



(UBS)

Washington Weekly: Tariff Frenzy

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There was another flurry of Trump executive actions this week, and more of his cabinet nominees were confirmed by the Senate. The President's senior team is starting to come together, but he still has a long way to go to get his people in place to carry out his broad policy agenda. However, the main topic in Washington remains tariffs. The Governmental Affairs US team takes a look at these issues, and much more in their latest Washington Weekly.

Tariff Frenzy. Last weekend, President Trump announced higher US tariff levels on imported goods from Canada, Mexico, and China. Following separate negotiations with Canada and Mexico earlier this week, he paused the tariffs on these countries until March 1. The higher tariffs on Chinese goods have gone into effect, but they could be subject to a pause after President Trump speaks with Chinese President Xi next week. As expected, these countries responded with reciprocal tariffs on US goods. Even various Canadian provinces—outside of the national government—were prepared to add extra tariffs on US goods entering those areas. So, how does the tariff activity proceed from here? Tariff threats will continue as long as Trump is president, since he believes it is his ultimate source of leverage in negotiations with individual countries. *We believe the higher tariffs with Canada and Mexico will remain paused for the months ahead and that any pause with China will require a longer-term deal that will have to be negotiated between the two presidents.*

China is Different. Most trade and China experts in Washington didn't expect new US tariffs on China to be announced in the first few weeks of the Trump second term. There was an expectation that Trump would negotiate a deal with the Chinese following a meeting between the two presidents in the spring or summer. We still believe that this is the Trump plan, and that the tariff announcement this week was designed to give him leverage in advance of those talks. *He needed to back up his tough tariff talk with action before negotiations.*

Next Shoe to Drop. President Trump has hinted at plans to apply higher tariffs on a wide range of goods from the European Union on or around February 18. Goods covered would likely include steel, aluminum, copper, and pharmaceuticals, among others. The EU has threatened retaliation. These negotiations between longtime allies will

generate significant media coverage. They also will be intense and personal since there appears to be a lot of animosity and skepticism between Trump and EU leaders. *This fight will soon be triggered in public and both sides will drive a tough bargain.*

Will Trump Relent? Probably not. He has won several positive concessions from other countries over the past week because of the tariff threats. Why stop? If he sees data in the weeks and months ahead on significant adverse inflationary or market impacts, he could pull back. He knows he won the election in part because of voters' concerns over high inflation, and he doesn't want to be saddled with that problem. *Also, we all know he is a keen watcher of the markets, so if they suffer because of the tariff activity, he will likely consider pulling back.*

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