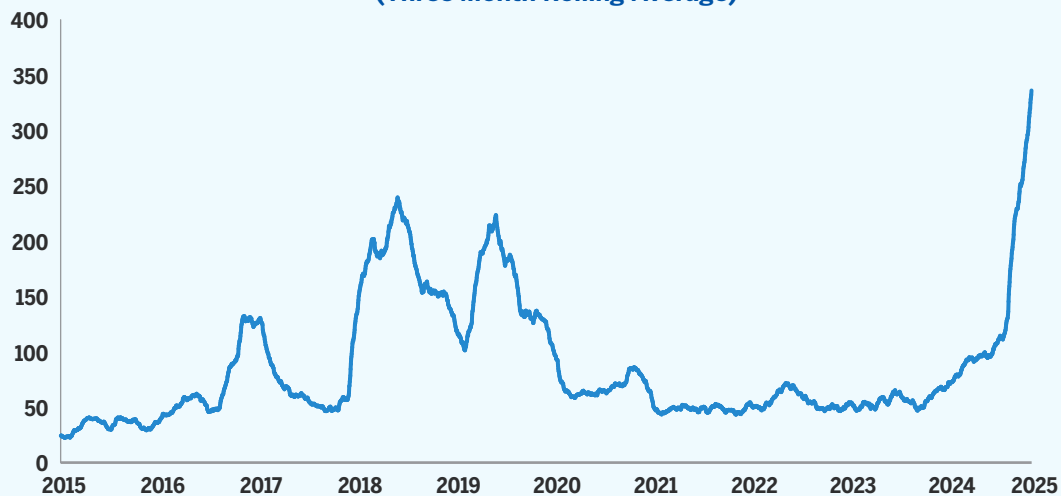


## A Taxing Dilemma?

Investors have been closely monitoring recent developments in U.S. trade policy, as President Donald Trump has discussed implementing reciprocal tariffs. These proposed tariffs aim to address international trade imbalances by targeting what are deemed “unfair trade practices,” particularly instances where U.S. exports are subject to higher tariffs abroad than the U.S. imposes on imports from its trading partners. While details have yet to take shape, some areas of the global economy and equity markets are likely to be more affected than others.

**Trade Policy Uncertainty Index**  
(Three Month Rolling Average)



Source: Economic Policy Uncertainty Research as of 1/31/25.

- President Trump has long criticized U.S. trade policy. His election and subsequent policy announcements have led to an increase in the Trade Policy Uncertainty Index shown above, which measures the frequency of articles discussing trade policy and uncertainty in major newspapers, reflecting the level of uncertainty in trade policies.
- A recent White House policy memorandum on reciprocal tariffs seeks to match foreign taxes on U.S. goods with new U.S. import duties.<sup>1</sup> If enacted, these measures could lead to higher tariffs on U.S. imports from major trade partners, which currently impose significantly higher tariffs on U.S. exports than the U.S. charges on their imports. Moreover, if Value Added Taxes (VATs) are included, as President Trump has suggested, countries such as Canada, Mexico, Germany, and India—each of which levy VATs between 5% and 28%—could be particularly affected.
- While it is difficult to predict the exact impact on corporate earnings, the potential effects on U.S. companies could vary. For example, an analysis of trailing twelve-month revenues shows that 41% of S&P 500 revenues were generated outside the U.S., compared to 27% for the Russell Midcap and 23% for the Russell 2000, implying small and mid-cap stocks may be better positioned to withstand trade policy changes.<sup>2</sup>

<sup>1</sup>White House, Fact Sheet—President Donald J. Trump Announces Fair and Reciprocal Plan on Trade, February 13, 2025.

<sup>2</sup>FactSet Geographic Revenue as of 12/31/24.

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The Trade Policy Uncertainty (TPU) index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a one percent article share.

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