

# BRACING FOR IMPACT

## Timing: A Window of Opportunity... for Now.

Unexpected wider and larger-scope tariff announcements have sent tremors through bond and equity markets, resulting in a brisk sell-off that signals investors' caution. Companies, wary of the looming cost increases, are ramping up their activities in a bid to secure inventory before the higher tariffs take full effect. Recent months have witnessed record import orders as firms engage in a classic preemptive stockpiling maneuver. With an abundance of inventory to cushion the blow, the direct impact on retail pricing may be deferred by two-to-three months for consumers.

**Magnitude: The Real Weight of Tariff Turbulence.** Even as timing buffers offer a temporary reprieve, the magnitude of these tariff shocks looms ominously large. Both consumers and corporates have, over recent years, built up savings and resilience—stress-tested during the high inflation episodes of 2022. However, the numbers behind these tariffs tell a daunting story. In particular, the very high tariff rate of 145% imposed on Chinese goods is a stark cause for concern. While exemptions exist, early Goldman Sachs estimates indicate that substitutes are hard to come by for roughly 20-30% of these imports. For corporations that depend heavily on Chinese supply chains, this means that if the steep tariffs persist, businesses could face severe supply chain stress—a domino effect that would ripple outwards, affecting production schedules, profit margins, and ultimately, consumer prices.

**Navigating a Dual-Edged Sword.** The current scenario presents a dual-edged dilemma: on one side, the short-

term deferral of higher costs due to preemptive stockpiling, and on the other, the potent risk of structural cost increases and supply chain disruptions in the medium to long term.

For consumers, the resilience built from prior periods of economic stress offers some comfort. However, once corporate inventories are exhausted and suppliers are forced to operate at the new cost levels, the anticipated surge in prices could quickly erode household spending power. It's a classic case of deferred pain—the initial shock is absorbed by preemptive measures, but the real financial sting may come a few months down the line when the market adjusts to the tariff-imposed cost structure. Analysts will be keenly observing not only the immediate response from market participants but also the long-term adjustments in corporate supply chains. The adjustments, while potentially stabilizing in the long run, may trigger a period of volatility as the market adapts to a new, tariff-influenced reality.

**What's on the Radar?** In conclusion, the dual factors of magnitude and timing in these tariff measures create a complex and unsettling landscape. For now, the strategic purchasing spree acts as a stop-gap measure, but once the buffer of abundant inventory is depleted, the full brunt of the tariff shock is likely to be felt. Investors and market participants will need to brace for a period of adjustment, watching carefully as supply chain stress and price increases set in over the coming months.

## LIBERATION DAY SPIKE

The tariff announcements on Liberation Day increased expected volatility to levels of prior periods of market turmoil.



Source: Northern Trust Asset Management, Bloomberg. Data from 12/31/1999 through 4/14/2025. VIX = CBOE Volatility Index. Historical trends are not predictive of future results.

## BASE CASE EXPECTATIONS

### Supply Restraint (55% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

### Central Bank Easing

Within our Supply Restraint scenario, the global growth shock leads to continued central bank rate cuts. The timing will depend on the speed of the growth slowdown, and could be more complicated for the Federal Reserve given a higher inflationary impulse from tariffs relative to non-U.S. regions.

## RISK CASE SCENARIOS

### Soft Landing (35% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

### Reflation (10% probability)

Policies of the U.S. Administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

## INDEX DEFINITIONS

**MSCI USA IMI:** The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With 2,319 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.

### Prepared by Northern Trust Asset Management for United Bank.

NTAM is not affiliated with United Bank and permission to distribute this content does not constitute or imply any endorsement or sponsorship of any third party's product, services, or organization.

### UNLESS NOTED OTHERWISE, DATA IN THIS PIECE IS SOURCED FROM BLOOMBERG AS OF APRIL 2025.

The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc (NTI) or its affiliates. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. (NTI) or its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, its accuracy and completeness are not guaranteed, and is subject to change. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, advisor risk, and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe (NTI) or its affiliates' efforts to monitor and manage risk but does not imply low risk.

**Past performance is not a guarantee of future results.** Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by (NTI) or its affiliates. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For NTI prospects or clients, please refer to Part 2a of the Form ADV or consult an NTI representative for additional information on fees.

Forward-looking statements and assumptions are (NTI) or its affiliates' current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

### NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

© 2025 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

ViewPoints reflects data as of 4/16/25.

Powered by



©2025. All Rights Reserved.