Barrett Capital Partners

1st Quarter 2025 **Newsletter #15**

	Q1	2025 TOTAL
S&P 500 TOTAL RETURN	-4.7%	-4.7%
US AGGREGATE BOND (S&P GLOBAL)	+2.63%	+2.63%

Tariffs are a tax

Life is going to get more expensive

I usually write these quarterly letters using only the information from the actual quarter, but the tariff news that came out on April 2nd rendered most of that letter worthless. The new administration enacted the biggest tariff policy of all time. At the moment the only thing I can come up with is that I hope these tariffs are short-lived.

In January, I opined that the risks were underestimated going into this year, namely inflation moving in the wrong direction due to potential tariffs. *I wish I had been wrong.*

The cost of almost everything that we buy just went up. Cars, clothes, coffee, even insurance. These tariffs *will* drive inflation up, putting more pressure on U.S. consumers who are already stretched. Inflation is going to rise, which means the Federal Reserve can't cut interest rates. If the tariffs are not significantly reduced before the summer, the odds of a recession are incredibly high. The economy simply cannot bear the cost.

We pay the tariffs

Who pays tariffs? We do! An example: AcmeCo in Ohio orders $10 widgets from a Chinese company. Let's say there is a 25% tariff on all goods imported from China. AcmeCo pays U.S. Customs $2.50 in tariffs for each widget when the delivery gets to the port to secure their delivery and drive them back to Ohio.

The widget that used to cost AcmeCo $10 now costs $12.50. AcmeCo used to sell the widgets to consumers for $13 each, but now to make the same amount of money, they need to sell them for $15.50[1].

[1] Studies on recent tariff policy show that more than 90% of tariffs are passed onto consumers, while foreign suppliers may reduce prices marginally, and domestic sellers bear a small amount as well.

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AcmeCo has higher cost of widgets, they sell them to us for more money, and the U.S. government collects the tariff. That's a tax. It's also inflation.

The primary idea[2] behind tariffs is that the government wants to make it more attractive to manufacture goods in the U.S. by making foreign-made products more expensive. The best example is probably automobiles. If you want to prop up the U.S. automakers, making foreign cars more expensive through tariffs is one way to do that.

It is *not* productive to tariff things like bananas. The U.S. doesn't produce bananas.

Speaking of U.S. automakers…

Ford and GM are not as "All-American" as one might expect[3]. More than 20% of the cars Ford sells in the U.S. are manufactured outside the country, in either Canada or Mexico. ***For GM, that number is far worse.*** A full 48% of the cars GM sells in the U.S. are made abroad. That's the same percentage as Nissan!

Wall Street Journal broke down a Ford F-150 part by part and found parts from over 20 countries. On top of that, some of the parts (transmissions) crossed the border between Canada, the U.S. and Mexico *seven times* before they were finished.

Ignoring the noise

One of the most important rules in investing is to ignore the short-term noise and focus on the longer term. It's very hard to do, especially when things don't look good. **Looking at your investment portfolio every 12 minutes is the fastest way to drive yourself mad.**

The market movements this year have been mainly driven by government policy (tariffs) and the underlying economic effects anticipated by investors. ***We would prefer that the market be driven by economic activity*** and the results generated by the businesses that we own, but that will only return when the dust settles from the tariff policies.

It's difficult to look at your portfolio value falling, but remember that we own businesses that will continue to create value over a long period of time; it's more useful to look into the future 10 years than it is to look 10 days.

[2] There is a long list of reasons that governments enact tariff policies, including adjusting trade balances or protecting domestic industries from foreign competition.
[3] https://www.visualcapitalist.com/visualized-where-automakers-build-cars-sold-in-america/

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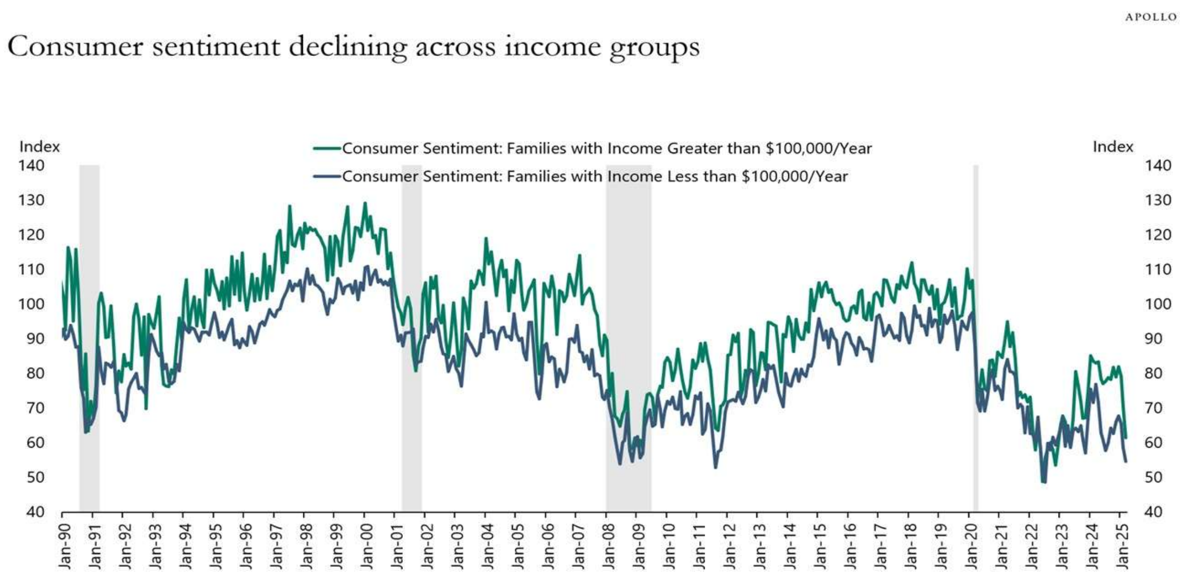
<u>Let's get to the point</u>

The big question is how long will the tariff policy last? In our view we see two outcomes. The first is that foreign countries give the U.S. some concession quickly, big or small, and the administration can claim a win and tariffs will be reduced *(fingers crossed).* The second outcome is that no deal is hatched, tariffs incite more inflation, and the already stretched U.S. consumer base is unable to endure the higher prices, resulting in an economic pullback. Some combination of the above is probably most likely?

Below is a chart from University of Michigan and Apollo Global Management showing consumer sentiment falling across all income groups to start the year. This includes falling confidence in job security, business conditions, income expectations, and inflation expectations.



<u>"How does all of this affect my investments?"</u>

The short answer is that it depends on how long the tariff policy lasts. ***Neither the U.S. nor our trading partners really want to endure a long trade war, and frankly I don't think our economy can withstand it***, so our best guess is that the U.S. makes a lot of small deals and tariffs are largely repealed, especially for Canada, Mexico and the EU. Removing the uncertainty would allow the companies we own to resume investing in their operations and growth, which have stalled as of late.

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The situation we see as less likely is where limited deals are made, and the tariff policy largely continues with no end in sight. I struggle to see that situation ending in anything other than a recession. The tariffs add an enormous cost to the economy. I am weary of even *speculating* on the fallout from this scenario, because it's all just bad.

There are no winners in a trade war, only losers.

Interesting stats and notes presented without context

- The Eta Aquariids meteor shower will be visible on Tuesday May 6th.
- The U.S. happiness ranking fell to 24th in the world, its lowest ranking ever. The top 3 happiest countries are Finland, Denmark and Iceland.
- Honeybee colonies are dying at an alarming rate, with about 2/3 of the hives in Texas lost since June of last year, and 62% nationally.
- It costs the U.S. Treasury 3.69 cents to make a penny, and 13.78 cents to make a nickel.

We look forward to any thoughts or input you may have!

See you soon,

Patrick and Joe

Disclaimer: This newsletter and related material are for informational and entertainment purposes(hopefully) only, and you should not construe any of the information contained as investment, financial, legal, tax, or other advice.

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