Redacted: Straight talk from the CEO front lines on Liberation Day

"*There will be a little disturbance, but we're OK with that…it won't be much*", President Trump, 2025

"*The tariff gun will always be loaded and on the table but rarely discharged*", Treasury Secr. Scott Bessent, 2024

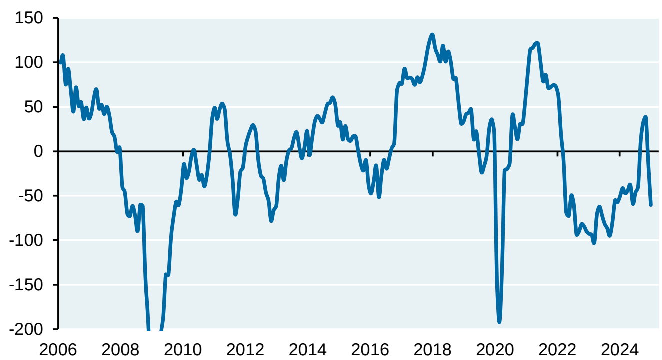
"*Most gun accidents occur in the home*", Journal of Pediatric Surgery, 2025

Not much has changed since our January Outlook in which I wrote that the Alchemists were looking to break something, and that I expected a 10%-15% market decline to occur this year (i.e., S&P 500 @ 5200). If anything, the Administration is taking a bigger sledgehammer to the status quo than I had anticipated. Business optimism has rolled over, so has our preferred leading indicator (new orders less inventories), Q1 GDP growth estimates have declined to ~0.5% (after excluding the impact of surging gold prices in Q1 and many producer price and consumer price surveys are rising again (see Trump Tracker linked above).

With Liberation Day here, tariffs are set to reach the highest levels in 100 years once the implementation phase is completed. In what economists around the world are describing as "insane", "crazy" and "embarrassing", instead of basing reciprocal tariff rates on some combination of bilateral tariff differentials, VAT taxes and non-tariff barriers (see chart on page 5), reciprocal tariff rates have apparently been set by using the formula **MAX(10%, (imports-exports)/(imports * k)), where k=1 since they conveniently assume elasticity of import prices to tariffs of 0.25 and a price elasticity of import demand of 4, and then divided by 2 "just because"**

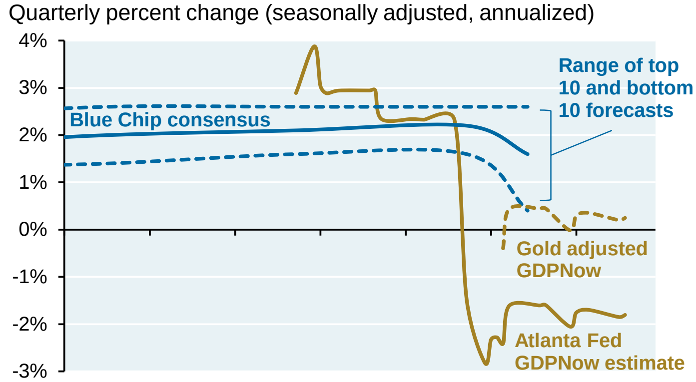
This results in a minimum tariff rate of 10% on all countries and higher tariff rates on 59 countries plus all the countries in the EU. The incremental tariff rate impact would be a staggering 18%. The resulting tariff rate on all imports is a bit complex since these tariffs would not stack on top of existing steel/aluminum/auto tariffs, which are determined separately. For sake of simplicity, we assume that all imports are subject to the reciprocal rate rather than the product-specific tariffs; any error term would presumably be minor and reflect the difference between product-specific rates and reciprocal rates. Our resulting total tariff rate estimate is ~24% (vs just 2.5% at the start of the year), although I have difficulty believing that a tariff rate this high could be sustained for long. Below we show tariff duties as a % of imports; tariffs as a share of GDP appear on page 6.

US business optimism and capital spending tracker
Index



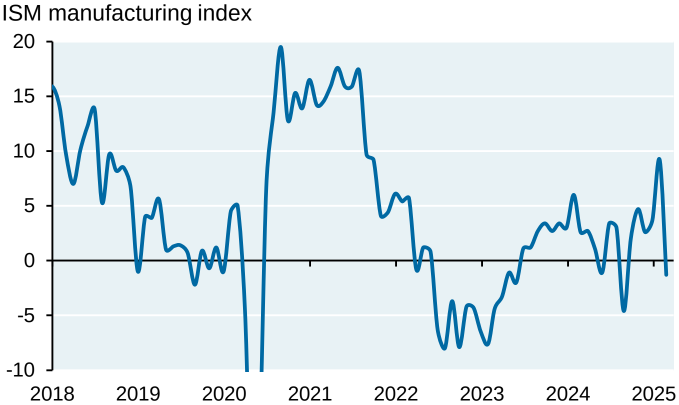
Source: NFIB, Business Roundtable, Conference Board, Regional Fed Surveys, Duke CFO Survey, JPMAM, March 31, 2025

Real GDP estimates for Q1 2025 (GDPNow)
Quarterly percent change (seasonally adjusted, annualized)



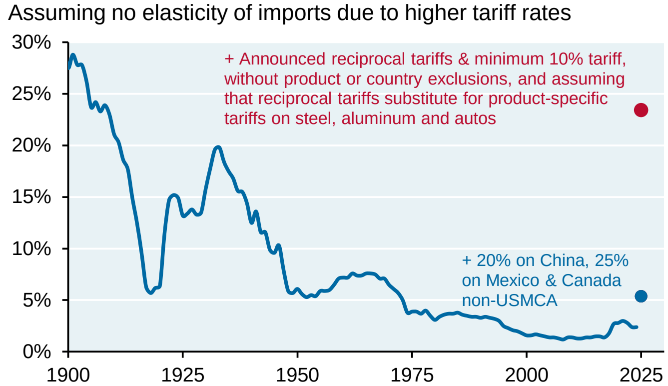
Source: Atlanta Fed, Wolters Kluwer, March 26, 2025

ISM new orders less inventories
ISM manufacturing index



Source: Bloomberg, JPMAM, February 28, 2025

Average tariff rate on all US imports
Assuming no elasticity of imports due to higher tariff rates



Source: Tax Foundation, JPM Global Economics, GS Global Investment Research, JPMAM, April 2, 2025

Tariff increases are likely central to the decline in business optimism (one estimate: they're equal to a doubling of the corporate tax rate), and there's a chance that tariffs will only be in place for a short time depending on the response of US trading partners. In other words, the next phase either involves (a) trading partners providing sufficient concessions to the White House so that tariffs are temporary, or (b) an escalating tariff conflict that could cause damage to the global economy. On (a), some commentators see unprecedented German promises of increased defense and infrastructure spending as proof that US policy is already driving the kind of global rebalancing the White House is seeking. In any case, the odds of (a) vs (b) are very tough to call right now.

That said, I don't think tariffs are the only issue causing US CEO business confidence to decline. I believe the following issues are also negatively impacting CEO confidence and capital spending plans on the front lines, so let's talk about them frankly. Some of these items may be partially redacted due to [redacted]:

- The White House issued a series of executive orders targeting [redacted] solely due to prior employees of these firms [redacted]. The orders call for a review to determine if the [redacted] and employees of the firm should be stripped, and a review of federal contracts [redacted]. The orders also seek to limit [redacted] hiring [redacted], their access [redacted] and [redacted] with [redacted] personnel
- Trump has stated that [redacted] engage in "grossly unethical misconduct" and issued a memorandum to the attorney general and secretary of homeland security, directing them to seek sanctions and file ethics complaints against [redacted]
- The [redacted] issued condemnations and called for congressional action. In response, the Administration began prohibiting [redacted] and is threatening its [redacted] The WSJ wrote that "Mr. Trump's decision to use government power to punish [redacted] going back to John Adams and the Founders"
- Some targeted [redacted] firms have [redacted], creating the perception for CEOs that there is a [redacted] system in Washington. [redacted] agreed to end its [redacted], acknowledged [redacted] and agreed to spend $40 million [redacted] causes that [redacted] supports
- The new chair of the [redacted] has been writing directly to the largest media [redacted] CEOs, accusing them of eroding [redacted], threatening [redacted] and challenging their [redacted]. Prior [redacted] commissioners under Bush have expressed alarm at what's going on, claiming that the new chair is already [redacted]. Last year, the President suggested that broadcasters [redacted] should lose their licenses
- The Administration warned the CEOs of [redacted] that the White House would not look favorably on them if they raised prices in the wake of tariff increases, which some perceived [redacted]; the President now states that he does not care if [redacted] prices increase
- At the end of last year, Wall Street was hoping for a revival in M&A activity. However, TMT M&A activity is down 40% from the same January to March 10 period in 2024, and overall M&A activity is down 20%. One large deal has been delayed by Trump's [redacted], while another cable network spinoff is impacted by [redacted] investigations by the [redacted]
- Last year the President stated that [redacted], one of the largest companies in the US by market cap, might have to be "shut down" in response to its [redacted] results and [redacted], suggested that its Section [redacted] protections might be withdrawn, and mentioned the possibility of [redacted] prosecution
- The White House pardoned the CEO of [redacted] after [redacted] a $1.8 mm donation to [redacted], suggesting that [redacted] medieval indulgences; the CEO was represented by [redacted]. The White House also fired a US Attorney in Los Angeles who was investigating a CEO that was [redacted]
- To add to the generalized sense of [redacted], both [redacted] and [redacted] called for the impeachment of judges that [redacted], resulting in a rare rebuke from [redacted]. Speaker Mike Johnson then floated the idea of eliminating [redacted]. For what it's worth, I find historical analogies comparing [redacted] to Maximilien Robespierre to be very compelling

- Around 20% of construction workers are undocumented and their contribution is even higher in residential construction while home affordability is close to an all-time low. The [redacted] Builders and Contractors group welcomes Trump's deregulation, pro-growth agenda but argues for more immigrant work visas rather than less, while the [redacted] of Houston said people who think the country can thrive without undocumented immigrants "don't live in the real world". [redacted] warns that agricultural labor shortages and rising costs are already straining farmers from Florida to Washington State; ~42% of US farmworkers are undocumented. The state of [redacted] proposed relaxing child labor laws to deal with potential shortfalls of ag workers
- The Administration is cutting 20,000 jobs at [redacted] and scaling back the [redacted] at a time when measles is [redacted] and avian flu is [redacted]. The White House cancelled funding for studies of antivirals and vaccines, as well as grants to track infectious diseases
- RFK Jr hired someone who believes that [redacted] causes autism to do a study on the topic, after which the FDA's top vaccine regulator was forced to resign. [redacted] cited what he called RFK Jr.'s efforts to spread [redacted]: "it has become clear that truth and transparency are [redacted], but rather he wishes subservient confirmation of his [redacted]". As the WSJ concluded: "Our worst fears about Mr. Kennedy are coming true" as the CDC is being systematically gutted
- [redacted]'s departure at the FDA follows the exit of the head of the FDA's drug evaluation unit two months ago, leaving the biotech industry in a state of limbo regarding future drug evaluations and approvals. FDA staff are also struggling to meet drug and medical device product review deadlines after DOGE layoffs, according to [redacted]
- Pharma shares have also declined due to fears they will be included in tariff plans even though historically, the sector has been exempt; the surge in the US pharma deficit resulting from corporate profit shifting took place after Trump's own [redacted] set a [redacted] tax on global [redacted] income. In other words, the Administration does not [redacted] the [redacted] consequences of its prior policies
- Cuts to the IRS have been so severe that Treasury Department and IRS officials predict a decrease of more than [redacted] billion
- The Administration sent letters to the CEOs of non-US companies warning them to comply with an executive order banning [redacted]. The letter asserted that the order applied to companies outside the US if they were a supplier or service provider to the US government
- The Administration launched an aggressive campaign to take control of the autonomous territory of [redacted] from [redacted], a staunch ally that joined NATO in 1949. While the President has refused to take armed intervention off the table, the Vice President said that military force would not be necessary since [redacted], even though 85% of the local population has made it clear they have no interest in becoming [redacted]….and who can blame them at this point
- The Administration opened up a series of trade and other disputes with [redacted], after the President [redacted] tweeted that the US provides $200 bn in annual subsidies…the bulk of which are not subsidies at all but the result of bilateral energy deficits (which result from the need for heavy, sour crude required by US refineries, as opposed to light sweet crude from shale formations)…and with the President [redacted] alleging that [redacted] is a major transit point for [redacted] despite the country representing just 0.2% of seizures

In other words, it's impossible for CEOs to know where a [redacted] and [redacted] President will [redacted], and if their industry will be [redacted]. The good news: at least researchers and investment professionals can voice concerns about the possibly negative consequences of such policies for investment, capital spending, valuations and growth without any fear of [redacted] against [redacted] or [redacted]….

[1] There's a Senate bill sponsored by [redacted] that would end the emergency declaration used to apply tariffs on [redacted]. It probably has little chance in the House and the President would almost certainly veto it, but the President nevertheless [redacted] four GOP Senators thinking of voting for it in a highly [redacted] post, accusing them of having [redacted] Syndrome and being indifferent to US [redacted]

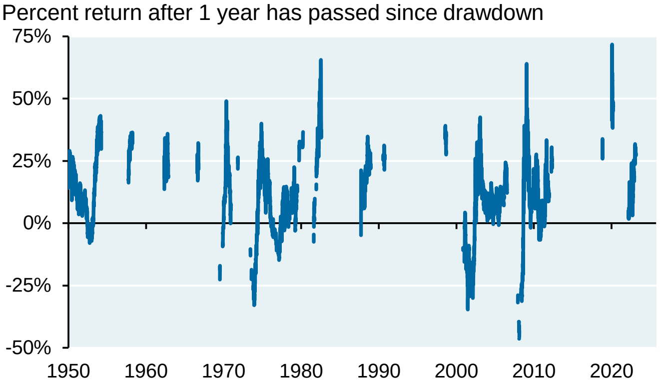
We're probably near peak policy uncertainty and as a reminder, even if tariffs stick around, they are one-time rather than perpetual hits to growth and inflation. Eventually, infrastructure permitting reform and banking deregulation may also provide offsetting boosts to growth. One example: excluding US Treasuries from bank Supplementary Leverage Ratio calculations would boost bank capital on average by 57 basis points and reduce leverage by ~$2 trillion, part of which could be recycled into growth. The Boston Fed also found that relaxing SLR constraints could improve US Treasury market depth and liquidity[2]. There should also be benefits from any new incremental foreign direct investment into the US that the Administration negotiates[3].

If there is a greater correction in response to reciprocal tariffs, investing after a 15% S&P 500 peak-to-trough decline (should that occur) has a good track record, as shown below on the left. But the unorthodoxies of the present are new to me; I have never had to [redacted] a piece before, other than one I wrote on the likelihood of a COVID lab leak in 2021 (a piece that was fully [redacted] and never published) and a piece I drafted on [redacted] and then shelved last week. I am really looking forward to fishing season.

Michael Cembalest
JP Morgan Asset Management

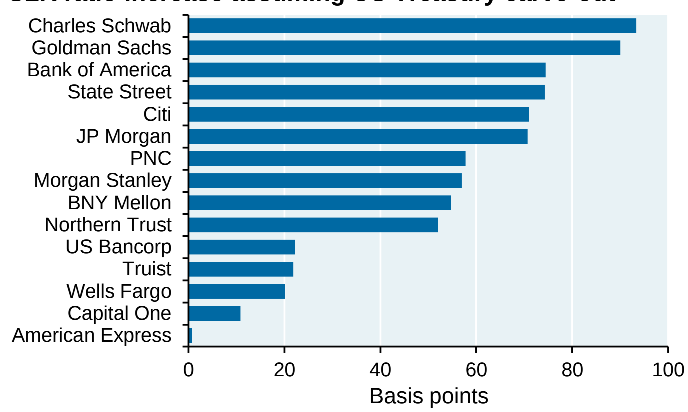
First chart: the one-year return realized by investing in the S&P 500 index on every day after a 15% drawdown has already occurred. Average return since 1950: 12%, with a standard deviation of 16%. **Second chart**: the increase in bank supplementary leverage capital requirement ratios assuming that US Treasuries are removed from SLR calculations.

Realized return by investing in the S&P 500 on each day after a 15% drawdown has already occurred
Percent return after 1 year has passed since drawdown



Source: Bloomberg, JPMAM, April 1, 2025

SLR ratio increase assuming US Treasury carve-out



Source: US bank Q4 2024 FR Y-9C reports, FFIEC 101 reports, Risk Quantum

Note: three trade and tariff appendixes follow (2018-2019 tariff takeaways, the impact of non-tariff barriers, the tenuous connection between trade deficits and manufacturing employment and the Mar-a-Lago Accord)

Reciprocal tariff rates on select countries announced by the White House on April 2, 2025

Country	Recip rate	Imports	Country	Recip rate	Imports	Country	Recip rate	Imports	Country	Recip rate	Imports	Country	Recip rate	Imports
Cambodia	49%	$13,360,000,000	China	34%	$462,620,000,000	Japan	24%	$152,070,000,000	Brazil	10%	$44,180,000,000	New Zealand	10%	$5,860,000,000
Laos	48%	$849,740,000	Taiwan	32%	$116,300,000,000	Malaysia	24%	$53,850,000,000	Singapore	10%	$43,550,000,000	Argentina	10%	$7,410,000,000
Madagascar	47%	$753,230,000	Indonesia	32%	$29,550,000,000	Ivory Coast	21%	$1,050,000,000	Chile	10%	$17,410,000,000	Ecuador	10%	$9,100,000,000
Vietnam	46%	$142,480,000,000	Switzerland	31%	$64,000,000,000	EU	20%	$605,800,000,000	Australia	10%	$16,570,000,000	Guatemala	10%	$5,460,000,000
Sri Lanka	44%	$3,160,000,000	South Africa	30%	$14,820,000,000	Jordan	20%	$3,440,000,000	Turkey	10%	$17,800,000,000	Honduras	10%	$5,800,000,000
Myanmar	44%	$683,250,000	Pakistan	29%	$5,470,000,000	Nicaragua	18%	$4,770,000,000	Colombia	10%	$18,430,000,000	Egypt	10%	$2,720,000,000
Bangladesh	37%	$8,780,000,000	Tunisia	28%	$1,150,000,000	Israel	17%	$22,520,000,000	Peru	10%	$10,010,000,000	Saudi Arabia	10%	$13,190,000,000
Serbia	37%	$877,270,000	Kazakhstan	27%	$2,410,000,000	Philippines	17%	$14,590,000,000	Costa Rica	10%	$12,010,000,000	El Salvador	10%	$2,410,000,000
Botswana	37%	$415,010,000	India	26%	$91,230,000,000	Norway	15%	$6,880,000,000	Dominican Republic	10%	$7,730,000,000	Trinidad and Tobago	10%	$3,490,000,000
Thailand	36%	$66,010,000,000	South Korea	25%	$135,460,000,000	United Kingdom	10%	$68,830,000,000	United Arab Emirates	10%	$7,800,000,000	Morocco	10%	$1,980,000,000

Source: Trading Economics, White House, April 2025

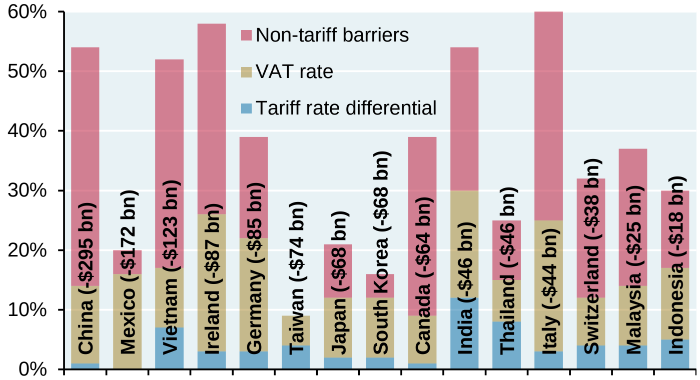
[2] "*Relaxing Dealer Risk Constraints Can Make the Treasury Market More Liquid*", Boston Fed, March 2025

[3] Examples: Apple has committed $500 bn over 4 years, and the Stargate project led by OpenAI/Oracle/Softbank pledged a similar amount, although the initial investment is closer to $100 bn. Eli Lilly has pledged $27 bn, but some of that was pre-existing.

Appendix A: Non-tariff barriers can dwarf the impact of actual tariff rates

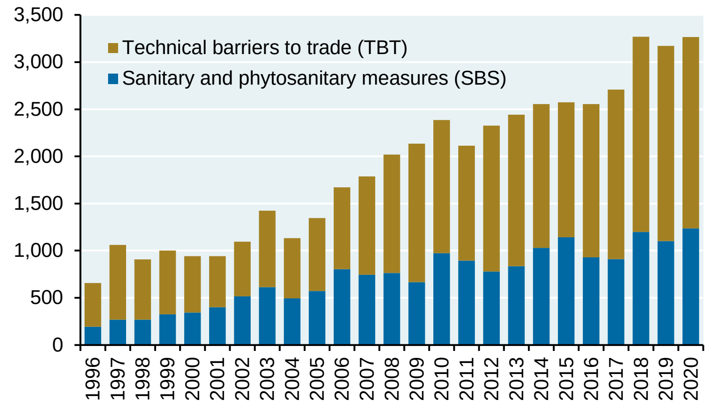
A recent Bloomberg article[4] showed the sum total of tariff rate differentials, VAT rates and non-tariff barriers for 15 countries with the largest trade deficits with the US. I'm still totally puzzled by the inclusion of VAT taxes since they apply to domestic companies as well in countries that apply them, and therefore don't understand why they would be included in a list of "tariff grievances". But **non-tariff barriers (NTBs) are a big deal**, and something I have written about before. Trade economists convert the impact of non-tariff measures into tariff-equivalent rates for purposes of comparison, and as shown below, the impact of these measures can be quite large and have been rising over time.

Barriers to trade with the US largest trade deficit partners
Percent, countries in order of size of bilateral trade deficit with the US



Source: Bloomberg, JPMAM, March 2025

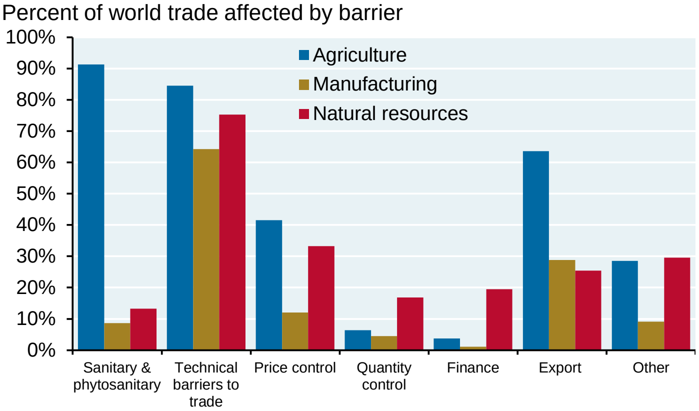
Number of new global non-tariff policy measures



Source: WTO, ITC, JPMAM, 2020

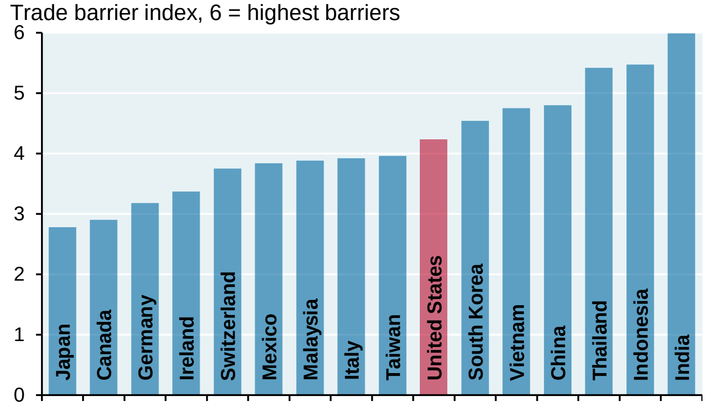
The President's February 13 memo on reciprocal tariffs calls for his policy to address such NTBs: "sanitary and phytosanitary measures, technical barriers to trade, government procurement, export subsidies, lack of intellectual property protection, digital trade barriers and government-tolerated anticompetitive conduct of state-owned or private firms". The agricultural sector where most trade is subject to sanitary and technical barriers is more regulated than manufacturing or natural resources. That said, ~70% of manufacturing and natural resources trade is impacted by one or more NTBs. The bottom line: when a country wants to restrict the flow of imports, it has a lot of tools other than tariff rates. Note in the last chart that the US is no saint when it comes to NTBs; the 2023 Trade Barrier Index includes tariff rates, NTBs and services restrictions and shows the US squarely in the middle of the pack when compared to the 15 countries shown above.

Non-tariff barriers in international trade
Percent of world trade affected by barrier



Source: UNCTAD, ITC, WTO, JPMAM, 2024

US vs largest trade deficit partners trade barrier index
Trade barrier index, 6 = highest barriers



Source: International Trade Barrier Index, JPMAM, 2023

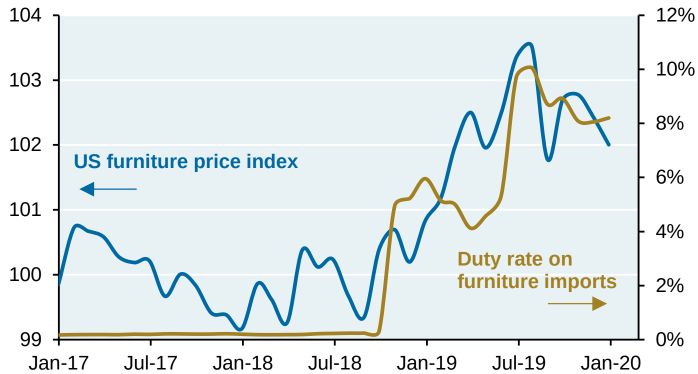
[4] "*Trump's Tariffs Set to Make History and Break System He Loathes*", Bloomberg, March 31, 2025

Appendix B: post-mortem on 2018-2019 tariffs; 2025 tariff rates as a share of imports

When thinking about tariffs, it's important to look at the big picture as well as the affected industry itself. While steel tariffs created 1,000 jobs for steelmakers protected by tariffs, they reduced employment by 75,000 in steel-using industries such as autos and construction as prices rose and sales fell[5]. Similarly, in all industries affected by Trump tariffs, duties boosted factory employment by 0.4% but reduced payrolls by 2% due to rising overall costs and retaliatory tariffs[6].

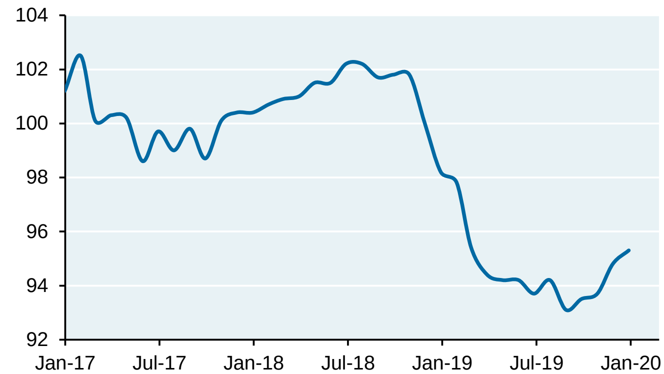
We can also take a closer look at both furniture and appliance sectors. In 2019, the US raised tariffs on Chinese furniture. There was almost a 1:1 increase in furniture prices, and US domestic furniture production declined. This is the opposite of what the Administration believed would happen.

US furniture price index & duty rate for furniture imports
Index (100=2017), seasonally adjusted Percent



Source: BEA, Census Bureau, JPMAM, February 2025

Industrial production for furniture & related products
Index (100=2017), seasonally adjusted

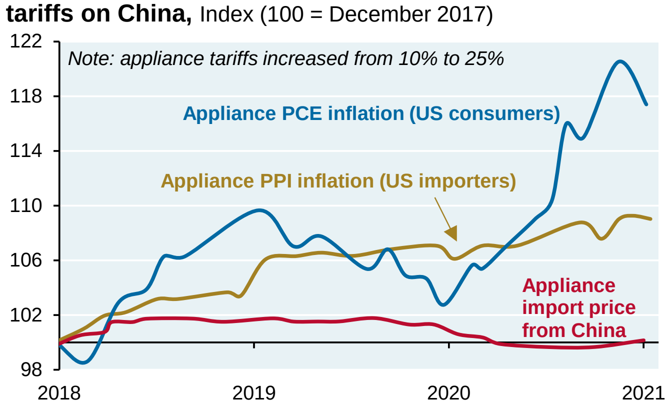


Source: Federal Reserve Board, JPMAM, February 2025

The same is true when looking at tariffs on Chinese appliances. US importers and consumers paid the price, rather than Chinese appliance manufacturers whose prices remained stable.

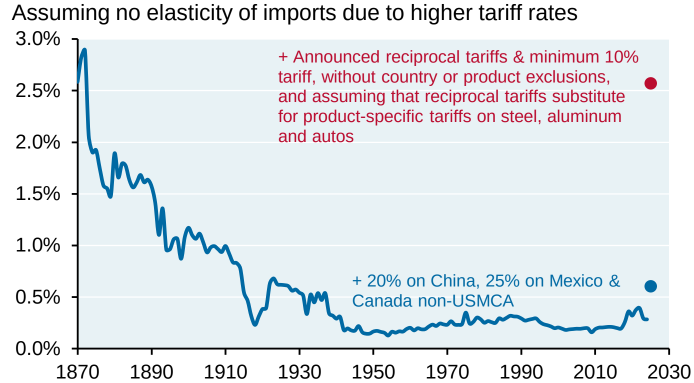
Last chart: tariff scenarios on page 1 shown as a share of GDP.

US importers/consumers absorbed cost of 2018 appliance tariffs on China, Index (100 = December 2017)



Source: JP Morgan Global Economic Research, November 18, 2024

Tariff duty share of GDP since the Civil War
Assuming no elasticity of imports due to higher tariff rates



Source: Tax Foundation, JPM Global Economics, GS Global Investment Research, BEA, Macrohistory, JPMAM, April 2, 2025

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[5] "*Steel Tariffs and US Jobs Revisited*", Russ (UC Davis) and Cox (Harvard), February 6, 2020

[6] "*Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected US Manufacturing Sector*", Federal Reserve Board, August 2024

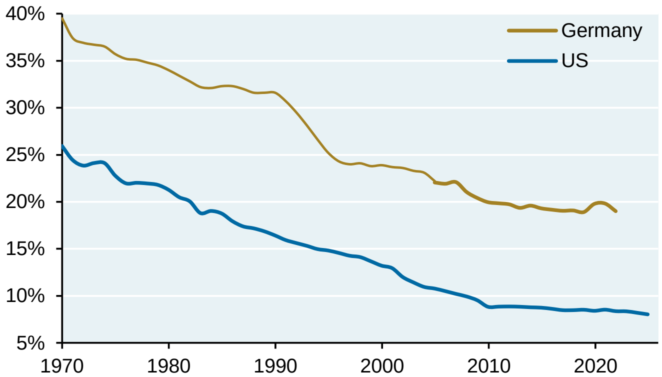
Appendix C: declining US manufacturing employment shares, trade deficits and the Mar-a-Lago Accord

One of the key premises of the Mar-a-Lago Accord (see below) is that the decline in the share of US manufacturing employment is directly and primarily a consequence of chronic US trade deficits. As a result, if the US trade deficit were eliminated, the manufacturing share of employment would presumably rise sharply.

I agree with parts of this premise, but not all of it. There are a lot of factors affecting manufacturing employment other than competitive terms of trade, such as robotics and other efficiency improvements in manufacturing[7]. The same trend took place in the US with respect to agriculture: from 1948 to 2017, total farm output almost tripled though total labor hours worked in the farm sector declined more than 80%.

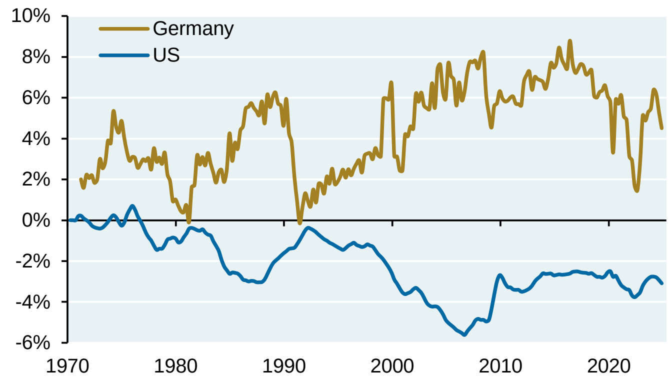
Case in point: Germany has been running a trade *surplus* for decades and suffered roughly the same percentage decline in manufacturing's share of employment as the US. Some estimates suggest that even if the US deficit in manufactured goods were eliminated, the US manufacturing share of employment would only rise by ~2.5%[8]. So, go ahead and restructure the global trading system by addressing its inequities but be realistic about the potential for a rebound in the manufacturing share of employment.

Manufacturing share of employment
Percent



Source: Bloomberg, BLS, OECD, JPMAM, 2024

Trade balance as a share of GDP
Percent



Source: Bloomberg, BEA, German Federal Statistic Office, JPMAM, Dec 2024

Higher tariffs may be part of a broader plan attributed to Stephan Miran at the Council of Economic Advisors in which the global trading system is restructured (Mar-a-Lago Accord)[9]. Key elements other than tariffs include a weaker dollar, restructuring of foreign central bank Treasury holdings into long-dated zero-coupon bonds, a US sovereign wealth fund (that would now presumably include crypto as a windfall to certain [redacted]) and higher allied defense spending in exchange for US security guarantees. I applaud the out-of-the-box thinking involved given the impact of globalization on US industrial production and manufacturing, but there are a myriad of risks that a highly skilled policy team would have to navigate, including painful economic adjustments in the early stages of the restructuring…even if it would work in the long run.

In his response to Miran's proposals, Maurice Obstfeld from Berkeley demonstrates that Miran is incorrect in his belief that the US$ being the global reserve currency means the US must supply excess reserves to the world which results in a fiscal and current account deficit. Obstfeld shows that marginal US$ reserve accumulation has been falling for more than a decade, yet US fiscal and current account deficits have persisted[10].

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[7] One analysis of manufacturing job losses found of the 5.6 mm jobs lost from 2000 to 2010, 4.9 mm were lost due to productivity increases and 750k due to trade and offshoring (source: Michael J. Hicks, Center for Business and Economic Research, Miller College of Business, Ball State University, June 2015). Other studies find much greater attributions to trade; this is just one example

[8] "*On Trade Deficits and Manufacturing: some perspective on the eve of trade war*", Paul Krugman, April 1, 2025

[9] "*A user's guide to restructuring the global trading system*", Stephen Miran, Hudson Bay Capital, November 2024

[10] "*The US trade deficit: myths and realities*", Brookings, Maurice Obstfeld (Berkeley), March 13, 2025

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