

### Buccion, Discipline, Beautanoi

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### What are Tariffs?

Tariffs are taxes or duties imposed on imported goods by a government.

## Why are they used?

Their intent is to protect domestic industries, encourage local production, generate government revenue, reduce reliance on foreign goods or respond to trade policies of other nations.

## What is their potential impact?

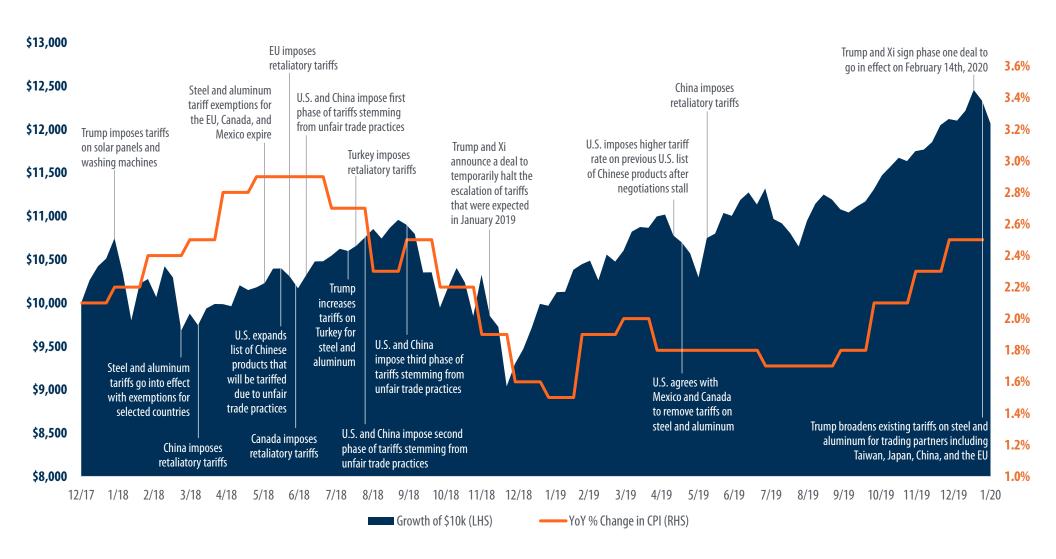
Tariffs raise prices for consumers, affect trade relationships with other countries, and influence economic growth.

## What Happened with Tariffs During Trump's First Term

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S&P 500 Index Growth of \$10k and YoY % Change in CPI

Tariffs dominated U.S. headlines during Trump's first term which brought with it some market volatility, but it did not bring about rampant inflation and markets ultimately moved higher.



Source: First Trust, Peterson Institute for International Economics, Bloomberg. Data from 12/29/2017 – 1/31/2020. **Past performance is no guarantee of future results.** For illustrative purposes only and not indicative of any investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Consumer Price Index (CPI) measures Inflation - the average change in prices over time that consumers pay for a basket of goods and services.

## **Imports: Average Effective Tariff Rates**



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The average effective U.S. tariff rate has been significantly lower in the last 40 years due to a combination of multilateral and regional trade agreements, economic policy shifts towards free trade, and the expansion of global supply chains.



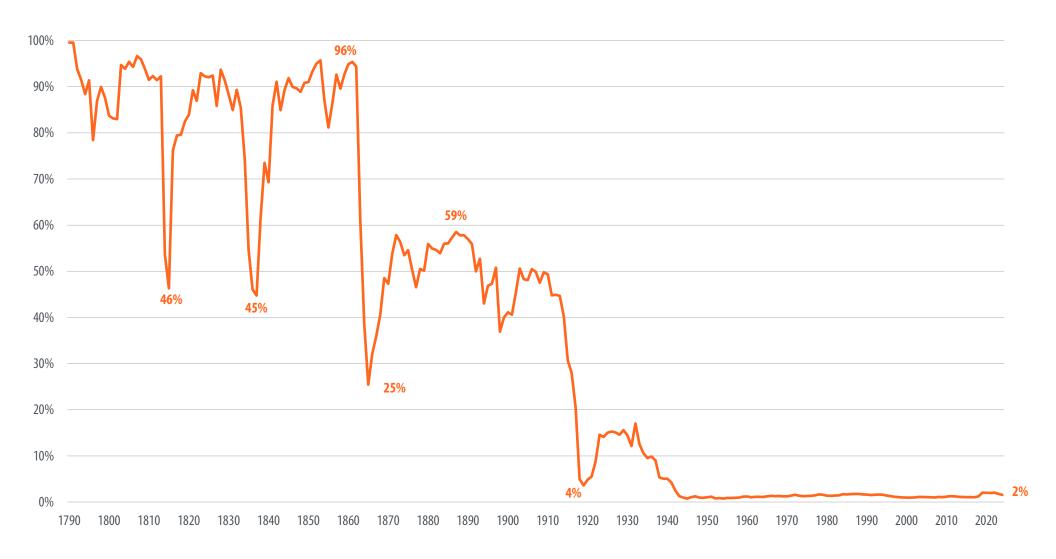
Source: First Trust, National Bureau of Economic Research (NBER), St. Louis Fed (FRED). Data from 1790-2024. Effective Tariff Rates — The actual rate of tariffs on imports, considering both the tariff levels and the types of goods being traded.

## Tariff Revenue as a Share of Total Federal Receipts





For much of early U.S. history, tariffs were the government's primary revenue source. That changed with the 16th Amendment in 1913, which introduced the federal income tax, now the dominant revenue stream.

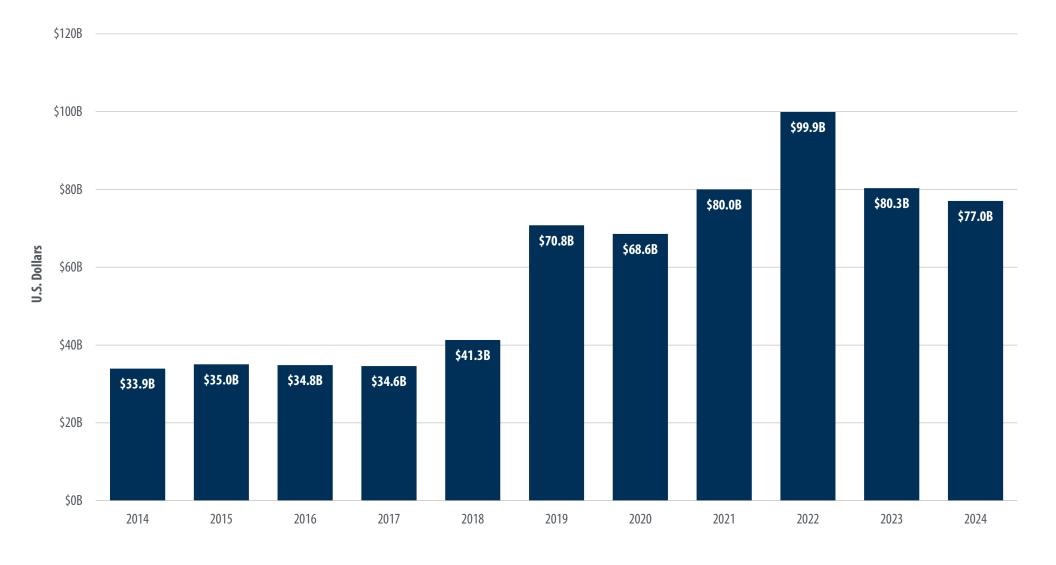


Source: First Trust, U.S. Census Bureau. 2024 data. Federal receipts – the total money the U.S. government collects from taxes, fees, and other sources.

## **Federal Receipts: Customs Duties**



Total U.S. tariff revenue nearly tripled from 2017 to 2022, largely due to tariffs introduced in 2018. By 2024, they dropped to \$77 billion as trade patterns and imports adjusted.

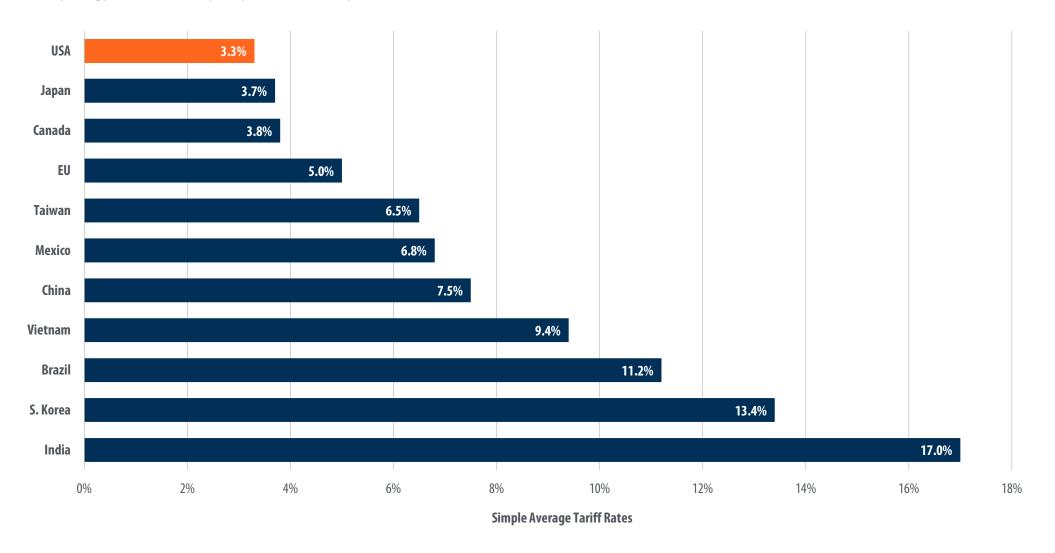


Source: First Trust, U.S. Census Bureau. 2024 data. Customs duties — taxes imposed on goods imported into a country.

# Simple Average Tariff Rates — U.S. & Top 10 Trading Partners



The U.S. simple average tariff rate across all imported goods is low at 3.3% compared to its top 10 trading partners. Major economies like the EU (5.0%), China (7.5%), and India (17.0%) maintain higher tariffs on imports. Among these key trading partners, tariff rates vary widely due to different trade policies and economic structures.

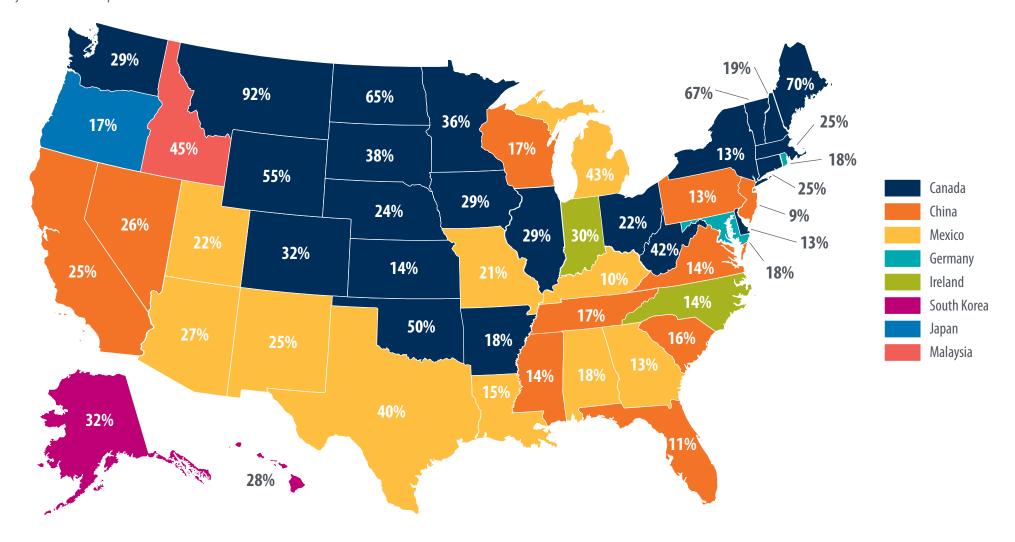


Source: First Trust, World Trade Organization. 2023 data (latest available). Simple Average Tariff Rates — The average of all tariff rates applied to imported goods, calculated without weighting for trade volume.

# **Largest Import Partner as a Share of Overall Imports**



In 2024, Mexico was the largest overall exporter to the U.S., but a closer look at individual states reveals a different picture. Canada emerged as the top exporter to 22 states, followed by China and Mexico, which each led in 10 states. Montana had the highest concentration of imports from a single country, with 91.8% coming from Canada. In contrast, New Jersey had the most diversified import sources, with its top trade partner China accounting for just 9.3% of total imports.

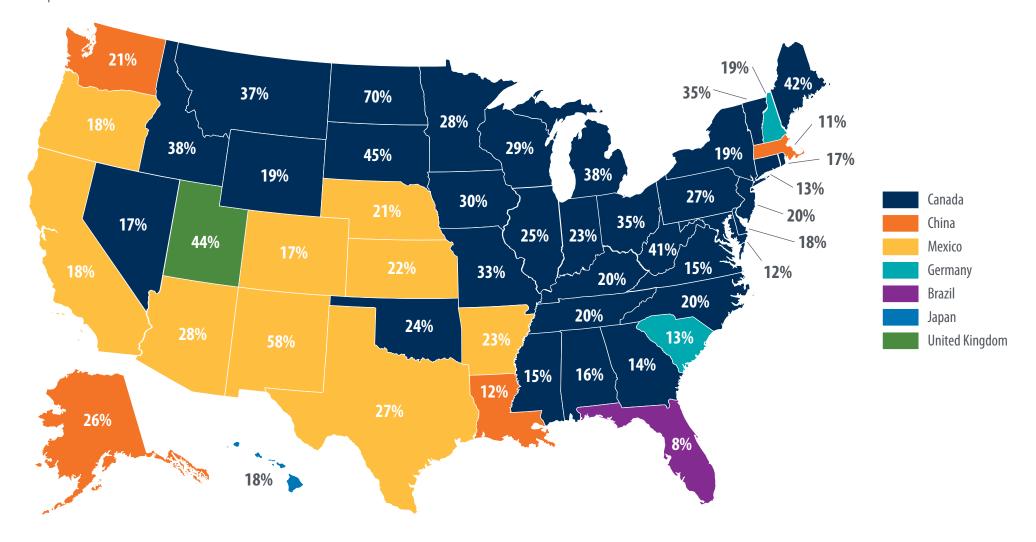


Source: First Trust, U.S. Census Bureau. 2024 data.

## Largest Export Partner as a Share of Overall Exports



In 2024, Canada remained the top destination for U.S. exports, serving as the largest market for 32 states. Mexico followed at a distant second, serving as the top export destination for nine states. North Dakota had the highest export concentration to a single country, with 69.6% of its goods going to Canada. On the other end of the spectrum, Florida had the most diversified export market, with its top trade partner, Brazil, accounting for just 8.4% of total exports.

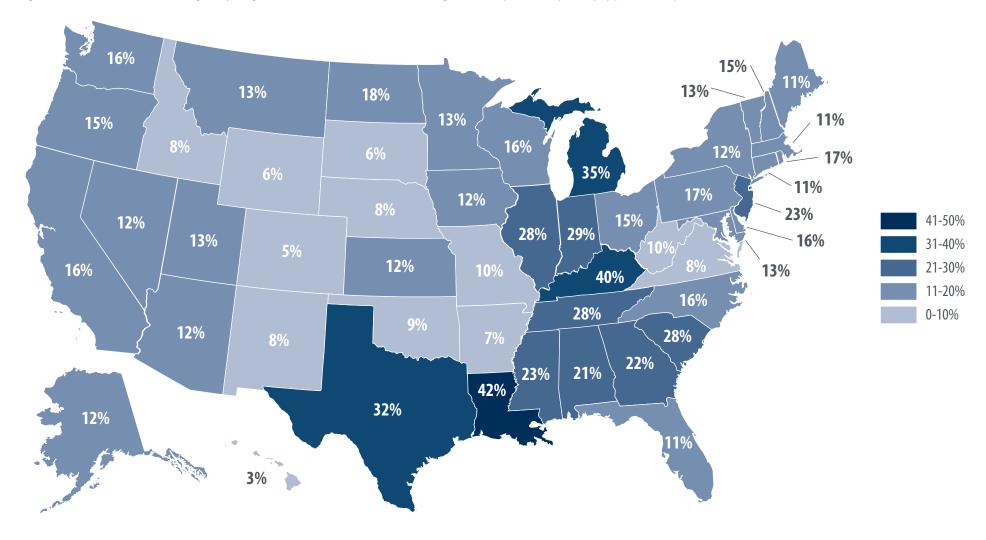


Source: First Trust, U.S. Census Bureau. 2024 data.

## **Overall Trade as a Share of State GDP**



International trade plays a vital role in most U.S. state economies. In 2023, the average trade volume (exports + imports) accounted for 16.0% of each state's GDP. Trade dependence varied widely, from a low of 2.9% in Hawaii to a high of 41.6% in Louisiana—the most globally integrated state. Louisiana also boasted the largest trade surplus, driven primarily by petroleum exports.

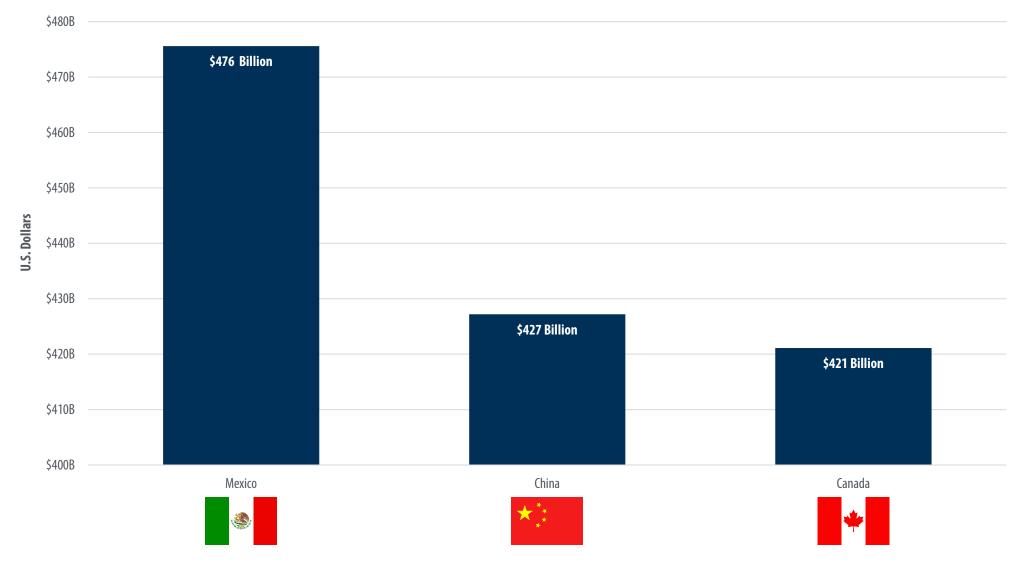


Source: First Trust, U.S. Census Bureau, Bureau of Economic Analysis. 2023 data (latest available).

# **Import Value of U.S. Top Trading Partners**



In recent years, there has been a major shift in U.S. trade patterns, and with new tariffs on China, this trend is expected to continue. China was once the top exporter to the U.S., but now Mexico holds the top spot with China falling to number two and Canada close behind.



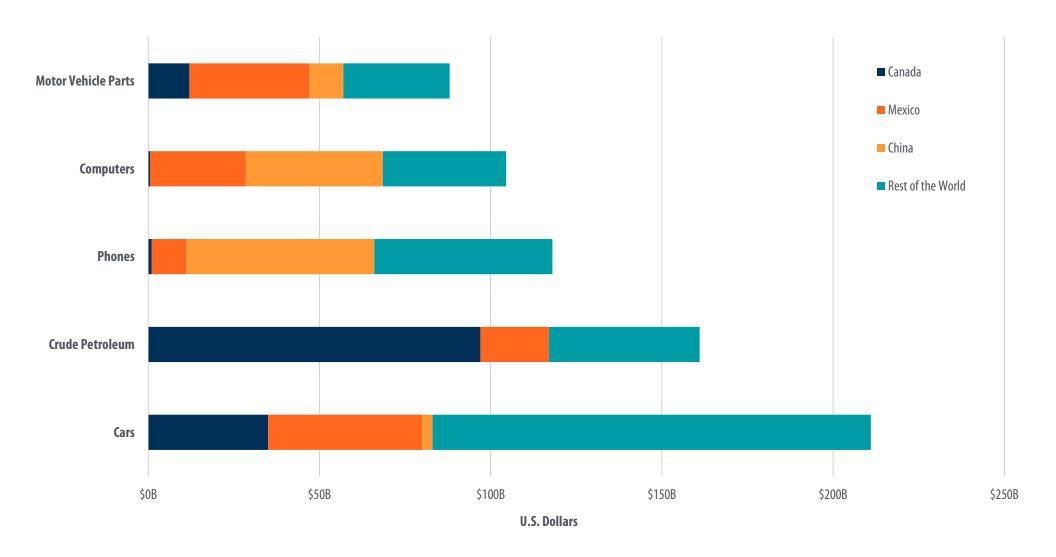
Source: First Trust, U.S. Census Bureau, U.S. Department of Commerce. 2023 data (latest available).

## **Value of U.S. Top 5 Imported Products**

By Type of Product and Country of Origin



Canada and Mexico are the largest trade partners for the top two U.S.-imported products (autos and crude oil) while China is the leading source of U.S. technology imports (computers and phones).

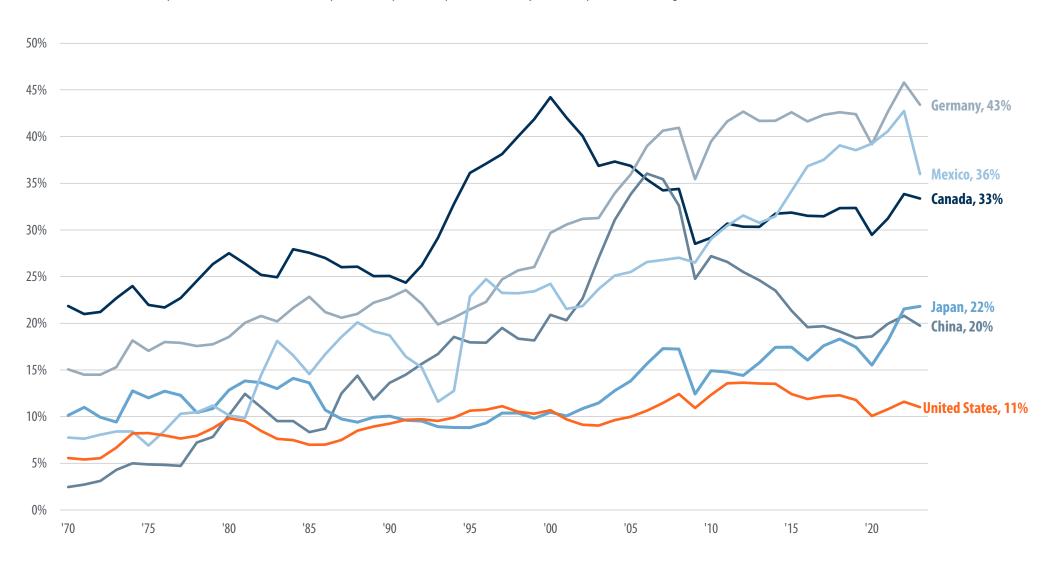


Source: First Trust, Statista. 2023 data (latest available).

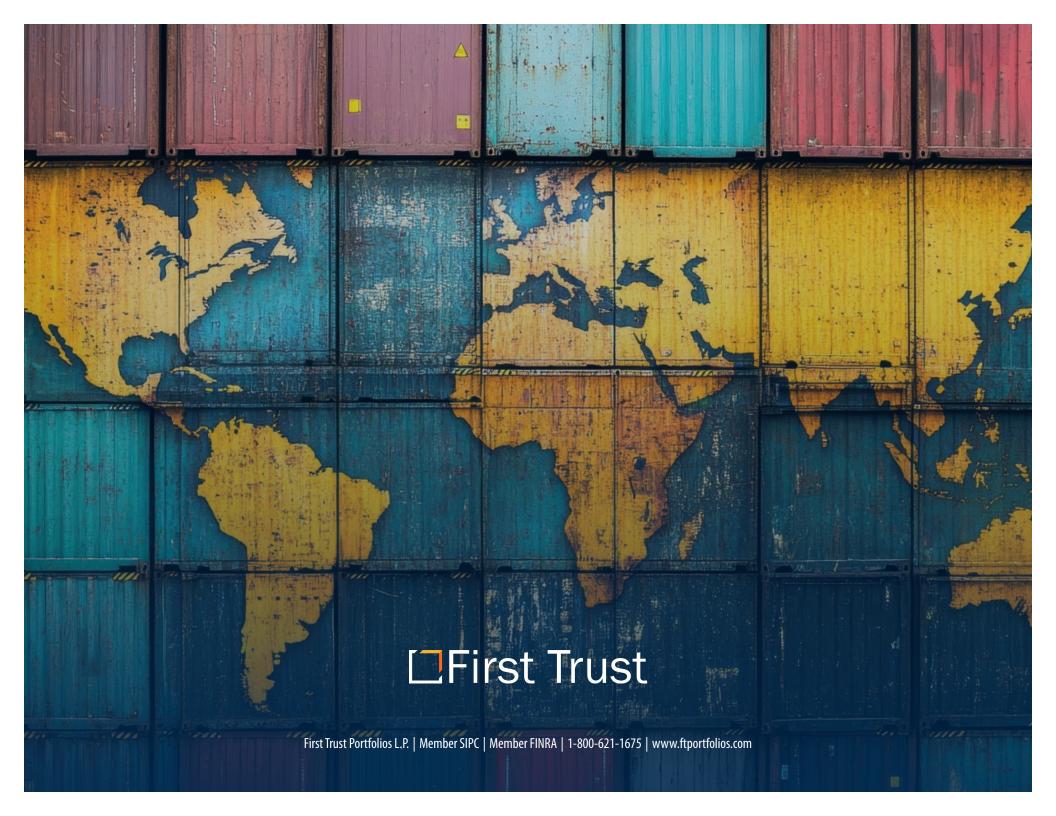
# Exports as Share of GDP — U.S. & Top 5 Trade Partners

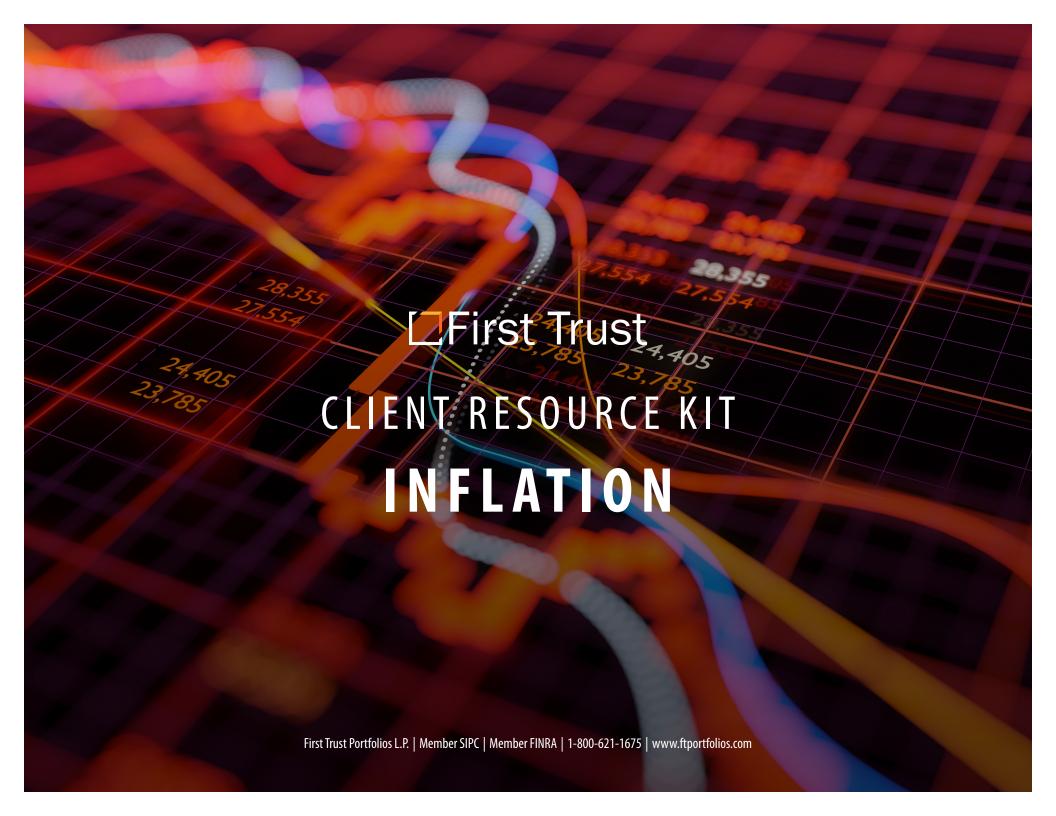


This chart illustrates that U.S. exports are a smaller share of GDP compared to its top five trade partners, which rely more on exports for economic growth.



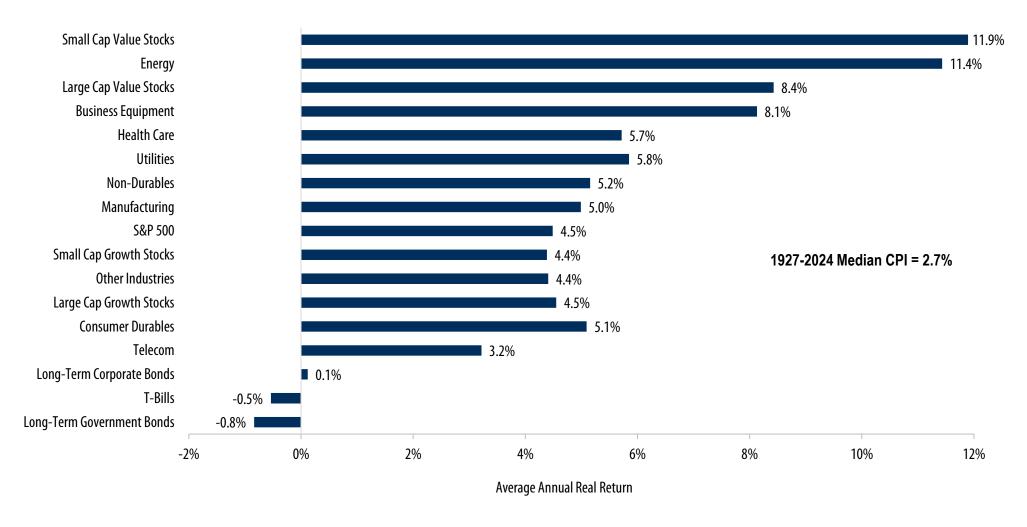
Source: First Trust, World Bank Group. 2023 data (latest available).







# AVERAGE REAL RETURNS DURING YEARS WHEN INFLATION IS GREATER THAN THE MEDIAN 1927-2024



Source: First Trust, Ken French Data Library, Bloomberg. Data is from 1927 to 2024. **Past performance is no guarantee of future results.** This example is for illustrative purposes and does not represent any actual investment. Returns are average annual total real returns during years when inflation was higher than 2.7% at year-end. Returns are based on results from Kenneth R. French data library using the CRSP database. Universe includes all NYSE, AMEX & NASDAQ stocks. Value represents the lowest 30% of price-to-books (value stocks). Growth represents the highest 30% of price-to-books (Growth stocks). Small cap stocks are the smallest 30% of stocks while large cap stocks are the largest 30% of stocks in the universe, respectively. Industries represent the Standard Industrial Classification (SIC) industries for each company.

## **Purchasing Power of the U.S. Dollar**

1980 - 2024



- America entered the 1980s in the midst of Paul Volcker and the Federal Reserve lifting interest rates to combat double-digit inflation. This painful but necessary tightening of monetary policy served to bring inflation back down.
- From an average annualized pace of 7.4% in the 1970s, inflation averaged 5.1% in the 1980s, 2.9% in the 1990s, 2.6% in the 2000s, and averaged less than 2% (1.8%) in the 2010s.
- While the timeline displayed over this chart primarily saw inflation in the 2-3% range, the impact of inflation compounds over time.
- From the start of 1980, the purchasing power of a dollar fell 76% by the end of 2024.
- We believe investors should always consider the impact of inflation on returns over time.

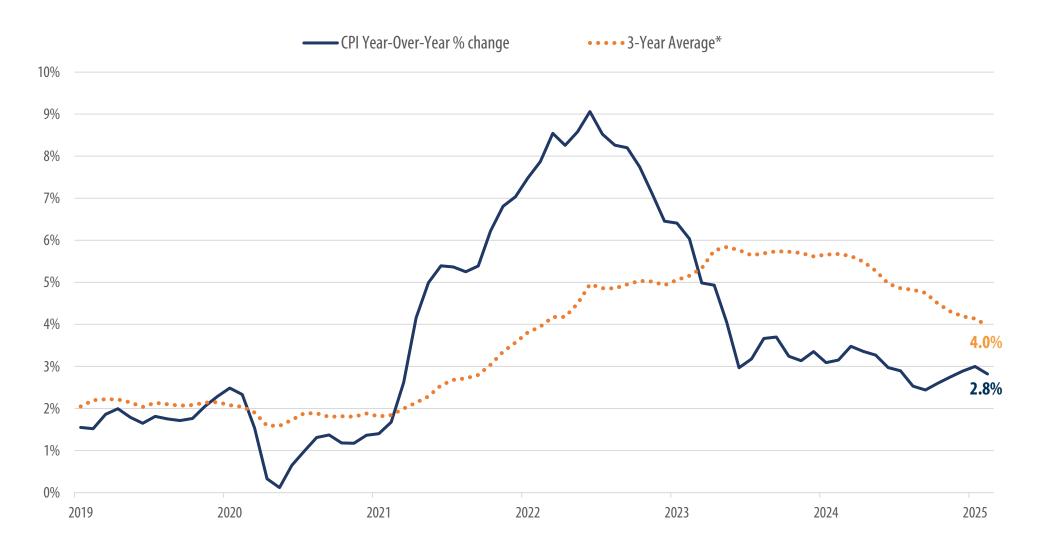
### **VALUE OF THE U.S. DOLLAR**



Source: First Trust, U.S. Bureau of Labor Statistics (BLS). The U.S. dollar is measured by year-over-year change in CPI-U. This chart is for illustrative purposes only and not indicative of any actual investment.



### YEAR-OVER-YEAR CHANGE IN THE CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS IN THE U.S.

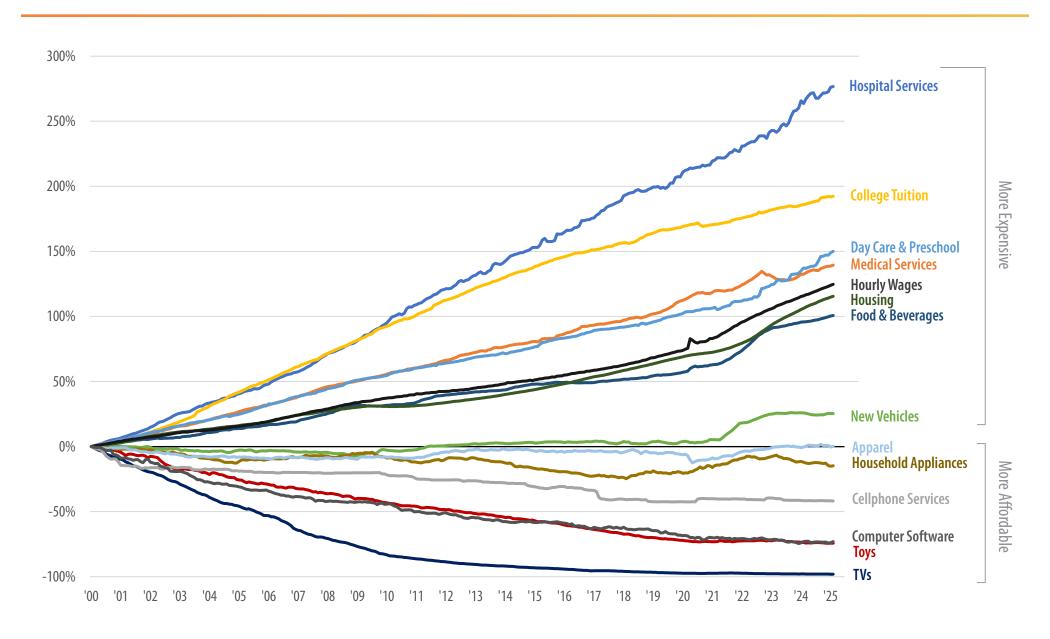


Source: First Trust, Bureau of Labor Statistics, Statista. Monthly data from January 2019 — February 2025. \*Average annual change in the Consumer Price Index (CPI) over the previous three years. Not seasonally adjusted. For illustrative purposes only and not indicative of any investment. CPI measures Inflation (the average change in prices over time that consumers pay for a basket of goods and services).

# **Price Changes: Consumer Goods, Services and Wages**

Since 2000

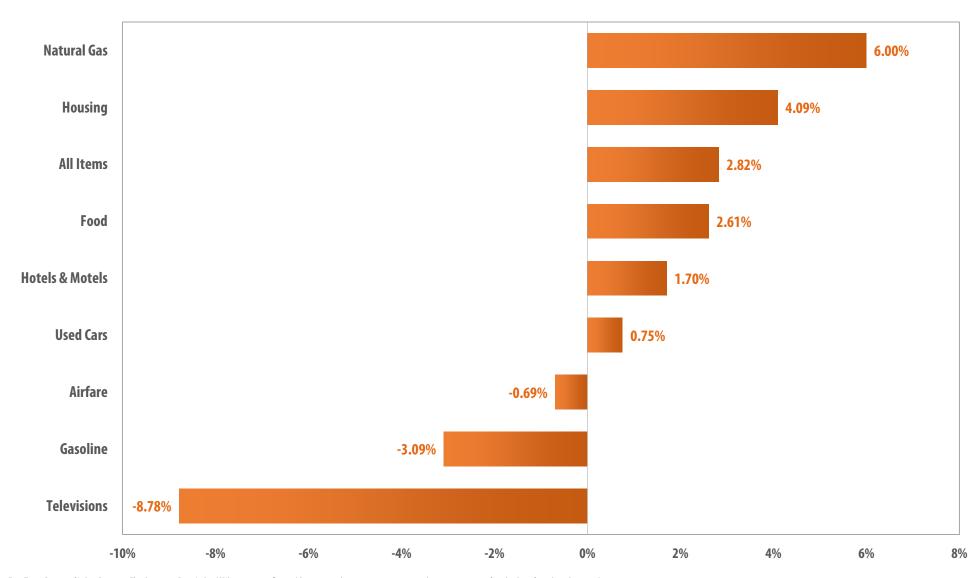




Source: First Trust, Bureau of Labor Statistics, Carpe Diem/AEI. Monthly data from January 2000 to February 2025. Chart shows cumulative changes indexed to January 2000. All data seasonally adjusted with the exception of Cellphone Services and Computer Software.



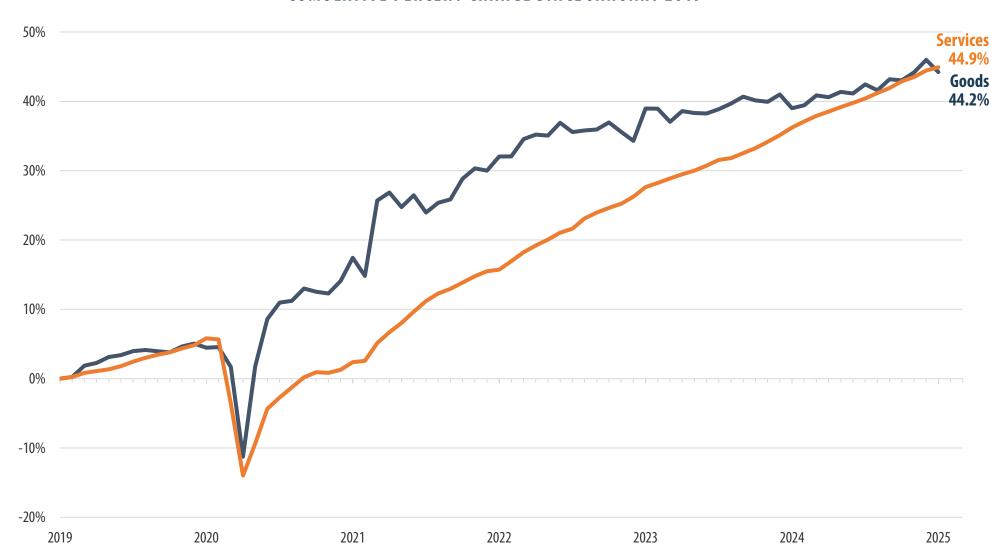
### YEAR-OVER-YEAR CHANGE IN PRICE OF SELECTED ITEMS IN THE CONSUMER PRICE INDEX



Source: First Trust, Bureau of Labor Statistics. The Consumer Price Index (CPI) measures inflation (the average change in prices over time that consumers pay for a basket of goods and services).



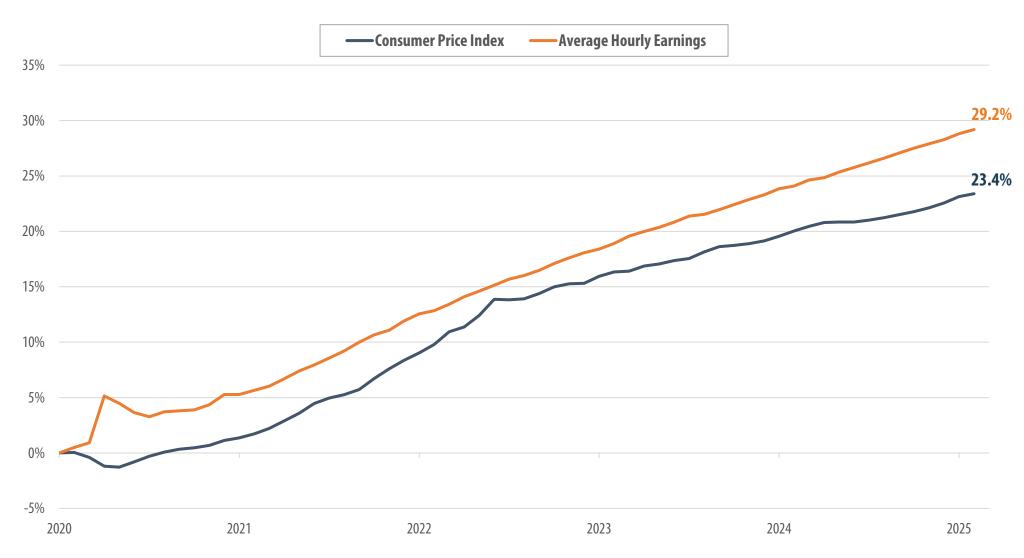
### **CUMULATIVE PERCENT CHANGE SINCE JANUARY 2019**



Source: First Trust, Federal Reserve Bank of St. Louis. Cumulative percent change in personal consumption expenditures from January 2019 through January 2025 (latest data available), seasonally adjusted.



### PERCENT INCREASES: CONSUMER PRICE INDEX AND AVERAGE HOURLY EARNINGS

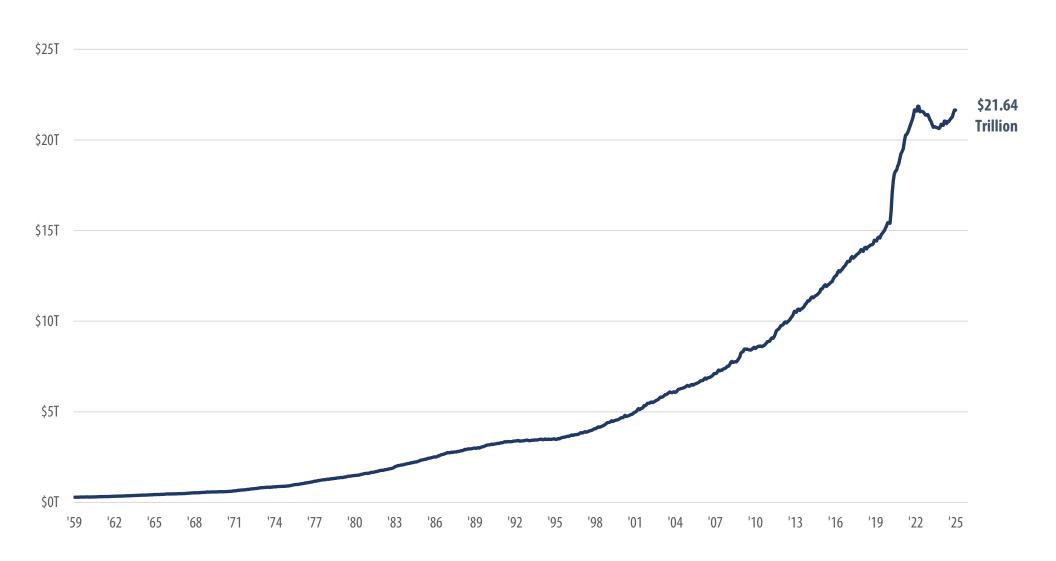


Source: First Trust, Bureau of Labor Statistics. Monthly data from January 2020 to February 2025. Chart shows cumulative changes indexed to January 2020. The Consumer Price Index measures inflation (the average change in prices over time that consumers pay for a basket of goods and services).

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.



### **CURRENCY IN CIRCULATION** (TRILLIONS OF DOLLARS)

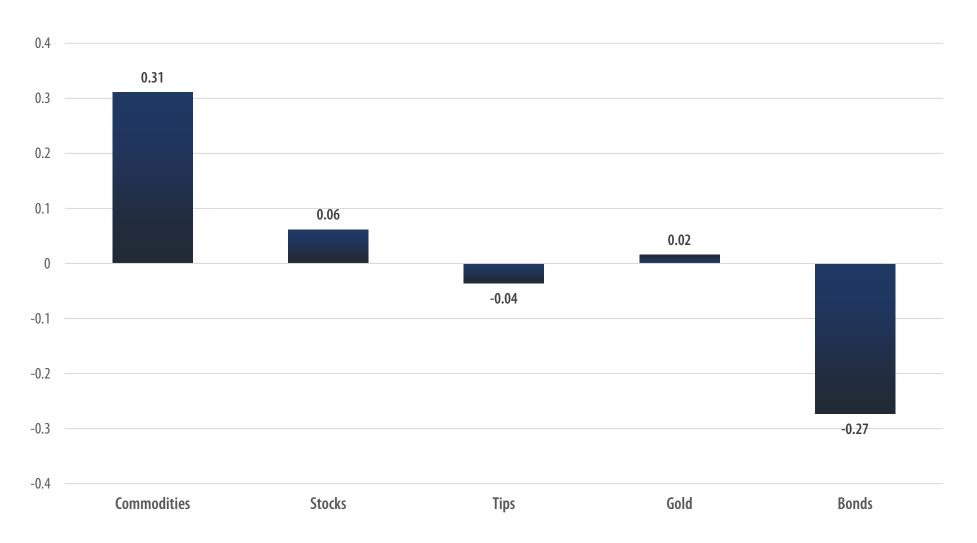


Source: First Trust, Federal Reserve Bank of St. Louis. Monthly data from January 1959 — January 2025 (latest data available), not seasonally adjusted. M2 includes hard currency, checking deposits, savings deposits, small denomination time deposits and retail money market funds.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.



### HISTORICAL CORRELATION OF RETURNS TO U.S. INFLATION



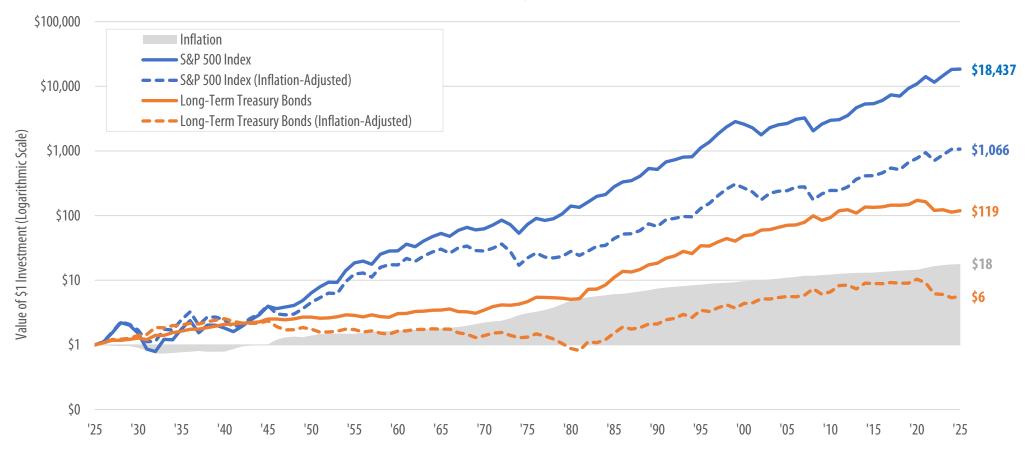
Source: First Trust, Bloomberg. 9/30/2004 — 2/28/2025. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. **Commodities** are represented by the Bloomberg Commodity Index, a broadly-diversified index designed to provide exposure to commodities via futures contracts. **Bonds** are represented by the Bloomberg U.S. Aggregate Bond Index, a broad-based, market capitalization-weighted bond market index represented by the Bloomberg Us. Stocks are represented by the Bloomberg Us Treasury Inflation-Linked Bond Index which measures the performance of the Us Treasury Inflation Protected Securities (TIPS) market. **Gold** is represented by the Consumer Price Index (CPI-U) which measures the average change in prices over time that consumers pay for a basket of goods and services. Indexes are unmanaged and an investor cannot invest directly in an index.

### Inflation vs. Stocks and Bonds



It can be tempting to shy away from risk in investing, especially during times of market turmoil, but the reality is that all investments carry some degree of risk. The chart below shows the hypothetical growth of \$1 and the effect inflation has historically had on two types of investments -- stocks and bonds. This chart shows taking on a certain amount of risk can be necessary to stay ahead of inflation and should be factored in when assessing long-term financial goals.

### HYPOTHETICAL GROWTH OF A \$1 INVESTMENT: SINCE 1926

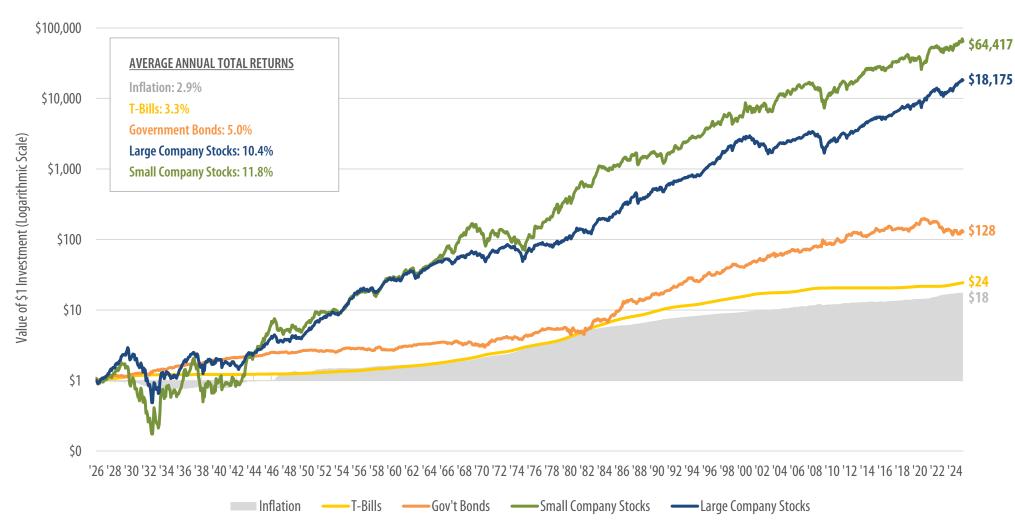


Source: First Trust, Ibbotson Associates, Bloomberg, U.S. Bureau of Labor Statistics. Hypothetical growth of a \$1 investment made on 12/31/1925. Data shows total returns through 2/28/2025. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. The asset classes shown here offer different characteristics in terms of income, tax treatment, capital appreciation and risk. U.S. government securities are subject to interest rate risk but generally do not involve the credit risks associated with investments in other types of debt securities. As a result, the yields available from U.S. government securities are generally lower than the yields available from other debt securities. Common stocks are subject to risks, such as an economic recession and the possible deterioration of either the financial condition of the equity securities or the general condition of the stock market.

Inflation is represented by the Consumer Price Index (CPI-U) which measures the average change in prices over time that consumers pay for a basket of goods and services. The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. **Long-Term Treasury Bonds** are represented by Ibbotson Long Term Government Bond Index (12/31/1925-5/31/2024) and Bloomberg US Long Treasury Total Return Index Value Unhedged Index (6/1/2024-current) which measure the performance of U.S. Treasury bonds with approx 21.5 and 22.5 year duration, respectively. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges.



### COMPOUND ANNUAL RETURN: 1926 - 2024



Source: First Trust, Ibbotson Associates. Hypothetical growth of a \$1 investment made on 12/31/1925. Data is monthly and shows total returns through 12/31/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. **Inflation** is represented by the Consumer Price Index (CPI-U) which measures the average change in prices over time that consumers pay for a basket of goods and services. **Treasury Bills (T-Bills)** are represented by the 30-day U.S. Treasury bill. **Government Bonds** are represented by the 20-year U.S. Government bond. **Small Company Stocks** (Ibbotson Small Company Stocks) are represented by the fifth capitalization quintile of stocks on the NYSE from 1926 to 1981 and the performance of the Dimensional Fund Advisors (DFA) Micro Cap Fund thereafter. **Large Company Stocks** (Ibbotson Large Company Stocks Index) are represented by the S&P 500 Composite Index (S&P 500 Index - an index of 500 companies used to measure large-cap U.S. stock market performance) from 1957 to present, and the S&P 90 from 1926 to 1956. Indexes are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges.

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