



## April 2025 – Tariffs and Trade Wars

**“In investing, nothing is certain. The best investments we have ever made, that in retrospect seem like free money, seemed not at all that way when we made them.”**

**-Seth Klarman, Hedge Fund Manager and Author**

### Tariffs as an Economic Policy

Callahan Advisors has been serving clients for over twenty-five years. At the end of each quarter, we issue a performance report to our clients, and we include a quarterly newsletter addressing investment principles, current events, and themes such as inflation which bear directly on all investors.

We have now written over one hundred such letters. Naturally, you would find letters that address particular issues multiple times. Volatility and inflation are two such themes. Tariffs are a new one.

2025 has put these topics foremost in our minds. The change in administration and the actions of the Department of Government Efficiency have exacerbated the uncertainties that are constant in our lives.

The Trump administration has been very active in its statements and unilateral actions. No one seems to have a good understanding of what will happen with tariffs, Ukraine, foreign relations, etc. Much of this is being litigated, and it is still unclear as to where and when Congress or the courts are going to weigh in. The lines among the Executive Branch, Legislative Branch, and Judicial Branch, accordingly, have become more unclear.

The media has also done a poor job of bringing about clarity. For example, a few days ago, a widely read newspaper had a front-page article on inflation specifically citing the current rise in the price of eggs. Page seven of the same newspaper had an article reporting that egg prices were coming down!

We now know what tariffs have been enacted and at what amount. We do not yet know what and when these will change, how other countries will respond, and how companies will react. Tariffs have always been an issue for the United States. They were one of the causes of the Revolutionary War, the Civil War, and the Great Depression. Consequently, we should take what is happening very seriously.

Our view is that tariffs are a tax on consumers and businesses. But whatever one thinks of these policies, the consequences of these actions are a major concern. The ambiguity of what happens next, and the objectives of these tariffs make it difficult, if not impossible, to make a full assessment of their impact going forward.

At present, we are all awash in uncertainties. Trade wars are bad, and, in the end, everyone loses. Our country's long adherence to free trade and free market capitalism has been a source of immense prosperity.

Many believe that our country has been victimized by the “Beggars Thy Neighbor” policies of other countries. This means that other countries have tried to strengthen their own economies to the disadvantage of ours. Hence jobs in Mexico or China take away jobs in our country. This creates a problem in that if everyone acts in their own self-interest the outcome is likely to make everyone worse off.



If, in fact, we are using tariffs to negotiate a better result for our economy, that is good for everyone. Us included. However, if we are not perceived as an honest negotiator, we will not get our desired result; consequently, it is critical that we are always perceived as acting in a constructive fashion.

These uncertainties impact investment advisors like us, as they create volatility which we have been seeing every day in this market. They impact you, the investor, because you must consider your risk tolerance and your allocations among fixed-income securities and stocks. They also impact monetary policy as the Federal Reserve must set rates to strive for low inflation and acceptable employment levels.

We continue to be confident that the direction of the market is impossible to predict in the short run. We absolutely believe that in the long term, a diversified portfolio of stocks, generally with growing cash flows and rising dividends, will continue to reward investors. (For more on this, go to our website: [callahanadvisors.com](http://callahanadvisors.com), click on Resources, and read our July 2013 newsletter: Psychology of Volatility.)

Investors do have some advantages. First, short-term investment-grade securities including United States Treasuries provide a decent, real return. Another positive factor is that many of our largest and most profitable companies (Amazon, Google, Meta, Microsoft, and Nvidia) do not currently have unreasonable valuations given their growth rates. Another factor is that many of the companies we all are invested in have excellent, seasoned management with great experience with these kinds of markets. They have seen times worse than these and have survived and thrived despite them.

A final note: we should all be aware of taxes. We know there will be news on taxes, be they income taxes, capital gains, estate, social security, or Medicare. All need to be considered. Our best advice is to trust your risk tolerance but also take advantage of good valuations of great companies.

As always, we are grateful for your trust in us.