Stock markets rattled by possible tariffs, and the volatility isn't over

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Wall Street breathed a sigh of relief Tuesday as the stock market rebounded just a day after President Donald Trump hit the pause button for tariffs on Mexico and Canada.

The delay came after both countries agreed to work with the U.S. to curb illegal border crossings and drug trafficking, easing fears of an all-out trade war — for now.

But financial experts warn this roller coaster is far from over.

“The president’s negotiation style is about hitting someone hard and then asking ‘Do I have your attention yet?’ ” said Paul Brahim, managing director at Wealth Enhancement Group in Downtown.

Trump’s hardball tactics, which include imposing a new 10% tariff on Chinese goods and the looming threat of 25% tariffs on Mexico and Canada to force them to the bargaining table — mean stock markets likely will see more turbulence.

Meanwhile, China is striking back at the U.S. with tariffs of its own on select American imports. China also launched an antitrust investigation into Google and placed two other U.S. companies — PVH Group and Illumina — on an unreliable entities list.

Financial markets turned red on Monday following Trump's announcement of tariffs on goods from Mexico, Canada and China, as investors feared a spike in inflation that could slow economic growth. Last-minute deals with Mexico and Canada resulted in a 30-day delay on tariffs for those countries.

Businesses would have been forced to pass those costs to consumers, making everyday essentials — from coffee to automobile parts and building supplies — more expensive.

"If inflation goes back up, the Federal Reserve will likely keep rates higher for longer, which would also likely bring about additional stock market volatility," said Matt Yanni, owner of Yanni & Associates Investment Advisors in Pine.

"Trump has communicated many times his desire for interest rates to be lower," Mr. Yanni said. "The Fed can't lower rates if inflation moves higher."

Trump's negotiated deals with Mexico and Canada, however, offers a reprieve for the tariffs.

"Trump's first priority is fentanyl and the cartels, the heart of the matter for his administration," said David Root Jr., CEO of DBR & Co. in Downtown.

"He wants these countries to assume responsibility immediately for the anguish and hardship Americans have experienced with overdose deaths and illegal immigration — primary reasons he was elected," Mr. Root said.

Prior to his tariff announcements, Trump said Americans could feel "some pain" from the emerging trade war in the form of sticker shock at stores. Falling financial markets offered a preview of the potential damage, especially those sectors most sensitive to inflation and interest rates.

The S&P 500 index fell about 1% on the tariff announcements and the homebuilders index fell more than 2%. Mega retailers who can readily pass along tariff costs — Walmart and Costco — rose 2%.

"We're in the process of recovery now, which is generally what happens when there are shocks," Mr. Brahim, of Wealth Enhancement Group, said.

When the volatility is prolonged or there's an extended period of decline, Mr. Brahim said the best thing investors can do is maintain a long-term view. While stocks might be down, other assets like gold or treasury securities may be rising.

"There's probably an opportunity to rebalance portfolios and buy into that decline, knowing whatever caused it will ultimately resolve," Mr. Brahim said. "So let's see them as buying opportunities, not as indications that we should run for the hills."

As of Tuesday, 10% tariffs on China were in effect, and the world's second-largest economy has already hit back. China announced a wave of retaliatory measures against the U.S., saying it would implement a 15% tariff on coal and liquefied natural gas products as well as a 10% tariff on crude oil, agricultural machinery and large-engine cars and pickup trucks imported from the U.S. starting Monday.

China's State Administration for Market Regulation also announced Tuesday it is investigating Google on suspicion of violating antitrust laws.

China's Commerce Ministry placed the company that owns Calvin Klein and Tommy Hilfiger — PVH Group and Illumina — on an unreliable entities list, which could bar them from engaging in China-related import or export activities and from making new investments in the country.

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