From the desk of: New York Life Investments'
Global Market Strategy team
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Pollyanna can't ignore tariffs forever

The latest on U.S. reciprocal tariffs, as of 5pm, 9 July 2025.

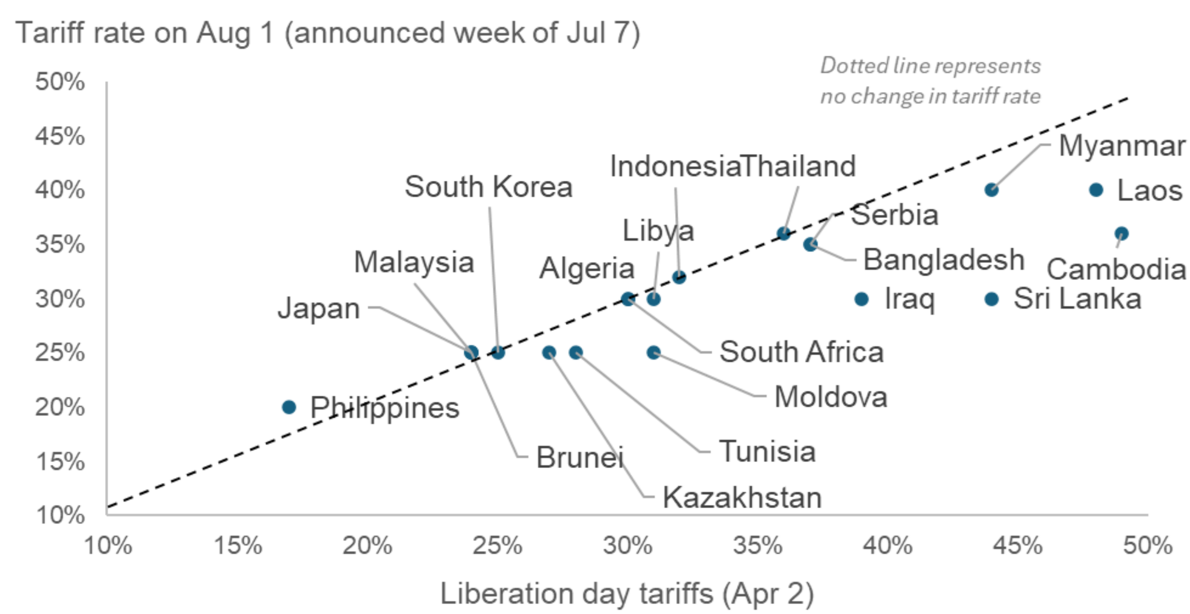
Takeaways

- Rolling U.S. tariff announcements this week point in a clear direction: the U.S. has reverted to tariff levels near those originally announced. Back in April, these tariffs amounted to the market's worst-case scenario, and valuations reacted accordingly. This week, the market reaction could not be more different, presumably due to previous negotiations with major trade partners and the further extension of tariff implementation to August 1st.
- We expect negotiation and court influence to apply some downward pressure to the tariff rate moving forward, but ongoing tariff-related impacts to consumer and business confidence, inflation, financial conditions, and economic growth are likely.
- Uncertainty is likely to persist, meaning that "wait and see" is a recipe for regret. While a degree of valuation sensitivity is appropriate in the face of asymmetric market pricing, total return potential looks strong and outweighs finding the perfect entry point.

Markets are staunchly unwilling to price in tariff-related risks

This week has featured rolling U.S. tariff announcements, including the possibility of 25% tariffs on Japanese and Korean goods, as well as a 50% tariff on copper imports. Many nations now face a similar tariff rate to that originally announced on April 2nd. As of market close on July 9th, global equities have maintained the V-shaped recovery they've achieved since their April and May lows; the U.S. dollar has gained; and the U.S. 10Y Treasury yield is modestly down.

The newly announced tariff rates brought little change from "Liberation Day"



Sources: New York Life Investments Global Market Strategy, Justin Wolfers, White House, July 2025.

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At this point, calling global equities pollyannish is an understatement. No tariff risk is priced into the markets, even as tariff levels flirt with those previously believed to be the worst-case scenario.

Current market pricing implies a market belief that these tariffs are a mere negotiation tactic, a view supported by yet another push-back of tariff implementation, this time to August 1st.

We do not agree.

We've been telling investors not to "wait and see," arguing for the need to take action in allocation despite the uncertainty. The same logic goes for market expectations in general: hoping that tariff and policy uncertainty will suddenly evaporate is wishful thinking.

We certainly see room for further negotiation at the margin. Major informal agreements have been reached regarding U.S. imports from Canada, Mexico, China and Vietnam; a deal with the EU could potentially be announced this week. This makes it likely that the proposed 25% tariffs on goods from Japan and Korea, for example, will be partially negotiated away. We've also seen a variety of court cases that may limit the scope of tariffs over the coming months.

But if investors' expected range for the end tariff rate is between 10-20%, we expect it to be closer to 20%. Among others, three key circumstances support our view that August 1st will not feature a holistic rollback of tariffs:

- President Trump has clearly stated that tariffs are not only a negotiating tactic but also an aim in themselves. This view has been consistently held over both administrations.
- The "Big Beautiful Bill" was indeed big, and meaningful tariff revenue is now an important gap stop for the federal budget. Tariff revenues were just 2% of government revenues as of May 2025, but Secretary Bessent said this week that under the newly proposed tariffs, tariff revenues could triple between today and year-end 2025. The CBO projects that tariff revenue could amount to $2.8 trillion over the coming decade.
- We've already seen major powers, including and beyond the U.S., make investments in shoring up national self-sufficiency in key areas, including energy, tech, and key materials. Tariffs are just one facet of these shifting global priorities.

What will it take for tariff risk to be priced back in?

It's become clear that markets are unwilling to forward-price tariff risks. We believe markets will be forced to price in tariffs when they create a **visible hit to the real economy**.

Specifically, we are on the lookout for evidence of tariffs in economic data (slower growth indicators; slower hiring; rising inflation) and corporate data (slower earnings growth; pressure on margins; slower capital expenditure intentions).

When it comes to the potential path of market pricing, we can't ignore that the policy uncertainty spectrum has broadened beyond tariffs in recent months. The full impact of the Big Beautiful Bill has not necessarily appeared in long rates, and we are starting to see moves in deregulation and immigration that were absent back in April.

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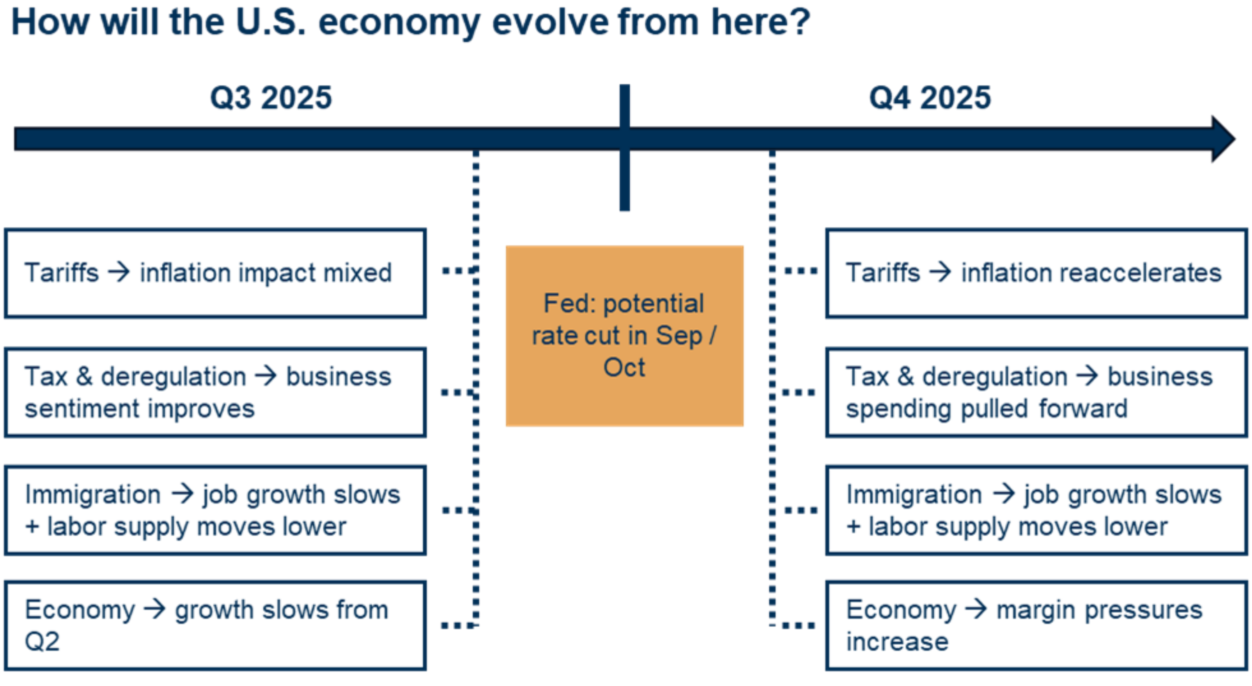
We're monitoring these risks with the below timeline in mind:



Views of New York Life Investments Global Market Strategy, July 2025.

How does this latest round of announcements impact our views?

Uncertainty has been a neutral force on the economy for now, but may become more malignant. Uncertainty around growth, inflation, Fed policy, long rates, and the corporate and consumer outlooks will remain elevated. For the past 6 months and potentially for the coming 1-2 quarters, this may continue to be the case. Assuming tariff rates remain around current levels, however, we believe we are nearing the point at which extended uncertainty doesn't just imply a holding pattern for the economy; it will start to actively deter hiring and investment decisions.

Inflation remains pressured to the upside, but potentially with a meaningful lag. As we've discussed previously, we're not buyers of the view that tariffs represent a one-off increase in prices. Not only is this not what happened in 2018, in which we saw gradual price increases over a sustained time, but today we have a higher base for inflation and inflation expectations to start with. The timing of this inflationary impact, however, remains highly uncertain. Though goods prices have been inching higher, they've so far been offset by cyclical disinflation in services. We believe this will shift as corporate holiday ordering – occurring now – impacts consumers, likely in Q4. *It's worth noting that tighter immigration policy contributes to this view; lower labor supply would edge the unemployment rate lower, and wages and inflation higher*.

Fed uncertainty will persist. We believe the Fed's bias will be to stay on hold as long as possible unless and until growth expectations truly plummet, but any space created by benign inflation prints may allow the Fed to provide a token cut if the market begins to flounder.

Earnings uncertainty remains elevated. Earnings growth and corporate margins are stronger than neutral-to-negative PMIs (corporate sentiment) would suggest. We expect gradual earnings growth deterioration in line with a late-cycle demand slowdown. It's important to note that corporate margin health and inflation may send opposite signals: companies can preserve their profitability through quick, holistic pass-through of costs to consumers. Strong corporate profitability indicators may come hand in hand with more troubling inflation prints.

Corporate credit spreads may see sentiment-related, more than fundamental, widening pressure. We do not expect the announced tariffs to create near-term pressure on credit quality, implying that spread widening from here would be driven primarily by sentiment, and possibly by downward pressure on Treasury yields.

How should investors navigate this uncertainty?

Even though the next leg of tariff-led price action is likely to be downward, "wait and see" is a recipe for regret. Investors waiting for the perfect combination of market behavior – namely lower short-term Treasury rates and more attractive equity or corporate credit pricing – to exit cash may be disappointed.

It doesn't require a "value investor" to be more valuation-sensitive in this market moment. With such clear asymmetry between fundamental risks and market pricing, even longer-term investors need to be mindful of their entry points when valuations across asset classes are so lofty.

Combining these ideas: The tricky spot facing investors is when and where to deploy *new* capital or to rotate across asset classes. While it's prudent to ensure that entry points align with reasonable pricing, those entry points may be months, or even quarters, away. Finding pockets of earnings and credit quality remains paramount. We prefer large cap U.S. equities for their strong cash flow, ex-U.S. equities for their value proposition, and short-duration high yield corporate credit exposure for its total return potential amid yield curve uncertainty.

These themes carry through to the private markets. Sticky inflation and rates make it unlikely that a "rising tide raises all boats." Investors focused on asset quality, less competitive areas of the market, and companies with domestic supply chains or a services (not goods) focus may see more durability. We like the lower middle market segments of private equity and private credit as a way to combine these themes with broader portfolio diversification.

Please see our latest Macro Pulse for July and register for our upcoming Macro Pulse webinar on July 22nd, 1pm Eastern, for more extensive investment ideas.

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