



13 March 2025



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What tariffs could mean for your investment portfolio

With headlines dominated by an escalating trade war, Chief Strategist Guy Foster dissects the uncertainties rattling financial markets, pinpointing how volatility is impacting portfolios — and why sticking to core investment principles can turn turbulence into opportunity.

Key highlights

- **Volatility, the new norm:** President Trump's toing and froing on the implementation of tariffs is causing market turbulence and anxiety. This is making it harder to predict economic conditions and is having far-reaching implications for investors and businesses alike.
- **Trade tensions rise:** Tariffs are being used to protect domestic industries, but this tactic risks triggering trade wars, inflation, and slower global growth. This uncertainty makes it harder to predict how investments will fare in the short term.
- **Diversification is key:** A globally diverse portfolio can provide a buffer against U.S.-centric market drops, helping to mitigate the risks associated with single policy-driven downturns.
- **Patience and perspective:** Uncertainty typically resolves through policy changes or economic adaptation. Investors must stay grounded, informed, and focused on the long game. By avoiding knee-jerk decisions and staying the course, investors can capitalise on opportunities that arise during times of turmoil.

It's safe to say that the start of President Trump's second term has ushered in a new era of uncertainty, upending global markets and fuelling fears of a global trade war.

Unsurprisingly, uncertainty causes volatility and this can feel deeply unsettling. However, the reason investments grow wealth faster than bank savings is because investors are willing and able to tolerate these periods of volatility.

Every period of market anxiety is unique, but they always present opportunities for those who remain calm and thoughtful, and risks for those driven by emotions.

With your trust and our team's experience of navigating decades of investment cycles, we can help turn volatility to your advantage.

Let's break down what's happening and what investors can do to navigate the turbulence.

(Re)introducing tariffs

The latest market anxiety stems from a new U.S. administration challenging decades of economic orthodoxy, reintroducing the archaic policy tool of tariffs to achieve vague and opaque policy objectives.

Tariffs have a long history, but for the last half a century, significant efforts have been made to reduce them. That

changed with President Trump's first term, and he seems keen to continue his tariff 'love affair' in his second term. But why would anyone want to impose tariffs?

Tariffs are a tax on imported goods, and their purpose is to raise revenue and/or protect domestic businesses. Today, tariffs are more commonly used for the latter.

Agriculture is a good example. If it's cheaper to produce food abroad, a tariff can help domestic producers to compete by making imported food more expensive. This protects jobs and boosts resilience. A country that relies heavily on imported food becomes vulnerable to trade disruptions.

Tariffs were the major source of U.S. government revenue at the start of the twentieth century. However, by the new millennium they had largely been eliminated as part of a global push to dismantle trade barriers. So, why the shift?

Economists realised that more global trade can be mutually beneficial. This process, known as globalisation, enables countries to specialise in the things they excel at, leading to lower prices and consequently, higher living standards.

However, globalisation has become a contentious issue in recent years due to several concerns. Firstly, income inequality has increased. As economies globalise, some become skills and services-based, leaving fewer opportunities for unskilled labour. There's also a desire to protect nationally important industries (such as agriculture and defence) and to preserve different countries' cultural identities, which can be diluted by an influx of globally popular products.

Despite these concerns, the push for tariff reduction continued until 2016, when it was placed under threat by the election of President Trump.

President Trump has since revived tariffs as a critical policy tool, seeing it as a way to reduce America's trade deficit. A large trade deficit suggests American's have been ceding jobs to their trading partners. The counter argument is that most Americans have enjoyed lower prices and higher paid jobs because of the specialisation made possible by international trade.

That argument will continue, but what matters for now is what the U.S. president believes and can act upon. The world is now bracing for them and trying to anticipate their severity.

How do tariffs impact investments?

Tariffs affect the economy, and the economy affects investments. Let's break it down.

The most obvious impact of a tariff is inflation. A tariff is a tax on imported goods, and its purpose is to raise

prices so that imports are more expensive relative to domestically produced goods.

If the U.S. increases tariffs on its trading partners, those partners are likely to retaliate with their own tariffs. This creates a situation of escalating tariffs that can harm economic growth.

We've seen this play out in recent events.

In February, President Trump originally tried to impose tariffs on the U.S.'s largest trading partners, Canada and Mexico, but ultimately decided to defer that decision for a month at the eleventh hour. March arrived and when he did impose the tariffs, they were met with resistance from American automakers who rely on imported car parts. As a result, the tariffs were watered down.

President Trump also imposed tariffs on steel and aluminium imports. This could be problematic because Canada has a natural advantage in the production of steel due to its high-quality mineral reserves and ability to harness cheaper hydroelectric power to mill the steel. Imposing a tariff on Canadian steel imports therefore raises costs for U.S. manufacturers.

In response to the protestation of automakers, President Trump temporarily reduced tariffs on imports from Canada and Mexico. He's also promised further reciprocal tariffs on other countries following reviews by the U.S. Trade Representative into all tariff and non-tariff barriers to trade.

This approach has sparked debate, with some within the administration arguing that even value-added taxes (VAT) could be considered trade barriers, despite applying evenly to imports and domestic goods — a claim that contradicts the practice in 175 countries where VAT is standard.

What's Trump's next move?

The main concern for businesses and investors is that it's difficult to understand how far President Trump is willing to push tariffs. The recent stream of announcements has been nothing short of chaotic, with tariffs being announced, deferred, doubled, and sometimes even reduced in a matter of hours.

At the heart of this debate is whether tariffs are a long-term policy tool or a short-term negotiating tactic. Our best guess is that he sees a role for both, adding to the uncertainty and complexity of the situation.

What does this uncertainty mean for investors?

The stock market has been shaken by the prospect of tariffs, and this has been driven by two key concerns.

Firstly, investors doubted President Trump's willingness to inflict so much harm on his own economy. Secondly, the growing unease among businesses and consumers about the uncertain policy environment has added to the market's jitters.

Despite the potential inflationary impact of tariffs, investors have become increasingly concerned about their effect on the U.S. economy's growth prospects. This is reflected in falling interest rate expectations, indicating that investors believe the tariffs' effects on growth are likely to be more significant than any inflationary pressures.

In this context, it's natural to wonder what this means for investors. The answer lies in being prepared for a range of outcomes, from a recession to a swift recovery.

Under recessionary conditions, bonds outperform, and equities are volatile. Government bonds outperform corporate bonds and at current valuations, it's sensible to hold defensive bonds.

However, a U.S. recession is by no means a certainty. The U.S. government could yet reverse this ill-founded policy as fast as it instigated it, providing an opportunity for sentiment to quickly recover.

Our portfolios are geographically diversified, which reduced some of the impact of recent volatility in the U.S. stock market. Much of those declines can be attributed to the weakness of a small group of megacap stocks, which have driven the U.S. stock market's substantial gains in recent years.

Should we be worried about these declines?

In short, probably not. Some of these megacap stocks are undoubtedly among the most valuable business franchises in history, with unparalleled access to the data, infrastructure and distribution that will shape the global economy. Notably, many of these companies are among those least directly impacted by tariffs, suggesting recent declines may be driven by investors taking profits after a remarkable run.

The value of patience and perspective

There's no question that the current environment is an unusually uncertain one. But experience has shown that such uncertainty, which has so far weighed on some stocks, can be fleeting. In this scenario, panic sellers tend to lose out, as they typically do in volatile periods.

Ultimately, uncertainty will resolve itself, either through the economy adapting to new policies, or through the reversal of policies if they fail to meet their objectives.

In times like these, we're reminded that bad investment decisions often stem from volatile emotions rather than volatile markets.

So, while we won't be swinging for the fences until conditions improve, opportunities will emerge, and we'll be ready to take them. That's because we've weathered many similar periods in the past, always seeing fresh, promising opportunities emerge that will help us grow in the long term.

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Guy Foster, Chief Strategist



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RBCBDM5862-2503-1