Market Commentary: America's Trade Imbalance

April 2025

In the mid to late 1700's, Britain became tea obsessed. The East India Company began importing tea from China, paying with silver. However, China was inwardly facing and refused to buy anything from Britain. Eventually, Britain began running out of silver.

In response to the trade imbalance, the British began illegally selling Opium into China. China, having a vast population and Opium being a highly addictive substance (much more so than tea), resulted in silver flowing back to Britain and a reversal of the previous trade deficit. China, being rather unhappy about illegal drugs entering its country but still not willing to open its border to imports effectively led to actual war – the first of two conflicts known as the Opium Wars.[1]


[2]

Tune into our recent podcast "How to Measure and Navigate Market Uncertainty" with Stanford University Economics Professor Nick Bloom.

Uncertainty is one of the most critical—and elusive—forces shaping markets today. How is it measured? How does it affect economic and financial market behavior? And what strategies can help investors navigate periods of high uncertainty?

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That was quite a dramatic way to resolve a trade deficit. But are trade imbalances always bad? As usual, the answer is quite nuanced.

The United States imports around $140 million of vanilla annually from Madagascar,[3] contributing to a sizable trade deficit with Madagascar. In response, on Liberation Day,[4] the Trump administration imposed a

[1] Opium Wars | Definition, Summary, Facts, & Causes | Britannica
[2] ChatGPT Generated
[3] Madagascar is the largest exporter of vanilla in the world and the US is the largest importer from Madagascar: Madagascar (MDG) Exports, Imports, and Trade Partners | The Observatory of Economic Complexity
[4] April 2, 2025, was named Liberation Day by the Trump administration.

47% reciprocal tariff in Madagascar.[5] Given the tariffs are reinstated, the cost of importing vanilla will rise by ~47%, significantly increasing prices for U.S. consumers.

Vanilla: Strategic? Easily Grown in the US? No and No!


[6]

The U.S. quite literally consumes vanilla, resulting in our dollars leaving the country and going into Madagascar's pocket. Vanilla is a consumption good – it is not strategic (outside its well-placed use in pastries!). As prices rise, U.S. consumers will likely reduce their vanilla purchases and wish we had not imposed the tariff.

In contrast, ASML,[7] headquartered in the Netherlands (EU), manufactures the world's most advanced lithography - Extreme Ultraviolet (EUV)[8] systems – critical to producing semiconductors that power AI technologies. These machines:

- Contain 100,000+ components,
- Weigh around 20 tons, and
- Require freight containers, cargo planes and trucks for shipping and assembly.

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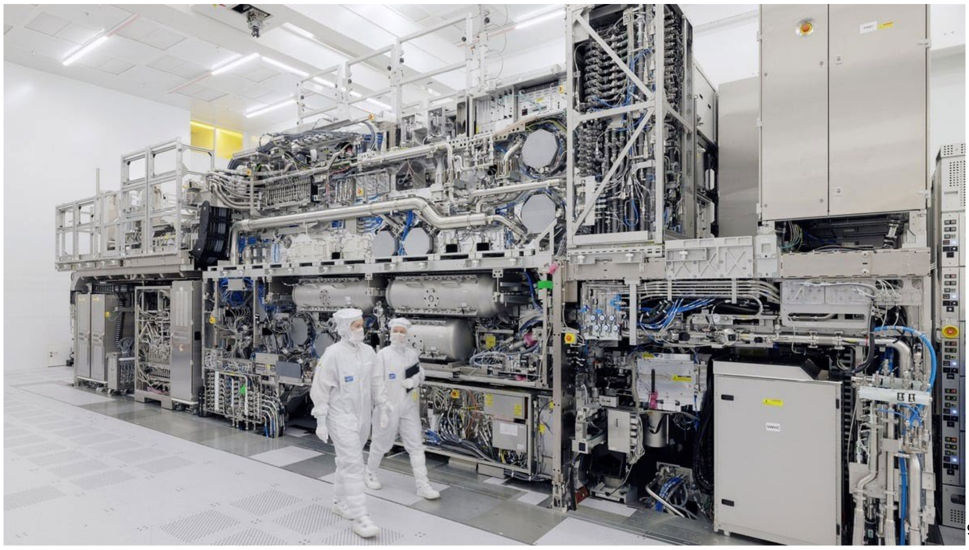
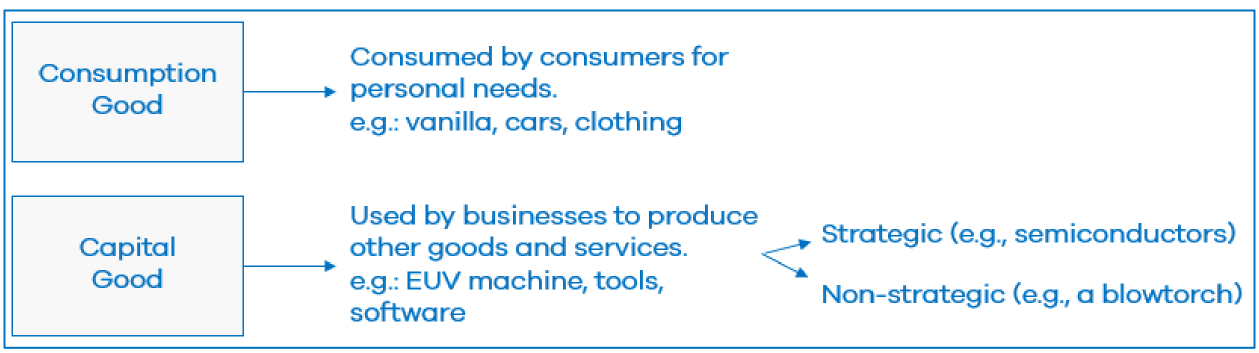
[5] Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits – The White House; Annex-I.pdf
[6] ChatGPT generated
[7] ASML initially stood for Advanced Semiconductor Materials Lithography. ASML | The world's supplier to the semiconductor industry
[8] Busting ASML myths – Stories | ASML

EUV Lithography Machine: Strategic? Yes - Easily Made in the U.S.? No.


[9]

Unlike vanilla, an ASML machine is a Capital Good, contributing to future economic output by enabling advanced chip production – leading to GDP growth, productivity, and strategic technological leadership.



ASML imports many of its parts from around the world, including the U.S. In a trade war, ASML may have to pay tariffs as it imports parts into the EU and then its clients in the U.S. may then have to pay additional tariffs when it buys these machines. This will materially increase the cost of production of these cutting-edge semiconductors, potentially hurting U.S. innovation.

Let's simplify the mechanics:

If the U.S. buys vanilla from Madagascar and didn't have the global reserve currency, it would need to convert (sell) U.S. dollars into Ariary to complete the purchase. The resulting selling pressure on the dollar would weaken its value relative to the Ariary, making vanilla more expensive for Americans.

[9] ASML | The world's supplier to the semiconductor industry

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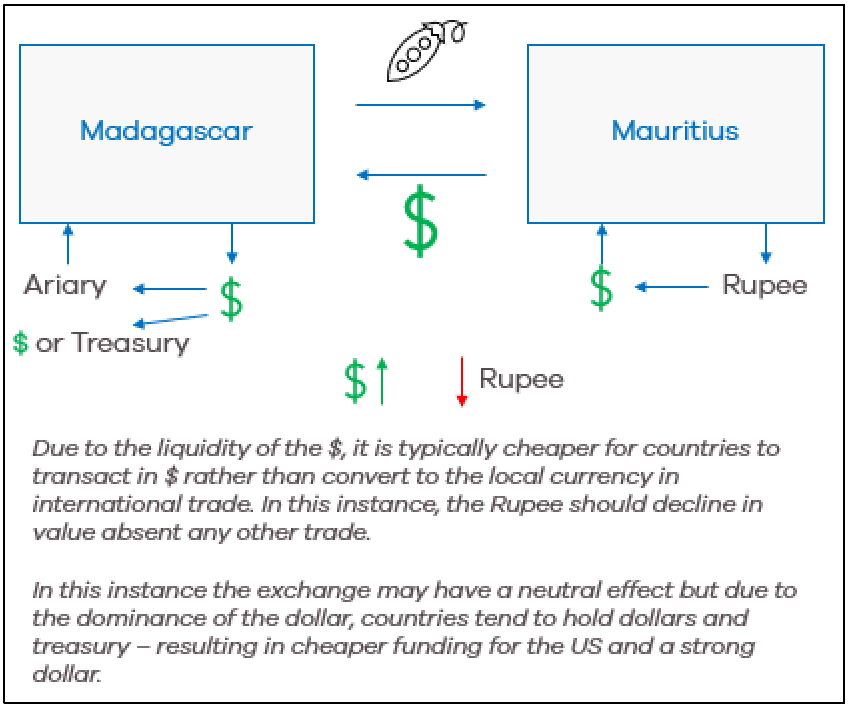
In turn, the U.S. would:

- Look for substitutes for vanilla
- Explore domestic production
- Or encourage Madagascar to buy U.S. goods to rebalance the trade (with a weaker dollar potentially assisting)

This would cause the dollar to regain strength—a natural market mechanism. If none of that worked… well, we'd be left with Britain's rather aggressive 18th-century playbook (just kidding, of course).



The complexity comes in a few key facts:

- Madagascar trades with many countries and is actually a net importer of goods, meaning they have a negative trade balance.
- Madagascar is one of the poorest countries in the world, with an average annual income of $510, while America is one of the richest. This makes it hard for Madagascar to purchase much from America.
- The U.S. Dollar is the global reserve currency.

Deep Thought: iPhone Glass Can Save $25 billion Annually in Energy Costs

Energy use is expected to skyrocket in the U.S. primarily due to the expected increased use of artificial intelligence. However, over the last twenty years, energy use in the U.S. has been relatively flat, which can be primarily attributed to energy efficiencies.[10] Will the U.S. be able to mitigate these expected energy increases through further efficiencies?


[11]

The Wall Street Journal[12] recently highlighted how the same glass used for iPhones, developed by Corning, can be used to create ultra-thin, ultra-strong and ultra-efficient residential windows – insulating a home better than most walls! If applied to all the households in America, it can result in up to a 5% drop in energy consumption. We expect a race between the rapid growth in AI usage – which we expect to continue to increase dramatically – and expected improvements in the energy efficiency of AI systems and overall energy efficiency. Together, these factors may limit actual energy growth over the next decade.

As a result, the U.S. dollar has generally strengthened against the Malagasy Ariary. This trend is partly due to the U.S. dollar's status as the world's primary reserve currency and default medium for international trade. Many countries hold U.S. dollars in their central bank reserves because it is widely accepted, relatively stable, and backed by a large, diversified economy. In addition, foreign governments and investors use these dollars to purchase U.S. Treasury securities, which are considered a safe and liquid

[10] U.S. energy intensity has dropped by half since 1983, varying greatly by state - U.S. Energy Information Administration (EIA)
[11] Chat GPT generated
[12] A Piece of Glass Thinner Than a Credit Card Could Solve America's $25 Billion Energy Problem - WSJ

investment – further funding the U.S. government and increasing demand for the dollar. Finally, international inflow of dollars into the U.S. is often recycled through investment in U.S. assets, such as real estate, equities, or direct business investments. This investment supports U.S. production and economic growth, creating a reinforcing cycle that helps maintain the dollar's global strength.

Consequently, the United States can borrow at lower interest rates and enjoy a stronger dollar, which makes imported goods cheaper and helps keep inflation lower than it otherwise would be—benefits largely stemming from the U.S. dollar's role as the world's primary reserve currency.

We used two examples, vanilla and ASML, where tariffs will hurt the U.S. economy. Broad-based tariffs are generally viewed as bad for the economy as they do not make a distinction between areas where it may be strategic from a defensive military perspective or an economic one. It is reasonable to believe that (1) other countries may indeed have trade policies or subsidy policies that hurt the U.S. market's ability to compete, and (2) these are areas where America should look to remedy these imbalances. However, the Chips Act can also be viewed as a subsidy we put in place that may tilt the balance unfavorably for other countries. And we have a huge advantage by simply having the global reserve currency.

It is worth reading through the actual [executive order regulating imports on April 2, 2025].[13] Our stance is that broad-based tariffs are a negative for the general economy and could tip the world into a global recession if enacted fully. However, it is fair to recognize that the U.S. has a perpetual trade imbalance, which contributes to an increasing debt load and a lack of strategic manufacturing – all problematic in an increasingly polarized world. These are not partisan statements – there is bilateral recognition of the issues at hand:

"Both my first Administration in 2017, and the Biden Administration in 2022, recognized that increasing domestic manufacturing is critical to U.S. national security." – *a statement within the executive order.*

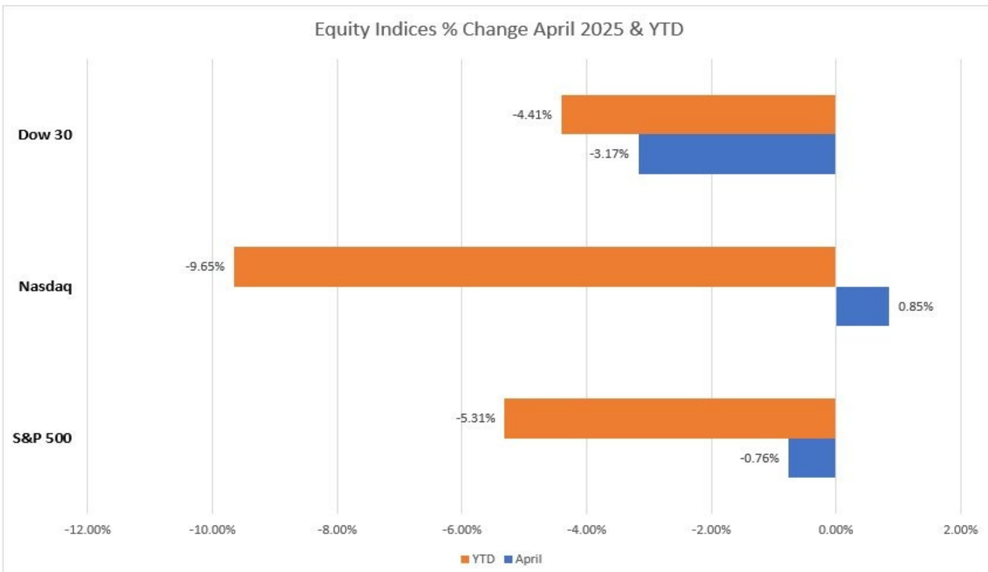
As a reminder, President Biden continued tariffs on China that were put in place during President Trump's first term and initiated a number of actions to bring manufacturing back to the country (e.g., Chips Act[14]). It just comes down to the method of repositioning our country and our economy. Ultimately, we do not want to be Great Britain – but we also don't want to be China which was a closed, isolationist empire – limiting growth and opportunity locally and globally.

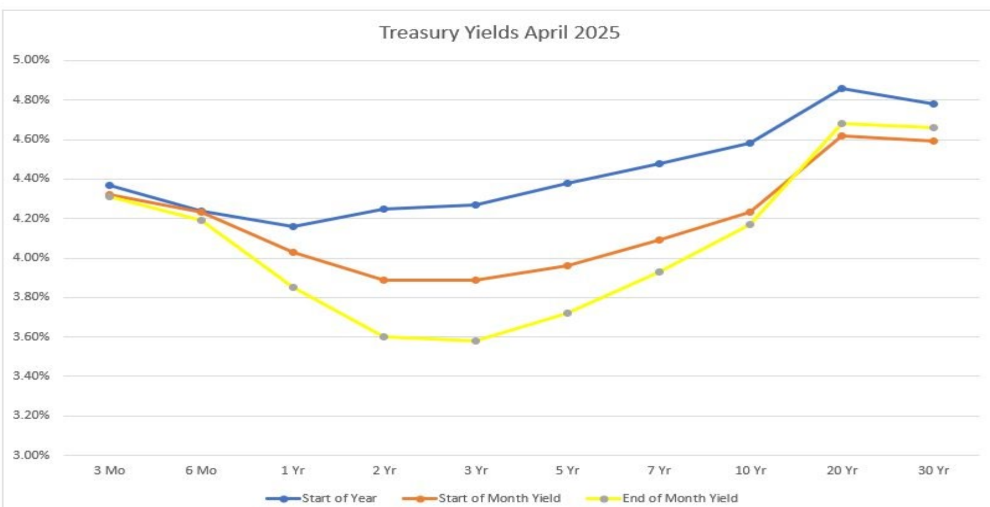
[13] Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits – The White House
[14] The CHIPS Act: How U.S. Microchip Factories Could Reshape the Economy | Council on Foreign Relations

Talking Points: April 2025

Monthly Market Recap

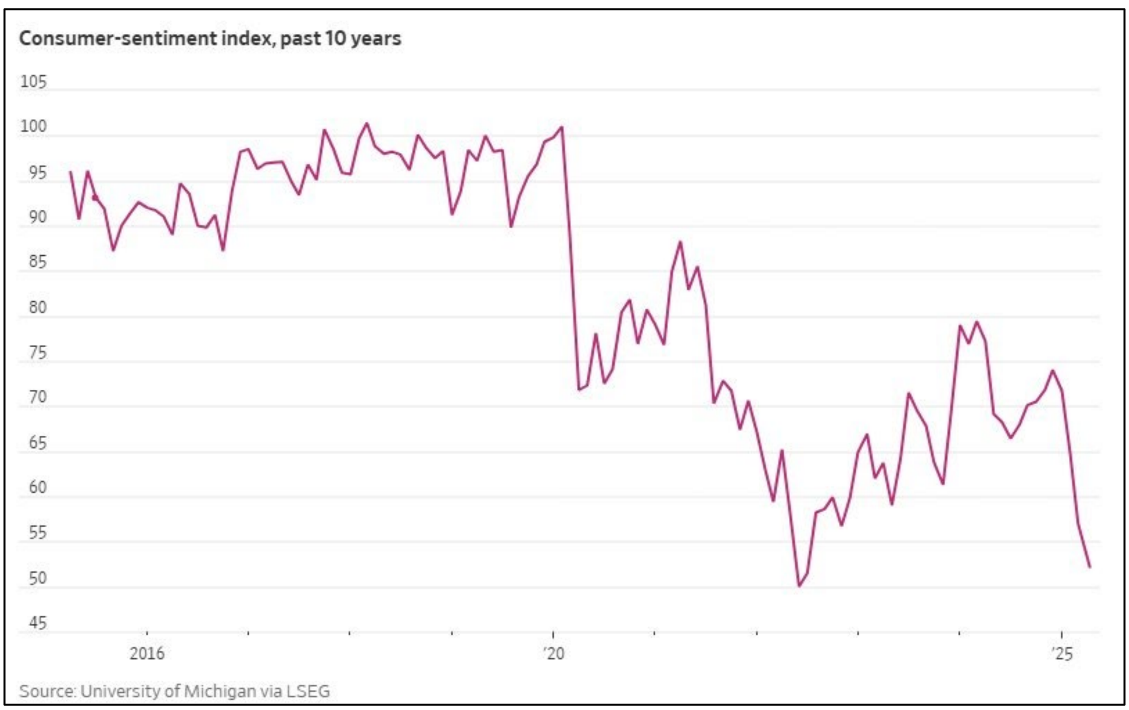
April was a wild ride for financial markets. All three major U.S. equity indices began the month with losses exceeding 10%, only to rebound and finish near March's closing levels. Bond markets mirrored this volatility: the 10-year U.S. Treasury yield surged above 4.4% mid-month before easing back below 4.2%. Despite the turbulence, market expectations remain firm that the Federal Reserve will hold interest rates steady at its May meeting.





Probability of Upcoming Fed Interest Rate Decisions							
3/21/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	85.70%	14.30%	0.00%	14.30%	0.00%	0.00%
3/28/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	82.10%	17.90%	0.00%	17.90%	0.00%	0.00%
4/4/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	70.20%	29.80%	0.00%	29.80%	0.00%	0.00%
4/11/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	80.70%	19.30%	0.00%	19.30%	0.00%	0.00%
4/17/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	90.40%	9.60%	0.00%	9.60%	0.00%	0.00%
4/25/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	92.50%	7.50%	0.00%	7.50%	0.00%	0.00%
5/2/2025	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
May	0.00%	96.20%	3.80%	0.00%	3.80%	0.00%	0.00%

Markets were already on edge heading into April as investors battled concerns over tariffs and deteriorating sentiment. The Trump administration kept their tariff plans under wraps until the final hour, while repeatedly warning markets that it was prepared to inflict “some level of short-term pain” to achieve broader economic goals.



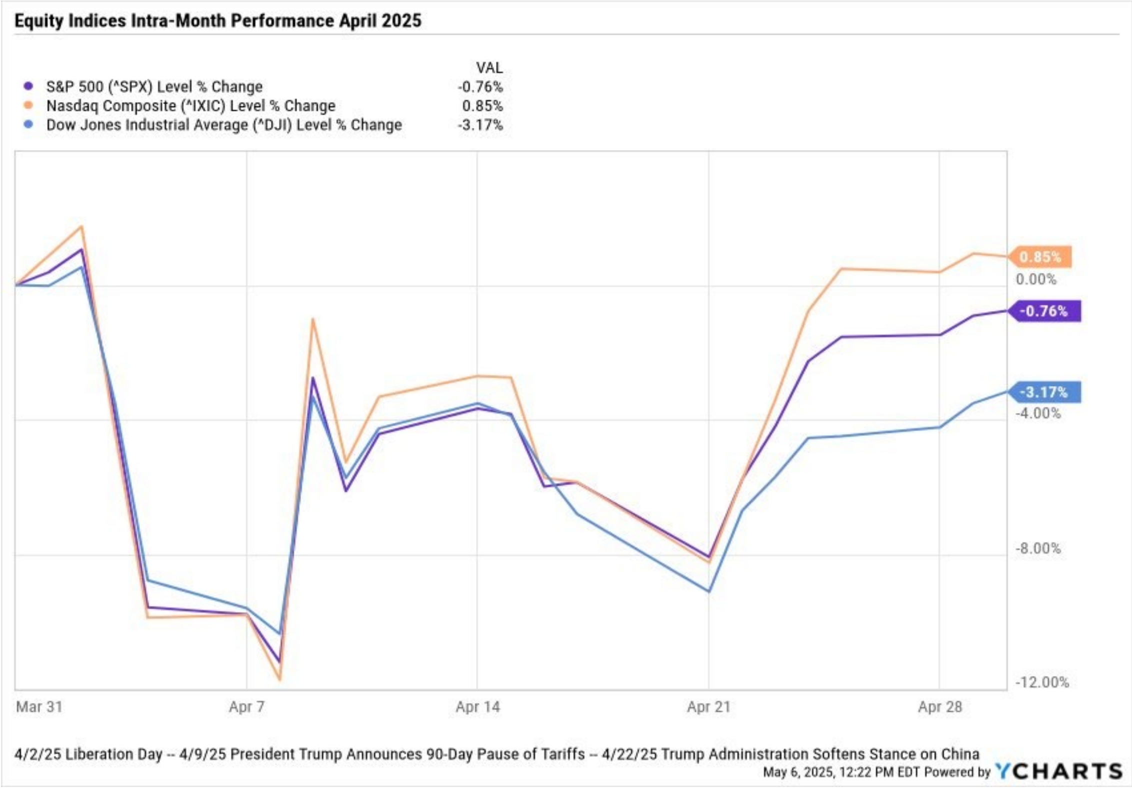
On Liberation Day, the administration unveiled an aggressive tariff regime, including:

- Broad-based tariffs on all imports
- “Industry-specific” tariffs
- “Reciprocal” tariffs targeting countries with persistent trade surpluses with the U.S.

The scale and scope of these measures far exceeded expectations. Any hopes that the administration would potentially delay or walk back some of their threatened tariffs proved to be wishful thinking. The market reaction was swift and severe: U.S. equities suffered their worst two-day pullback in history, erasing over $6.4 trillion in market value.

Tariff levels were alarmingly high: Japan (24%), Vietnam (46%), and Taiwan (32%). Even more concerning was the administration's flawed rationale for how these levels were calculated. Take South Korea, for example, where the administration claimed that the country levies a 50% tariff on U.S. goods, despite the established fact that South Korea has a free trade agreement with the U.S. where tariffs actually average less than 1% (i.e., 2012 Korea-U.S. Free Trade Agreement KORUS). The Trump administration hit the country with a 25% tariff on top of the 25% tariff on autos, which will have a material impact on the price of new cars.

This administration has been steadfast in claiming that they would not base their decision making on the market's reaction to their policy. However, once longer-term treasury bond yields started to surge (yields rise when prices fall, indicating that investors are selling their U.S. government bonds), President Trump stepped in and announced a 90-day pause for most tariffs. Markets jumped immediately, paring back losses from the beginning of the month.



There was one notable exclusion from the 90-day pause however - China. Tariffs on Chinese imports were raised to a staggering 145–245%, depending on the product. In retaliation China:

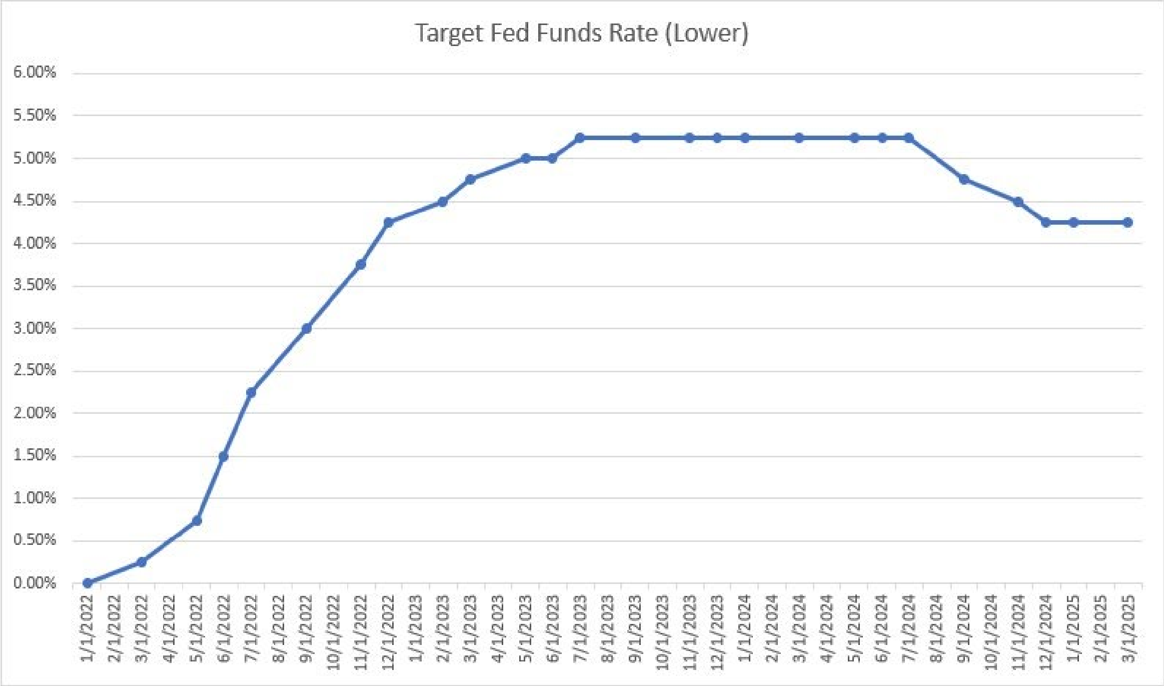
- Imposed a 125% tariff on U.S. goods
- Launched antitrust probes into American tech firms
- Curbed rare earth exports
- Announced plans to reduce imports of U.S. films

The two nations appeared to be headed towards an all-out economic war before both sides signaled a willingness to de-escalate late in the month. With the global economy dependent on U.S. consumption and Chinese manufacturing, the risk of prolonged trade disruption remains high. Investors will be closely watching diplomatic and policy developments in the coming weeks, especially as the 90-day tariff pause nears its end.

Graphs/Visuals

Fed Interest Rate Decisions Since Start of Hiking Cycle

FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
Start of 2022	-	*0.00%*	*0.25%*
3/16/2022	**0.25%**	0.25%	0.50%
5/4/2022	**0.50%**	0.75%	1.00%
6/15/2022	**0.75%**	1.50%	1.75%
7/27/2022	**0.75%**	2.25%	2.50%
9/21/2022	**0.75%**	3.00%	3.25%
11/2/2022	**0.75%**	3.75%	4.00%
12/14/2022	**0.50%**	4.25%	4.50%
2/1/2023	**0.25%**	4.50%	4.75%
3/22/2023	**0.25%**	4.75%	5.00%
5/3/2023	**0.25%**	5.00%	5.25%
6/14/2023	**0.00%**	5.00%	5.25%
7/26/2023	**0.25%**	5.25%	5.50%
9/20/2023	**0.00%**	5.25%	5.50%
11/1/2023	**0.00%**	5.25%	5.50%
12/13/2023	**0.00%**	5.25%	5.50%
1/31/2024	**0.00%**	5.25%	5.50%
3/20/2024	**0.00%**	5.25%	5.50%
5/1/2024	**0.00%**	5.25%	5.50%
6/12/2024	**0.00%**	5.25%	5.50%
7/31/2024	**0.00%**	5.25%	5.50%
9/18/2024	**0.50%**	4.75%	5.00%
11/7/2024	**0.25%**	4.50%	4.75%
12/18/2024	**0.25%**	4.25%	4.50%
1/29/2025	**0.00%**	4.25%	4.50%
3/19/2025	**0.00%**	4.25%	4.50%



Highlights/Notes

Highlight: Liberation Day tariffs came in significantly higher than markets had anticipated, triggering a broad-based sell-off across both equities and fixed income. However, markets pared back some of these losses after President Trump announced a 90-day pause on most tariffs, easing investor concerns and providing a degree of short-term relief.

FAM Sentiment Summary 2025

2025	January	February	March	April
Fed	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bullish**	**Mildly Bearish**
Interest Rate Decisions	Neutral	Neutral	Mildly Bullish	Neutral
Commentary	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish
Economic Data	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**
Inflation	Mildly Bearish	Mildly Bearish	Mildly Bearish	Bullish
Employment/Labor Market	Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish
GDP	Mildly Bullish	Neutral	Mildly Bearish	Mildly Bearish
Consumer Spending	Neutral	Mildly Bearish	Bearish	Neutral
Consumer Sentiment	Neutral	Bearish	Bearish	Bearish
Housing/Real Estate	Mildly Bearish	Mildly Bearish	Mildly Bullish	Neutral
Global Events/News	**Mildly Bearish**	**Neutral**	**Mildly Bearish**	**Neutral**
China	Bearish	Neutral	Neutral	Mildly Bearish
Europe	Mildly Bearish	Neutral	Mildly Bearish	Neutral
Japan	Neutral	Mildly Bearish	Neutral	Neutral
Middle East	Neutral	Neutral	Mildly Bearish	Neutral
Russia/Ukraine	Neutral	Neutral	Neutral	Neutral
US Politics/Government	**Neutral**	**Bearish**	**Bearish**	**Bearish**
Tariffs	Bearish	Bearish	Bearish	Bearish
US/China Trade War	n/a	n/a	n/a	Bearish
Economic Policy	Bullish	Neutral	Neutral	Neutral
Market Trends	**Mildly Bullish**	**Neutral**	**Mildly Bearish**	**Neutral**
Earnings	Bullish	Mildly Bullish	Bearish	Mildly Bullish
AI/Chips	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bearish
Crypto	Mildly Bullish	Bearish	Mildly Bearish	Neutral

Noteworthy Details

- Fed Commentary - Mildly Bullish to Bearish
  - Commentary from Powell and other Fed members acted as a "calming influence" for markets in March however their concerns surrounding tariffs/economic growth was evident in April.
- Inflation - Mildly Bearish to Bullish
  - Recent inflation data has lacked surprises keeping it at mildly bearish throughout the start of the year. This month, however, CPI and PCE coming in materially lower than the month prior, (and not yet showing impacts of tariffs) easing some concerns and providing some much-needed relief.
- Consumer Sentiment - Bearish to Bearish
  - Consumer sentiment continued to weaken in April, building on the trend that started back in February.
- U.S./China Trade War - n/a to Bearish
  - The Trump administration and China are clearly at odds and both countries seem to be prepping for a prolonged economic conflict. This is a new addition to the sentiment summary.

- Earnings - Bearish to Mildly Bullish
    - Mag seven companies reporting better than expected results eased some of the market's concerns related to the fundamental strength of the company's balance sheets (these concerns are mostly related to tariffs).

Key Topics/Items from Below

- ***BEARISH***
    - Unveiling of reciprocal and industry specific tariffs on Liberation Day (which ended up being much higher than markets had been anticipating)
    - After unveiling Liberation Day tariffs, the Trump administration quickly coming out and saying that any countries that do not cooperate, or implement any measures of retaliation, would have their tariffs raised immediately
    - Markets struggling to understand how the reciprocal (higher ones) tariffs were calculated
    - China retaliating to Liberation Day tariffs by implementing a 34% tariff on US imports
    - Powell's comments after Liberation Day where he stated that the US economy will likely face, "a period of higher prices and weaker growth"
    - China's Commerce Ministry stating that, "if the US insists on its own way, China will fight to the end" after the US unveiled additional tariffs on Liberation Day
    - The Trump administration opting to not pause tariffs on China - instead, clarifying that the new level would actually be 145% (not 125%)
    - China retaliating against US Liberation Day tariffs by raising tariffs on US imports to 125%
    - Canada promising to "inflict maximum pain" in retaliation over the 25% tariff on steel
    - Consumer sentiment data from the beginning of the month which pointed to continued material weakening
    - China opening up several antitrust probes into US tech companies, curbing rare earth exports, and announcing plans to reduce imports of American movies (all in retaliation to proposed US tariffs)
    - Commentary from Powell where he warned markets that the Fed will face a "challenging scenario" as a result of the Trump administration's tariffs and trade war with China - the concern is that it will be difficult for them to act if inflation ends up trending higher while the economy starts to weaken
    - Tensions building between Trump and Powell with Trump saying that he is too slow to act when it comes to implementing rate cuts - going as far as to say that the administration would explore ways to remove him from his position as Chairman
    - Nvidia warning markets that it would need to record a $5.5 billion charge on its earnings after the US government informed the company that it would need a license for exporting its H20 processors to China (and other countries)
    - Release of trade data from South Korea which showed a material drop off in exports to the US (down 14%)

- Final April reading of the University of Michigan's Consumer Sentiment Survey coming in well below March levels
- New data released which showed that out of three hundred company executives surveyed, 84% of them are still highly concerned about the uncertainty and the ultimate impact of tariffs

- ***MILDLY BEARISH***
  - President Trump urging Senate Republicans to oppose a bill that would put an end to the "fentanyl state of emergency (if passed, bill would effectively put an end to tariffs on Canada and Mexico)
  - Treasury yields rising materially after unveiling of Liberation Day tariffs (due to structural trade, international purchaser angst, and inflation concerns)
  - Trump administration unveiling plans to open an investigation into critical minerals which could end up resulting in future tariffs (after previously announcing investigations into both semiconductor chips and pharmaceuticals)
  - China announcing that it would be cancelling its orders for additional planes from US airplane manufacturer Boeing
  - Rumors circulating (later in the month) that China has been warning other countries to not agree to trade deals with the US that "isolate China"
  - President Trump posting that there would not be another 90-day pause on tariffs coming
  - The Chinese Foreign Ministry posting a video vowing to "never kneel down" to the US on trade
  - Economic data from China that might suggest the country is feeling more pain related to tariffs than they might be leading on - year over year exports from China down 10% in Q1 of 2025 (the result of less US buying)
  - Q1 2025 GDP coming in at -0.3% (indicating a contraction) after coming in at 2.4% the quarter prior
  - Q1 2025 GDP showing that "tariff front running" helped widen the gap between imports and exports knocking 4.8% off GDP (most since 1947)
  - Chinese tech company Huawei unveiling plans to create its own high-end chip for AI (as the US restricts their access to the high-end Nvidia chips on the market)
- ***NEUTRAL***
  - Energy prices falling after the announcement of Liberation Day tariffs due to concerns over global demand
  - The US dollar weakening materially after the announcement of Liberation Day tariffs (expectation was that tariffs would actually strengthen dollar which ended up not being the case)
  - Retail sales data from March coming in higher than expected (which was a result of consumers "panic buying" ahead of tariffs)
  - Bank of Canada announcing that it would be holding its benchmark rates steady this month (after cutting in previous seven meetings) citing concerns over the "fallout from tariffs"

    - Release of housing data which showed that existing home sales were down 5.8% in March (largest month over month decline since November of 2022)
- ***MILDLY BULLISH***
    - Steel/aluminum/Mexico/Canada being spared from any additional tariffs on Liberation Day (original tariffs on all still in place)
    - Release of March's jobs report which showed that while overall unemployment rose slightly, the US economy added almost double the number of jobs than expected
    - Several prominent figures on Wall Street coming out post Liberation Day and questioning the administration's decision to implement such wide sweeping tariffs (Larry Fink, Jamie Dimon, Bill Ackman)
    - After the announcement of a 90-day pause on most tariffs, reports that the US had "at least 15 counties" offer trade deals
    - After the 90-day pause, the Trump administration announcing that several tech related products would be exempt from tariffs (despite Trump posting that "NOBODY is getting off the hook" and Commerce Secretary Lutnick saying that these tech products will face some level of tariffs)
    - Big banks (Goldman, JPMorgan, Morgan Stanley, etc.) reporting surging revenues from their trade desks as a result of the recent volatility in both equity and fixed income markets
    - Nvidia unveiling plans to move the manufacturing of its super computers that power AI to the US
    - Pharmaceutical drug makers Roche and Regeneron unveiling plans to spend billions to bring some of its manufacturing back to the US
    - Microsoft and Meta posting better than expected earnings results easing markets concerns about the impact of tariffs on the "mag seven"
- ***BULLISH***
    - President Trump shocking markets by announcing that he had authorized a 90-day pause on certain tariffs for most counties
    - March CPI and Core CPI data coming in lower than the month prior and lower than expected (and not showing any early impacts of tariffs in the data yet)
    - Trump administration stating that the "big 15 economies" (i.e., the US major trade partners) would get "preferential treatment" in tariff negotiations
    - Gold outperforming and regaining status as a "safe haven asset"
    - President Trump stating (later in the month) that the current level of tariffs on China is "very high" and that it "will come down substantially" (assuming some level of a deal is reached)
    - Treasury Secretary Bessent echoing Trump's optimism that these levels could be lower stating that he expects the trade war with China to "de-escalate"
    - President Trump stating that he was not planning on firing Powell from his position as Chairman of the Fed
    - US and India agreeing to "broad terms" on trade as the US is seeking increased market access, lower tariffs, and "several other additional commitments"

- President Trump commenting that the administration was "very close" to coming to an agreement with Japan
- China saying that the US had reached out to discuss trade and that they saw "little downside in exploring" the potential to come to an agreement (later in the month)
- Reports that China is currently considering ways to address the Trump administration's concerns over their role in the global fentanyl trade - indicating that they are willing to "come to the table" with something President Trump might like
- Reports suggesting that the Trump administration is planning on softening its stance on auto related tariffs (i.e. any auto tariffs would not be "stacked" on top of other tariffs)
- The Trump administration announcing that it had reached a trade deal with an "undisclosed country" (and close to coming to agreements with several others)
- March PCE and Core PCE data coming in materially lower than the month prior (and showing little to no impact from tariffs yet)
- The release of April's jobs report which showed that more jobs were added than expected and that overall unemployment levels were flat versus last month