MARKET ANALYSIS

Tariffs Revisited

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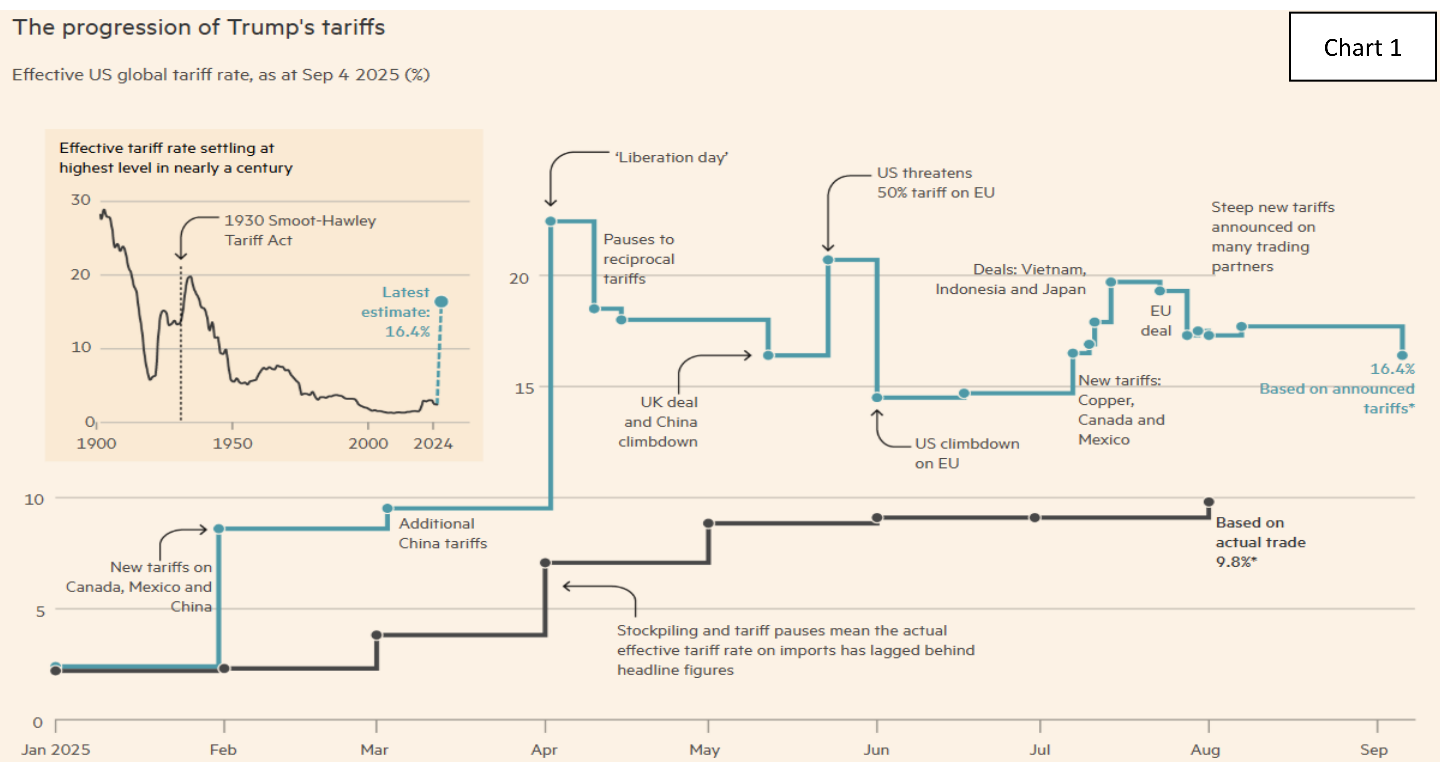
Overview:

In a bid for the title of *Understatement of the Year*, tariffs sent financial markets and investors on a wild ride in 2025. The average effective tariff rate on goods imported into the U.S. spiked from 2.4% in early January to 28% in early April before tempering to current levels (16.4%, based on announced tariffs).[1] Over the summer, we saw several major trade deals formalized, with negotiations resulting in selective relief or temporary delays. Still, the Yale Budget Lab estimates the U.S. effective tariff rate is now at its highest level since the 1930s, and the dramatic increase, affecting dozens of trading partners, amounts to the most significant shift in trade policy in nearly a century.[1] The sharp increases, especially during the *"Liberation Day"* period, triggered a mini trade war with China, where both countries raised taxes on each other's goods to over 100%. Because these changes happened so quickly and were different for each country, it's difficult to track exact timelines or rates.[2] (Chart 1[3] provides a snapshot view of effective tariff rates this year.) However, still evolving U.S. trade policy can be broadly structured into four phases: Initial Strikes (February-March), Liberation Day & China Escalation (April), Negotiations & Selective Relief (May-August), Sector-Specific Expansions & Deal-Making (September-October).

Initial Strikes:

Initial strikes targeted key trading partners in Mexico, Canada, and China, as well as aluminum and steel imports. After opening threats, negotiations, and temporary suspensions of proposed tariffs, a 25% duty was placed on all goods from Mexico and Canada not covered by the United States-Mexico-Canada Agreement (USMCA), except energy resources from Canada, which received a less significant tariff burden of 10%.[2] Upwards of 80% of goods exchanged between the U.S., Canada, and Mexico are covered by the USMCA, making that tariff relatively unimpactful. By mid-March, tariffs on Chinese goods had increased from 10-20%, and steel and aluminum from essentially all countries were levied at 25%.[2]



Liberation Day & China Escalation:
April 2nd marked 'Liberation Day,' when President Trump, from the Rose Garden, announced a universal 10% baseline tariff on all imports over $800, along with country-specific 'reciprocal tariffs' targeting nations with significant trade gaps with the U.S. China was hit particularly hard with reciprocal tariffs of 34% – on top of the initial 20% plus further 'fentanyl duties' – bringing the total tariff rate on Chinese goods to 84%.[2] This caused outrage across the Pacific and sparked a tit-for-tat escalation that Treasury Secretary Scott Bessent characterized as an "effective trade embargo," which triggered a brief stock market crash and sent benchmark indexes reeling around the globe.[4] Not until April 9th, when President Trump announced a 90-day pause on reciprocal tariffs for non-retaliating countries, did markets begin to recover. Tariffs on Chinese goods remained in place.

Negotiations & Selective Relief:
By May, tensions began to ease as negotiations gained momentum, though markets remained volatile and new tariff threats kept pressure on global trade partners. The dramatic escalation between the U.S. and China was put on pause when the two nations hashed out a 90-day tariff reduction agreement. That was later extended and remains ongoing with optimism that a true trade deal could be settled following the meeting between Presidents Trump and Xi at the Asia-Pacific Economic Cooperation (APEC) Summit in late October. The United Kingdom (UK) became the first country to reach a deal under the new policy on May 8th, as the U.S. agreed to cut tariffs on British car and steel exports and reduce most other tariffs to the 10% baseline rate.[2] Japan followed in July, agreeing to 15% duties on goods sent to the U.S.[2] Soon after, the European Union (EU) ultimately settled on a 15% rate as they were facing the threat of a 50% tariff.[2] Other countries like India didn't fare quite as well in their negotiations with the U.S. India ended up with a 50% tariff rate as President Trump took issue with the country's purchases of Russian oil.[2]

Sector Specific Expansions & Deal Making:
Through the fall, trade negotiations continued as countries facing high tariff rates looked for relief through dealmaking with the U.S. Simultaneously, the administration added targeted measures on products and sectors such as timber, soft wood, and upholstered furniture (10%, 10%, and 25%, respectively), as well as a 40% penalty on goods rerouted through third countries in an attempt to avoid existing tariffs.[2]

At the APEC Summit on October 29th, South Korea finalized a trade deal that reduced its effective rate to 15% from 25% while agreeing to a $350 billion investment in the U.S.[5] Earlier in the week, Mexico negotiated a further extension and averted a threatened increase of fentanyl-related tariffs that was scheduled for November 1st.[6] President Trump also announced that a deal with India was "imminent," which would cut its tariff rate from 50% to 15% in return for reduced purchases of Russian oil.[7] And perhaps most positively, upon leaving the APEC Summit following his meeting with President Xi and the Chinese trade delegation, the President declared, "We have a deal," while noting the U.S. and China should be able to sign a trade deal "pretty soon". Much of the deal framework had already been in place ahead of the meeting, but real compromises were reached with the U.S. set to lower the fentanyl tariffs to 10% from the current 20%, and China agreeing to purchase significant amounts of soybeans and ease controls on rare-earth exports.[8]

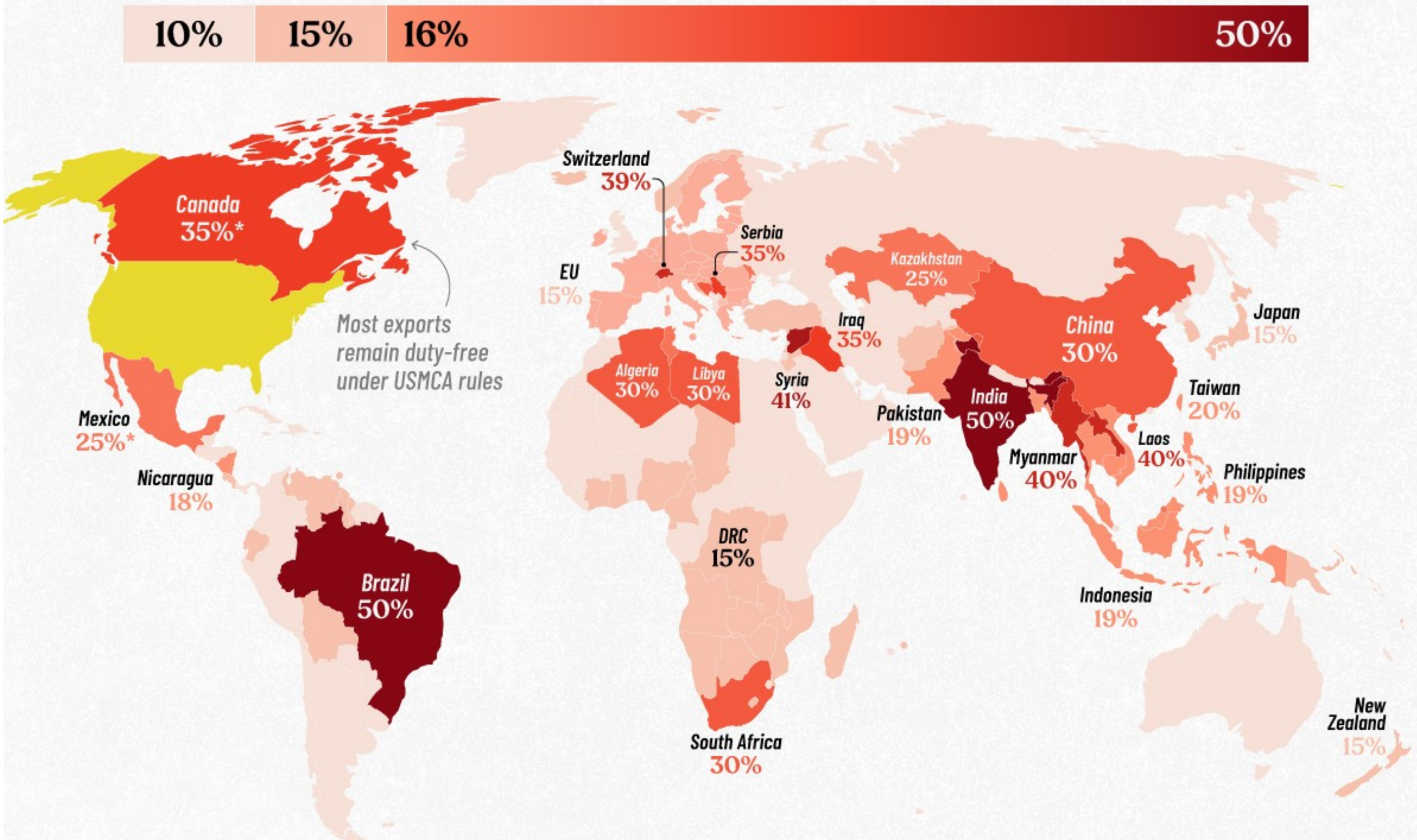
Despite recent progress in reaching trade agreements with key partners, there have been setbacks — most notably with Canada just over a week ago. Tensions flared after a television ad sponsored by the Ontario government, featuring Ronald Reagan criticizing tariffs, aired in the U.S. In response, President Trump announced he was ending trade talks with Canada.[9] When the ad continued to air over the weekend, Trump imposed an additional 10% tariff on Canada, bringing the effective tariff rate on goods not covered by the USMCA to 35%.[10] Although this represents a clear step backward, Canadian trade officials, including Prime Minister Mark Carney, emphasized their willingness to resume discussions, saying, "We stand ready to build on the progress made in constructive discussions with American counterparts over the course of recent weeks."[10] Hopefully, cooler heads can prevail once again.

Conclusion:
While the approach and execution have been far from perfect, this trade realignment has helped rebalance trade terms in favor of the U.S. Additionally, the revenue generated from tariffs in 2025 far outpaces even the most optimistic estimates, reaching nearly $200 billion year-to-date.[11] Although that may seem small compared to the overall U.S. debt, these customs duties have helped slow the pace of new borrowing. Most economists believe that tariffs hurt growth, and lower trade barriers are always better. Ideally, as global trade gaps narrow, world leaders will view these tariffs as temporary tools utilized for a more open and balanced global trading system.[12]

Chart 2[12]

U.S. Tariff Rates

by Country



Brazil	50%	Tunisia	25%	Costa Rica	15%	Mozambique	15%
India	50%	Bangladesh	20%	Ivory Coast	15%	Namibia	15%
Syria	41%	Sri Lanka	20%	DR Congo	15%	Nauru	15%
Laos	40%	Taiwan	20%	Ecuador	15%	New Zealand	15%
Myanmar	40%	Vietnam	20%	Equatorial Guinea	15%	Nigeria	15%
Switzerland	39%	Cambodia	19%	EU (on most goods)	15%	North Macedonia	15%
Canada	35%*	Indonesia	19%	Fiji	15%	Norway	15%
Iraq	35%	Malaysia	19%	Ghana	15%	Papua New Guinea	15%
Serbia	35%	Pakistan	19%	Guyana	15%	South Korea	15%
China	30%	Philippines	19%	Iceland	15%	Trinidad & Tobago	15%
Algeria	30%	Thailand	19%	Israel	15%	Turkey	15%
Bosnia & Herzegovina	30%	Nicaragua	18%	Japan	15%	Uganda	15%
Libya	30%	Afghanistan	15%	Jordan	15%	Vanuatu	15%
South Africa	30%	Angola	15%	Lesotho	15%	Venezuela	15%
Mexico	25%*	Bolivia	15%	Liechtenstein	15%	Zambia	15%
Brunei	25%	Botswana	15%	Madagascar	15%	Zimbabwe	15%
Kazakhstan	25%	Cameroon	15%	Malawi	15%	All other countries	10%
Moldova	25%	Chad	15%	Mauritius	15%		

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*On Aug. 1, President Trump raised tariffs on Canadian imports to 35% (outside USMCA), while granting Mexico a 90-day extension before increasing its broad tariff rate. Most Chinese goods face a 30% tariff with some exemptions.
Source: White House, US International Trade Commission, CNN

Key Terms

The Yale Budget Lab: The Budget Lab at Yale is a non-partisan policy research center that provides in-depth analysis of federal policy proposals for the American Economy. The Budget Lab at Yale

Tariff: A tax or duty to be paid on a particular class of imports or exports.

United States-Mexico-Canada Agreement (USMCA): A free trade agreement between the United States, Mexico, and Canada that replaced NAFTA (North American Free Trade Agreement). It aims to facilitate trade by allowing goods to be transported and sold more easily across borders and to create a more balanced trade environment among the three countries. The agreement was signed on November 30, 2018, and went into effect July 1, 2020. United States-Mexico-Canada Agreement | United States Trade Representative

Disclosures

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[1] State of U.S. Tariffs: September 26, 2025 | The Budget Lab at Yale
[2] 2025 Tariff Developments | The Vision Council
[3] Trump tracker: US tariffs
[4] Trump Treasury Secretary Scott Bessent says China tariff stand-off not sustainable: report
[5] Trump touts progress in US-South Korean trade talks - POLITICO
[6] Trump Sees Tariff Truce With Mexico as Positive - TT
[7] India, U.S. near trade deal with major tariff cuts, reduced Russian oil purchases
[8] Trump Meets With Xi, Declares Immediate Cut to Tariffs
[9] Trump Says He Is Terminating Trade Negotiations With Canada
[10] Trump threatens Canada with 10% extra import tax for not pulling down anti-tariffs ad sooner
[11] Tariff Revenue Hits $195 Billion for Fiscal 2025, CBO Says - TT
[12] Mapped: U.S. Tariff Rates by Country - Visual Capitalist