before the higher tariffs take full effect. Recent months have witnessed record import orders as firms engage in a classic preemptive stockpiling maneuver. With an abundance of inventory to cushion the blow, the direct impact on retail pricing may be deferred by two-to-three months for consumers.

Magnitude: The Real Weight of Tariff Turbulence. Even as timing buffers offer a temporary reprieve, the magnitude of these tariff shocks looms ominously large. Both consumers and corporates have, over recent years, built up savings and resilience—stress-tested during the high inflation episodes of 2022. However, the numbers behind these tariffs tell a daunting story. In particular, the very high tariff rate of 145% imposed on Chinese goods is a stark cause for concern. While exemptions exist, early Goldman Sachs estimates indicate that substitutes are hard to come by for roughly 20-30% of these imports. For corporations that depend heavily on Chinese supply chains, this means that if the steep tariffs persist, businesses could face severe supply chain stress—a domino effect that would ripple outwards, affecting production schedules, profit margins, and ultimately, consumer prices.

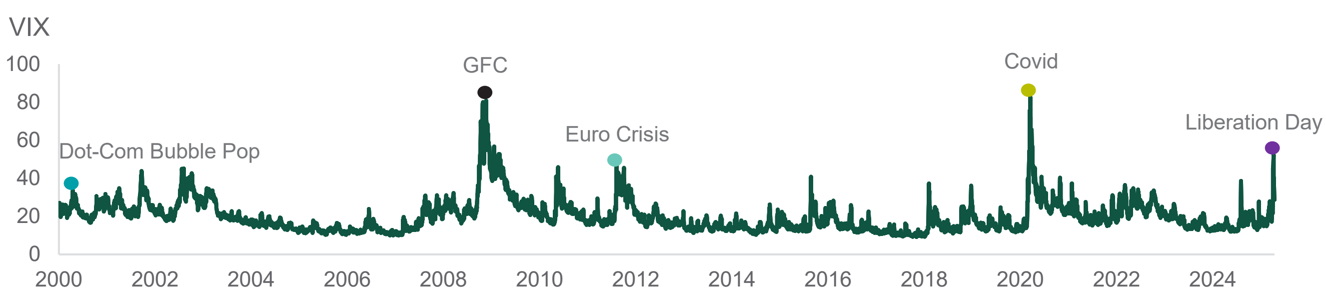
Navigating a Dual-Edged Sword. The current scenario presents a dual-edged dilemma: on one side, the short-term deferral of higher costs due to preemptive stockpiling, and on the other, the potent risk of structural cost increases and supply chain disruptions in the medium to long term.

For consumers, the resilience built from prior periods of economic stress offers some comfort. However, once corporate inventories are exhausted and suppliers are forced to operate at the new cost levels, the anticipated surge in prices could quickly erode household spending power. It's a classic case of deferred pain—the initial shock is absorbed by preemptive measures, but the real financial sting may come a few months down the line when the market adjusts to the tariff-imposed cost structure. Analysts will be keenly observing not only the immediate response from market participants but also the long-term adjustments in corporate supply chains. The adjustments, while potentially stabilizing in the long run, may trigger a period of volatility as the market adapts to a new, tariff-influenced reality.

What's on the Radar? In conclusion, the dual factors of magnitude and timing in these tariff measures create a complex and unsettling landscape. For now, the strategic purchasing spree acts as a stop-gap measure, but once the buffer of abundant inventory is depleted, the full brunt of the tariff shock is likely to be felt. Investors and market participants will need to brace for a period of adjustment, watching carefully as supply chain stress and price increases set in over the coming months.

LIBERATION DAY SPIKE

The tariff announcements on Liberation Day increased expected volatility to levels of prior periods of market turmoil.



Source: Northern Trust Asset Management, Bloomberg. Data from 12/31/1999 through 4/14/2025. VIX = CBOE Volatility Index. Historical trends are not predictive of future results.

BASE CASE EXPECTATIONS

Supply Restraint (55% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Central Bank Easing

Within our Supply Restraint scenario, the global growth shock leads to continued central bank rate cuts. The timing will depend on the speed of the growth slowdown, and could be more complicated for the Federal Reserve given a higher inflationary impulse from tariffs relative to non-U.S. regions.

RISK CASE SCENARIOS

Soft Landing (35% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Reflation (10% probability)

Policies of the U.S. Administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

INDEX DEFINITIONS

MSCI USA IMI: The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With 2,319 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.