The Price of Protectionism

US Tariffs and Their implications on US Economy

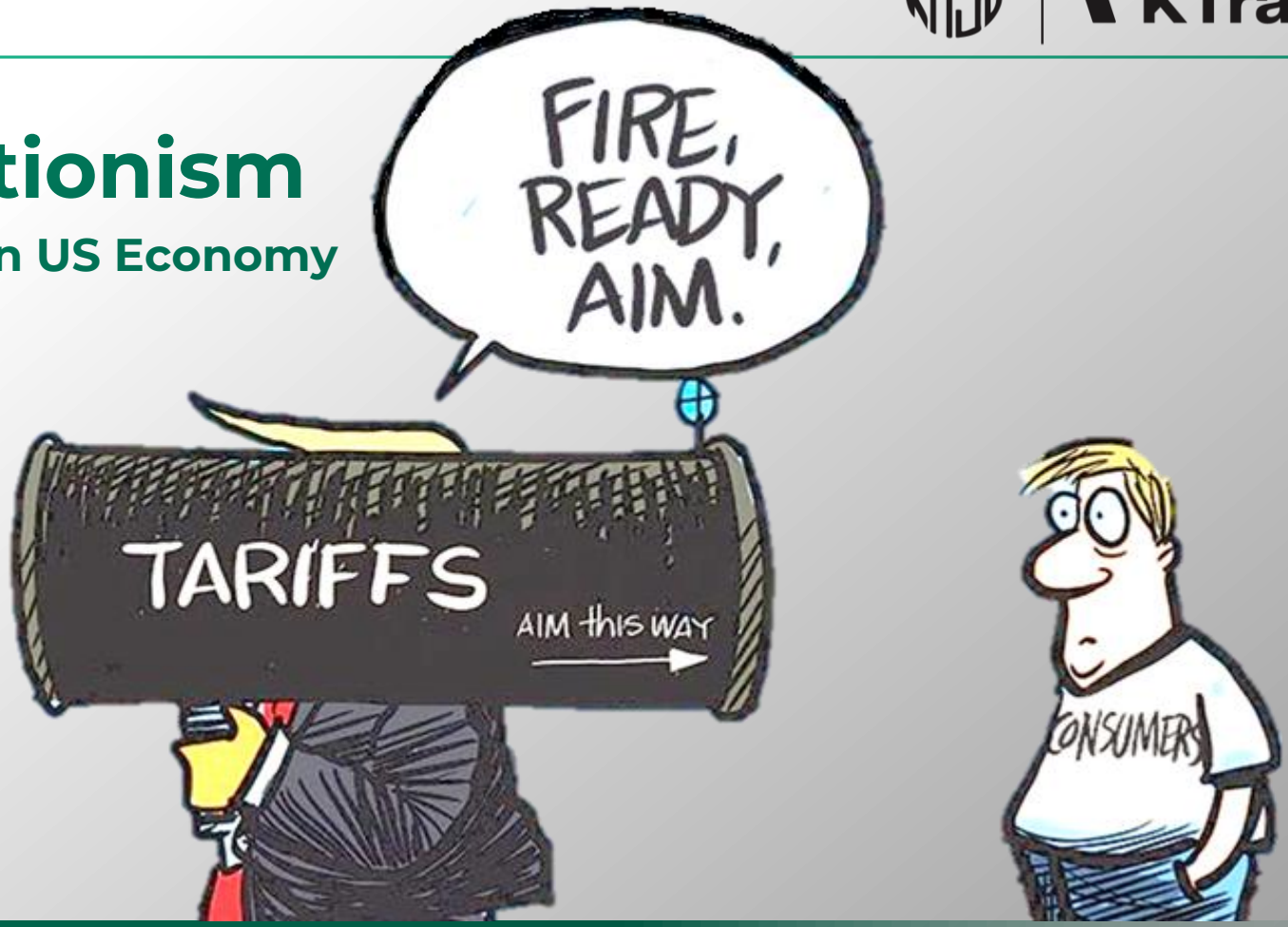

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Table of Contents

I. Executive Summary

II. Inflationary Pressures from Tariffs

III. Impact on US Economic Growth

IV. Rising Economic Uncertainty

V. Financial Market Volatility

VI. Tech Valuations

VII. Gold Prices and Safe-Haven Dynamics

VIII. Bitcoin's Rise: The Digital Flight from Dollar Dominance

IX. China Winning the Trade War

X. Policy Implications and outlook

XI. Conclusion

Executive Summary

This report examines the economic impact of the Trump administration's tariff policies implemented in 2025, analyzing their effects on inflation, economic growth, fiscal sustainability, market stability, and trade dynamics. The evidence reveals that protectionist measures have backfired, imposing significant costs on the American economy while failing to achieve their stated objectives of reducing trade deficits and strengthening fiscal position.

Inflationary Impact: Consumer Price Index rose 3% annually by September 2025, as approximately $30 billion in monthly tariffs continue to work through the economy. The Federal Reserve faces a policy dilemma between combating inflation and supporting a weakening labor market

Fiscal Irrelevance: Total customs duties of $195 billion represent only 11% of the $1.775 trillion fiscal year 2025 deficit. U.S. debt approached $38 trillion with a Debt-to-GDP ratio of approximately 120%. Government spent $1.34 for every dollar collected, revealing tariffs as insignificant relative to structural fiscal imbalances. Net interest payments ($970 billion) alone are nearly 5 times tariff revenue

Economic Growth Deterioration: IMF slashed U.S. growth forecast to 1.8% for 2025, a 0.9 percentage point reduction from January 2025

GDP growth showed mixed signals with resilient consumer spending offset by cooling labor market and slower hiring. Policy uncertainty continued to depress investment and business confidence.

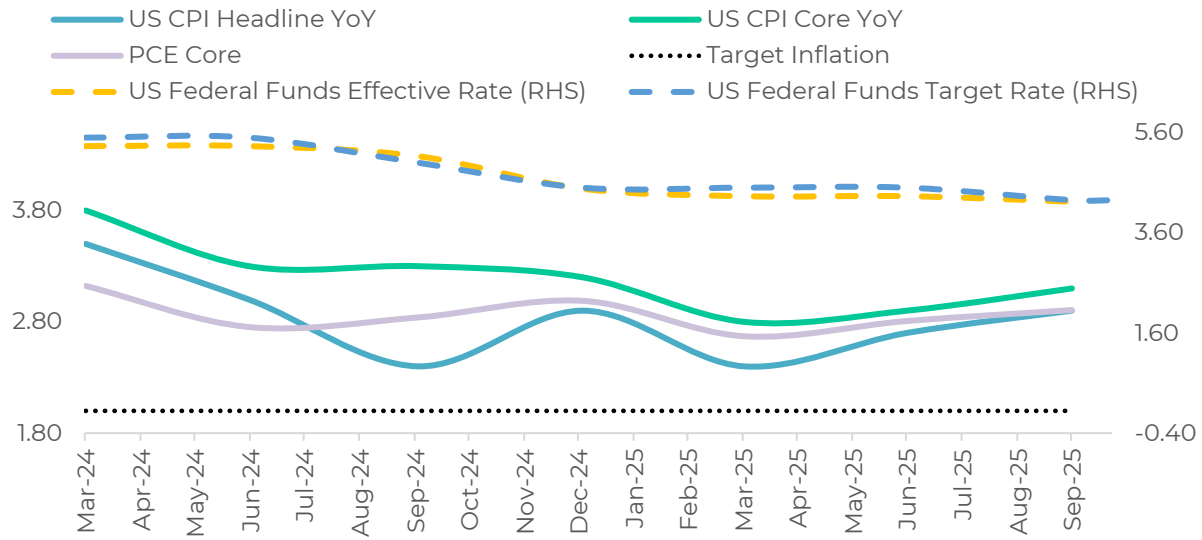
K-Shape Economy: Top 10% of earners now account for roughly 50% of all U.S. consumer spending, up from 36% three decades ago. The bottom 80% of households have seen spending growth barely keep pace with inflation, resulting in no real purchasing power gains. Credit card and auto loan delinquencies have surpassed pre-pandemic levels. Middle-class households were burdened financially, unable to absorb further cost increases or income declines. Tariffs function as a regressive tax, disproportionately burdening lower and middle-income Americans

Financial Market Volatility and Dollar Decline: U.S. dollar weakened significantly in 2025 due to unpredictable fiscal policies and erratic tariff implementation. Gold prices surged as investors sought safe-haven assets amid fiscal uncertainty. Bitcoin rose dramatically especially in the first half of 2025, powered by US economic and policy uncertainty. Bitcoin also used as an inflation hedge against rising prices. Investors reallocated portfolios away from U.S. assets, reflecting diminished confidence in US economy with reduced consumer sentiment dropping at lowest levels.

Trade Deficit Persistence: Despite tariffs, trade deficit remains largely unchanged due to fundamental domestic imbalances. China has proven resilient through trade deflection to new markets and massive stimulus. Supply chains will take some time to realign and have fragmented, creating long-term efficiencies as trade imbalances improve.

Inflationary Pressures from Tariffs (1/3)

- **The consumer price index rose 3% on an annual basis in September 2025**
- **Economists say the Trump administration's tariff agenda could raise consumer prices more in the months ahead**



- Overall prices rose approximately 3% in September 2025 compared to the previous year, up from 2.9% in August. This places inflation further from the Federal Reserve's 2% target.
- Headline inflation has edged up due to higher food prices and Motor fuel cost and the fuel stations in September.
- Core Inflation, excluding food and energy commodities, rose at a slower pace in September, dragged down by cheaper prices for used cars. Categories that are more exposed to tariffs, including household furnishings and recreational goods, advanced. Apparel prices climbed at the fastest rate in a year. (Detailed breakdown in the subsequent slides)
- These indicators point to increased pressure on household spending and consumer purchasing power.

The effects of the tariffs are in a nascent stage:

The global economy still adjusting to Trump's tariffs, a process expected to continue for several more months as exporters, importers, and consumers negotiate over who will ultimately bear the burden of approximately $30 billion in monthly tariffs.

Since Trump launched the trade war, approximately 72% of companies in Europe, the Middle East, and Africa have reported price increases. Only 18 companies have warned that their profit margins have been affected. Prices of Chinese products sold in the U.S., ranging from clothing to electronics, have already seen a significant rise.

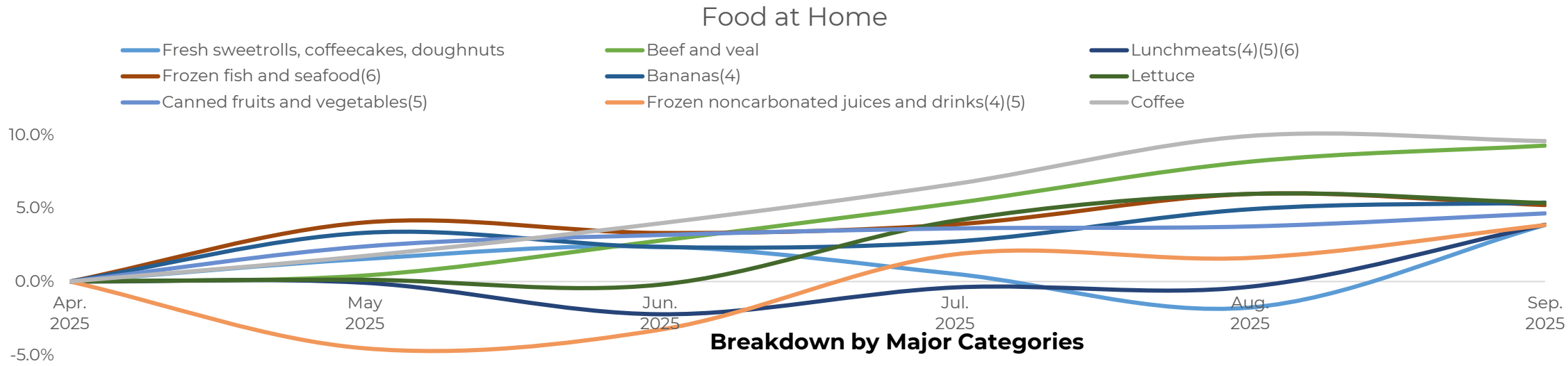
All of this sets the stage for a rise in U.S. inflation. Recently, the Federal Reserve cut its benchmark interest rate due to concerns about a weak labor market, but policymakers remain divided on whether tariff-driven inflation might subside.

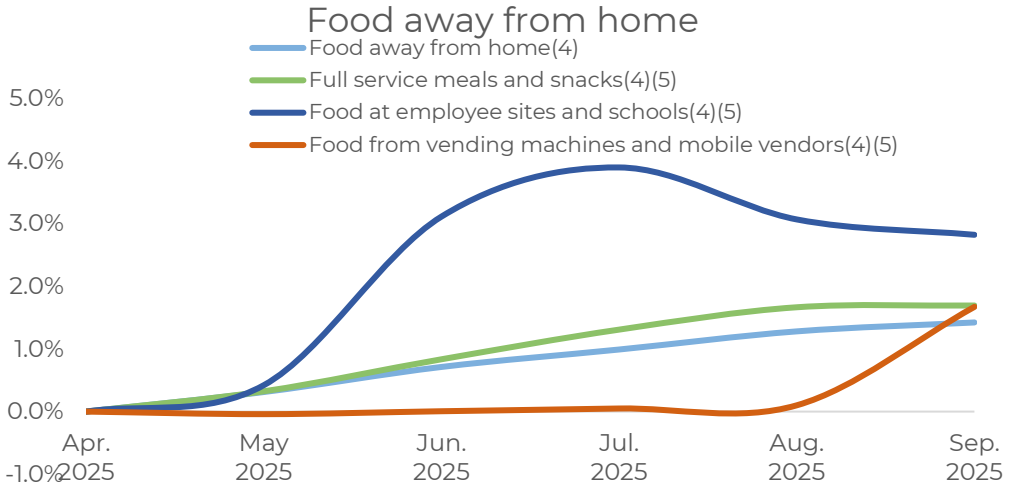
The Peterson Institute for International Economics estimates that inflation over the next year will be 1 percentage point higher than it would have been without the tariff hikes, but it will subsequently decline.

Cavallo added: 'We should not assume this is merely a one-time price jump. Companies are finding ways to mitigate the impact and spread out the price increases over a longer period.'

Source: BLS CPI data, CNBC (Inflation breakdown for September 2025), Alberto Cavallo Prof. at Harvard (Tracking the Short-Run Price Impact of U.S. Tariffs) and KTrade Research

Inflationary Pressures from Tariffs (2/3)





Breakdown by Major Categories

Food at Home

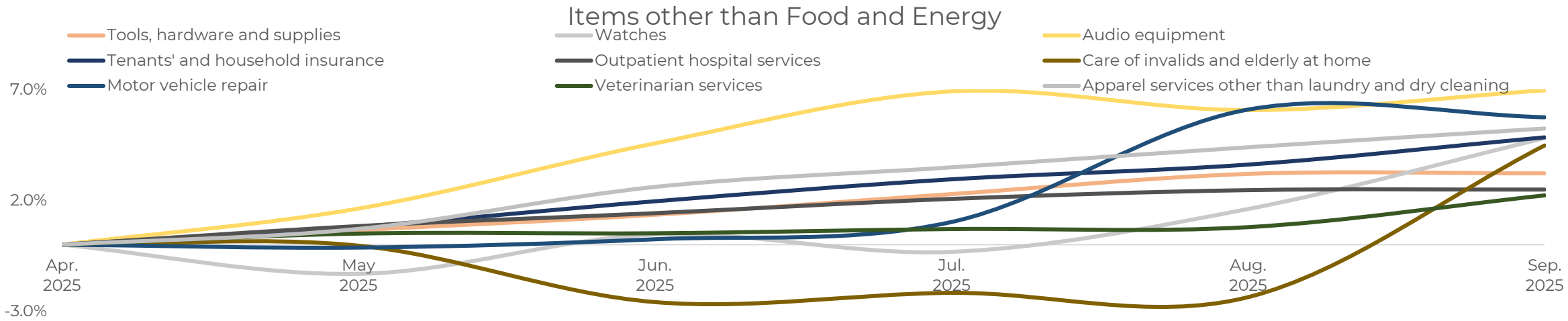
- This category showed the most dramatic and varied impacts. Coffee surged to around 10% inflation by September, becoming the clear leader. Lettuce and frozen noncarbonated juices also climbed significantly to 8-9%.
- Several protein sources (beef/veal, frozen fish/seafood, and lunchmeats) all settled around 5-6% inflation. Notably, bananas showed price hike as well..

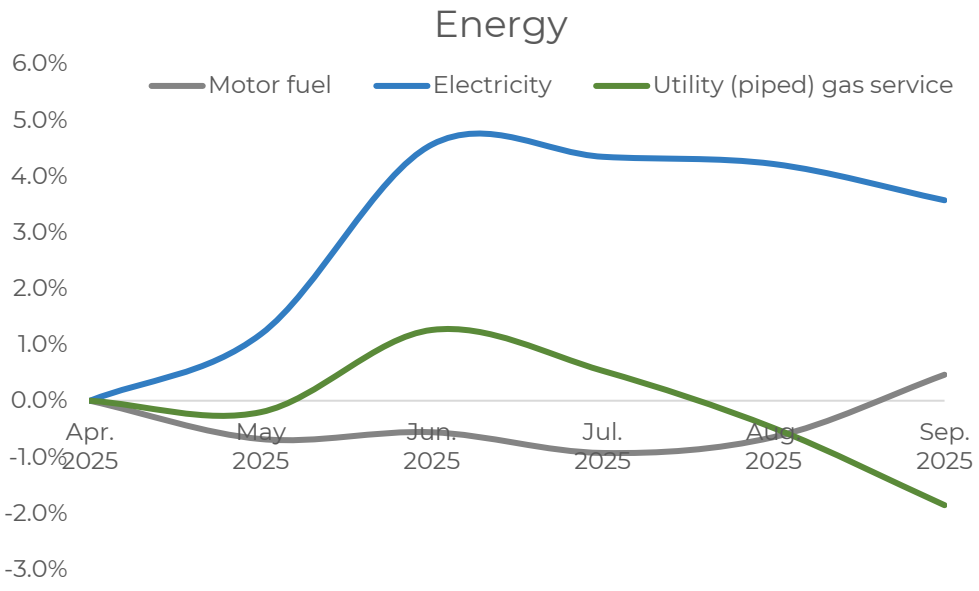
Food Away from Home

- All subcategories moved steadily upward throughout the period.
- Food at employee sites and schools showed the sharpest increase, rising to nearly 4% by July before moderating slightly.
- Full service meals and general food away from home both reached the 1.5-2% range by September. Vending machine food spiked dramatically in the final month shown, suggesting a lagged pass-through of costs.

Source: U.S. Bureau of Labor Statistics, CNBC inflation breakdown for September 2025, BBG, EY and KTrade Research

Inflationary Pressures from Tariffs (3/3)





Energy

- Electricity dominated this category, peaking around 4.5-5% in June-July before declining to about 3.5% by September.
- Utility gas service showed more moderate movement, reaching about 1% mid-period before turning negative by September (down nearly -2%). Motor fuel was volatile but ended roughly flat to slightly positive.

Items Other Than Food and Energy

- This category showed the broadest inflation pressure. Tenants' and household insurance led dramatically, reaching nearly 7% by September. Motor vehicle repair and care of invalids/elderly climbed steadily to around 6%.
- Apparel services, veterinary services, and outpatient hospital services all trended upward to the 4-5% range. Watches and audio equipment showed more modest increases around 2-4%.

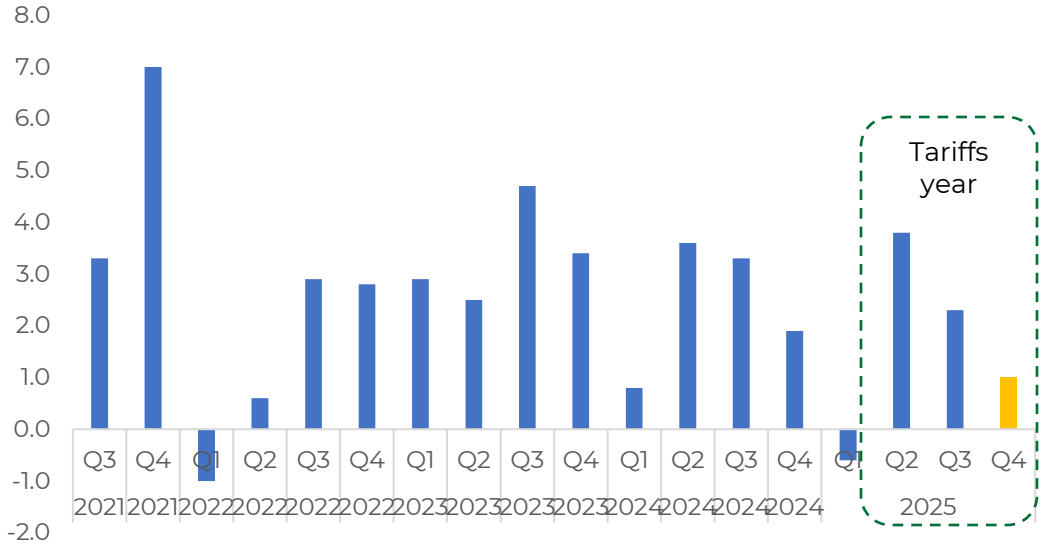
Overall, the tariffs appear to have created significant inflationary pressure across consumer goods, with particularly strong impacts on imported consumer items (coffee, electronics, vehicles etc.) and services.

Source: U.S. Bureau of Labor Statistics, CNBC inflation breakdown for September 2025, BBG, EY and KTrade Research

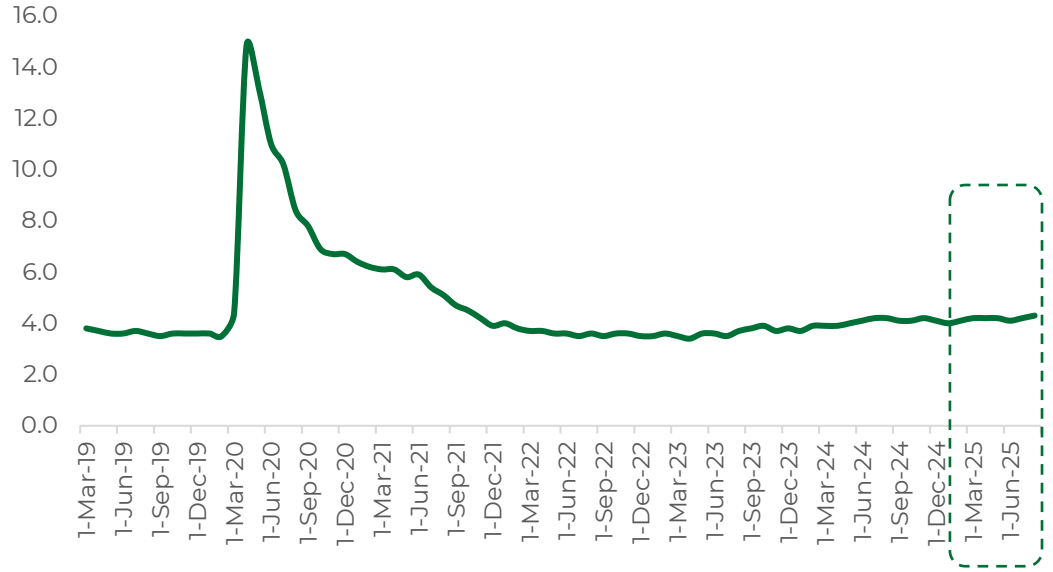
Impact on US Economic Growth

- **U.S. economic dichotomy persists**
- **Balance growth observed in the US market as there is resilient US real GDP growth and strong investments in Capital Markets amidst economy/policy uncertainty**
- **Sticky inflation make a conflicting and uncertain outlook in the short run.**

US Real GDP – Percentage change from previous Quarters



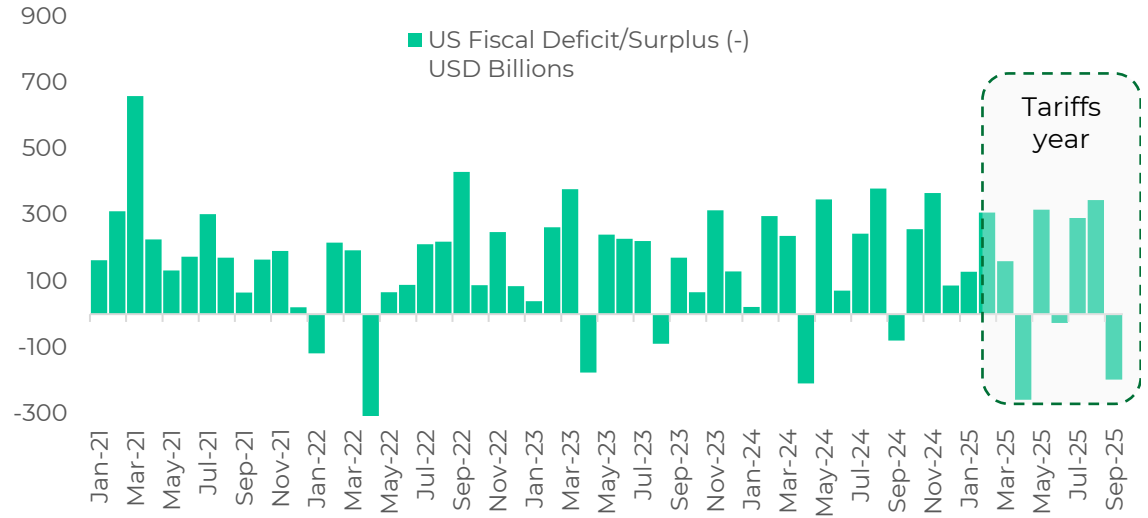
Unemployment Rate, Percent, Monthly, Seasonally Adjusted

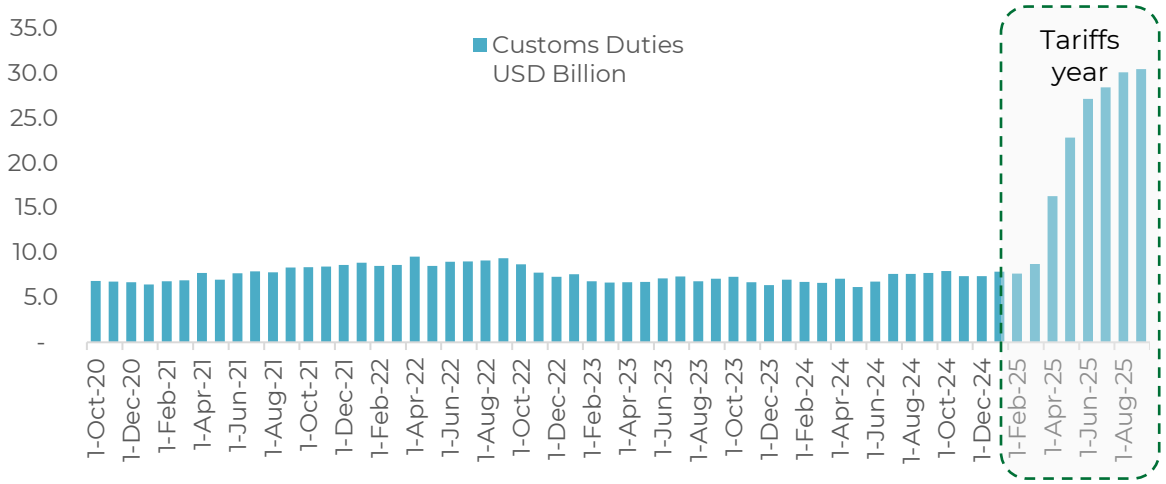


- The U.S. economy is showing mixed signals. GDP growth for the first half of the year was revised higher, and strong data from the third quarter have improved the outlook. Growth now looks more rationale, with resilient US real GDP growth and strong investments in capital markets helping to ease fears of a sharp slowdown. However, the job market is cooling, with slower hiring keeping some risks on the downside. Ongoing policy uncertainty and possible inflation from new tariffs mean short-term growth could still face pressure.

Source: Fred data, US economic outlook Fadility report and KTrade Research

Impact on US Economic Growth





Looking from a bird's eye view of the economy, the situation is stark. For fiscal year 2025 (October 2024 to September 2025)

- Total Receipts: $5,235 billion
- Total Outlays: $7,010 billion
- Deficit: $1,775 billion
- Customs Duties Revenue: $195 billion

- Monthly average tariff revenue reached approximately $30 billion by the end of Q3 2025. Total customs duties of $195 billion account for only 11% of the $1.775 trillion deficit for fiscal year 2025.
- To put this in perspective the deficit is 9.1 times larger than total customs duties. Net interest payments alone ($970 billion) are nearly 5 times customs duties revenue. Even Medicare spending ($917 billion) 5 times the tariff revenue.

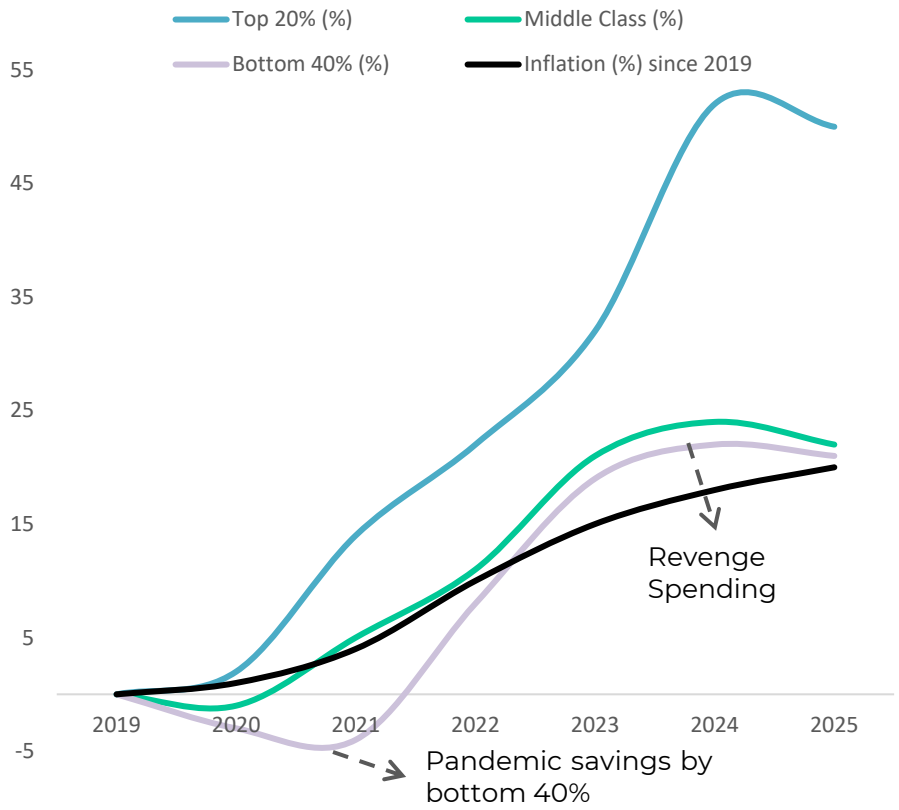
- The unprecedented debt levels of approximately USD 38 Trillion are being driven by a structural imbalance where the government spends $1.34 for every dollar it collects. Interms of investor perspective the Debt to GDP ratio is a more relevant measure compared to the total outstanding debt which is now at approximately 120%. While the tariff surge represents a significant policy shift, it's insignificant relative to the scale of the fiscal challenge facing the United States.

Source: Fred data, JP Morgan – 2026 US economic outlook and KTrade Research

Rising Economic Uncertainty

- **The U.S. economy is growing ever more reliant on top earners. It's risky and tough for the middle class.**

Growth in personal spending by income groups vs. inflation since Q4 2019 (K-Shaped Economy)



- Wealthy American in the top 20 percent continue to grow their spending. Meanwhile, middle-class and lower-income Americans have their spending roughly in line with inflation.

The U.S. economy depends on consumption by the rich

- The "K-shaped Economy" captures the widening split between economic winners and losers. The top "arm" represents households with rising wealth and strong consumption, while the bottom arm represents households facing stagnation and falling purchasing power. This divergence intensified in 2025 into one of the most defining macroeconomic features.
- Recent downward job revisions and sticky inflation due to tariffs signaled recession-like conditions. Hiring stagnated, concentrated mainly in health care, while major sectors (manufacturing, retail, construction) began outright layoffs.
- The economy was increasingly sustained by a few tech and financial giants (Apple, Microsoft, Meta, JPMorgan, Goldman Sachs). The broader S&P 500 stagnated while tech and finance surged, representing the top arm of the K-shape.

Consumption Driven by the Wealthy (Top Arm of K Shape)

- The top 10% of earners accounted for roughly half of all U.S. consumer spending—up from 36% three decades ago. These households, typically earning $250,000+, continued benefiting from rising asset values and strong business income. Their robust spending on luxury goods and services increasingly masked mounting financial pressures facing the rest of the population.

Middle- and Lower-Income Households Are Stalling Out (Lower Arm of K Shape)

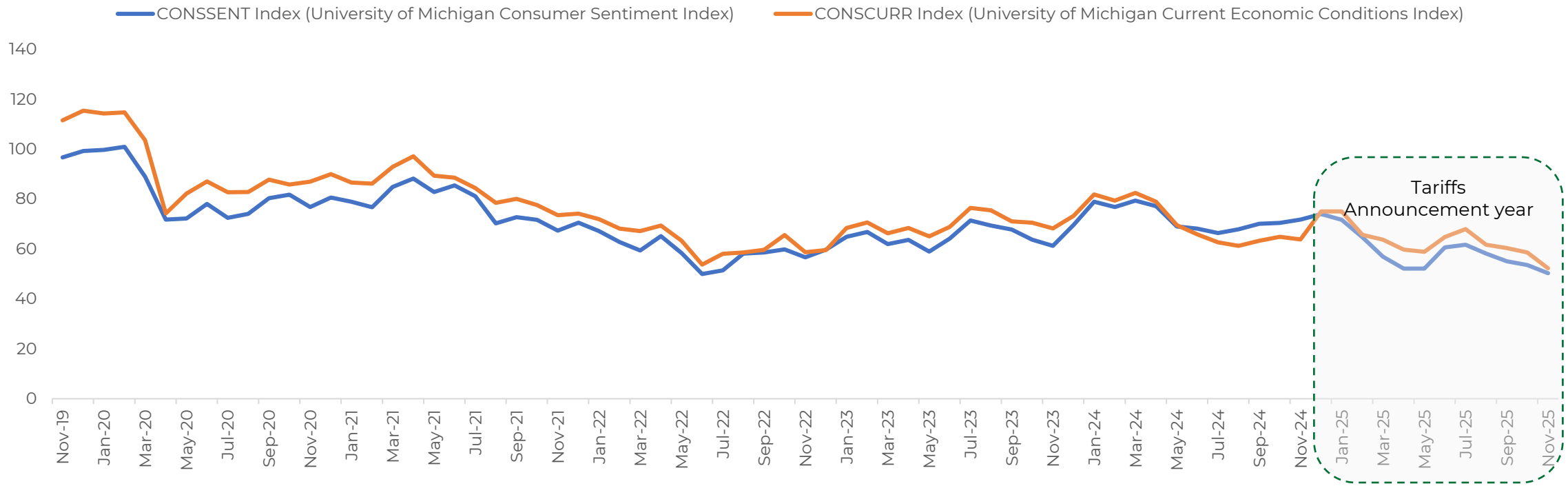
- For the bottom 80% of households, spending growth barely kept pace with inflation, resulting in no real purchasing power gains. Many shifted from credit to debit, cut discretionary purchases, and attempted to rebuild savings. Credit card and auto loan delinquencies surpassed pre-pandemic levels, and millions fell behind on student loans.

The middle class was basically tapped out financially. Any further cost increases from tariffs or income declines would be difficult to absorb, especially as government aid programs declined.

Source: Moody's Analytics data, Washington Post (Opinion by Heather Long - The economy is cracking. This trend is most alarming) and KTrade Research

Rising Economic Uncertainty

- **Consumer sentiments remain more strid amid a weaker labor market and inflationary pressures, while businesses fare relatively better due to productivity gains and Fed easing**

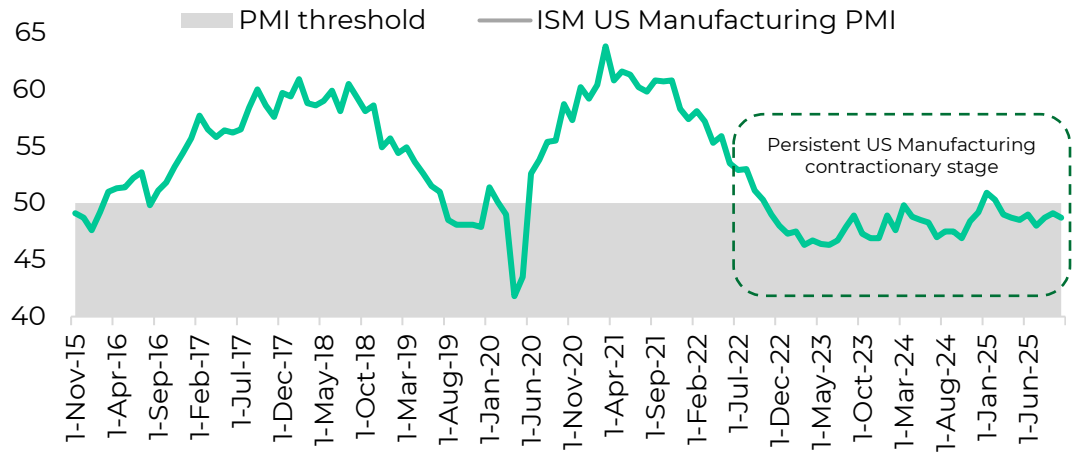


- U.S. consumer sentiment declined in October to its lowest level in five months, reflecting persistent concerns about high prices and their impact on household finances. The University of Michigan's sentiment index fell to 53.6 from 55.1 in September, with current conditions dropping to the weakest level since August 2022. Long-term inflation expectations rose slightly to 3.9%, while one-year expectations eased marginally to 4.6%. Despite a softer rise in the Consumer Price Index for September, costs for essentials such as groceries and gasoline remained elevated. Nearly half of surveyed consumers reported worsening personal finances due to ongoing price pressures. While job market expectations remained steady, overall consumer confidence and buying conditions for major purchases weakened notably.

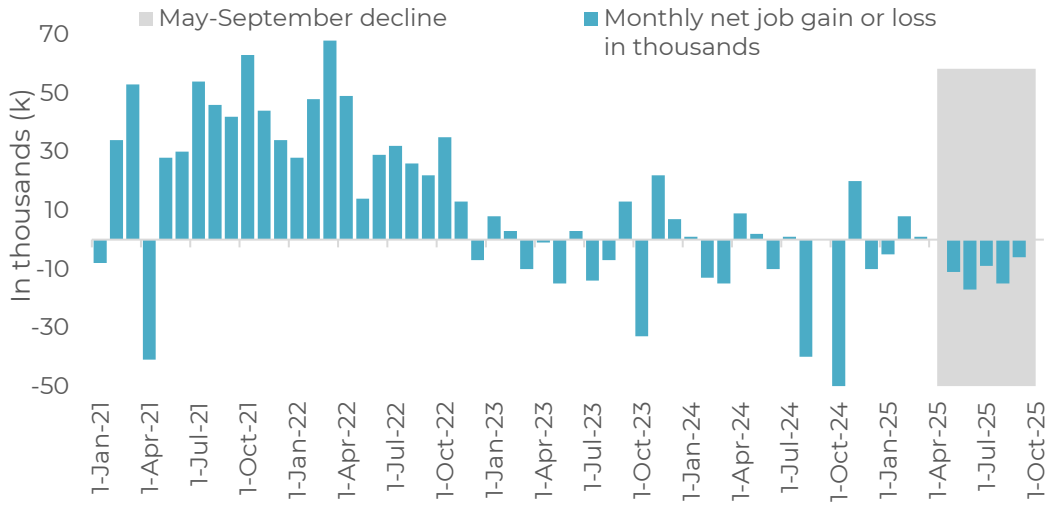
Source: Bloomberg and KTrade Research

Supply Chain disruption and US Manufacturing

- The US Manufacturing is on a contractionary stage since 2023 and the Global Supply chain pressure is on the higher side as it look for realignment to lower cost regions.



US manufacturing have lost 58K Jobs since April 2025



Supply Chain disruption and realignment

- In response to tariff impositions, manufacturers have attempted to realign global supply chains toward lower-cost regions in an effort to mitigate tariff-related cost pressures. Such relocations can occur more rapidly in sectors with ongoing transitions and loosely-integrated supply chains, particularly in consumer-related industries such as toys, furniture, lighting, and apparel.
- However, companies operating in these sectors already face high leverage and narrow profit margins. The effort to relocate supply chains to avoid tariffs could prove costly and disproportionately burden small to midsize manufacturers.

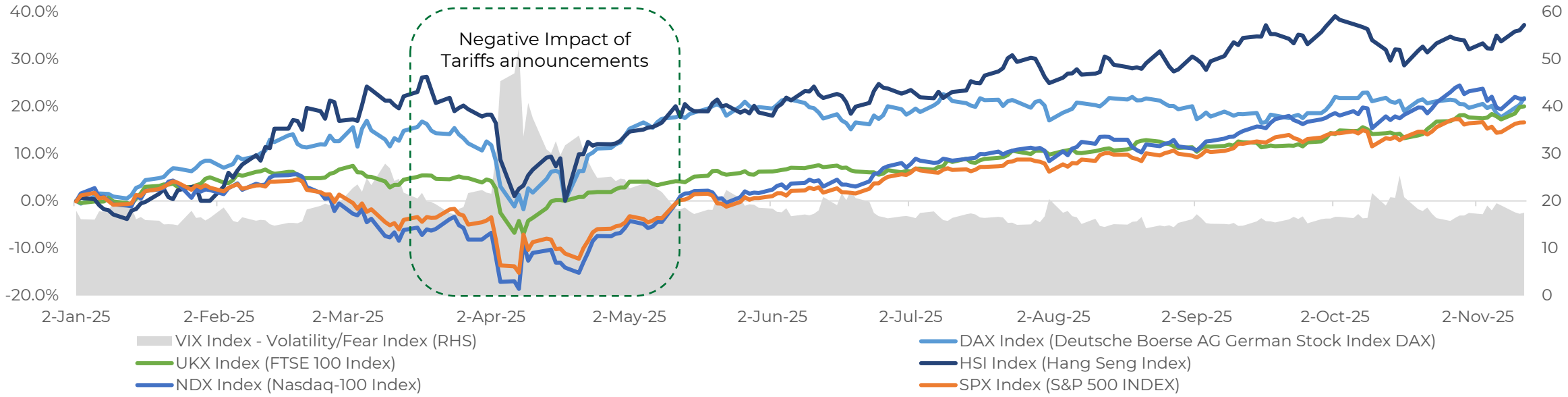
US manufacturing

- The US manufacturing index has remained in contractionary territory since 2023, registering 48.7 below the critical threshold of 50.
- So far this year has been a harsh reality for manufacturing with 6,000 manufacturing jobs lost in September 2025. Which means there are now 94,000 fewer people working in America's factories than a year ago and 58,000 fewer than when Trump rolled out his tariff push in April promising that it would lead to a new age of prosperity.
- The manufacturing data reveals that Trump's proposed tariffs are unlikely to achieve their stated goal of reviving the US job market.

Source: Bloomberg, S&P Global Ratings and KTrade Research

Financial Market Volatility

- **Major US indices shows high volatility in April and May following Trumps tariff announcement and subsequent retaliatory tariffs from various trading partners**



- Overall Trend from Jan 2025 to November 2025, following the April 2, 2025 U.S. trade policy announcement, major U.S. equity indices experienced significant volatility before shifting into a steady upward trend.
  - Nasdaq-100 (NDX) after bottoming near –22% in early April 2025 (Tariffs Announcement), the index recovered strongly and ended the observed period around +20%, making it the top performer among the three indices.
  - S&P 500 (SPX) declined to roughly –18% at the trough and later climbed back to around +15%, showing a smoother and more stable trajectory compared with NDX.
  - Russell 2000 (RTY): Fell the most sharply nearly –25% at the lows and ended the period closer to +7% to +10%, indicating that small-cap stocks lagged behind large-caps throughout the recovery.
- Overall Trend, despite the deep drawdown following the trade policy announcement, all three indices displayed a steady and persistent upward trend from mid-April onward. The Nasdaq-100's leadership can be explained by the strong performance of AI technology, cloud providers, and mega-cap technology firms whose earnings were viewed as less sensitive to trade frictions..

Source: Bloomberg and KTrade Research

Financial Market Valuations

Tariff-Driven Pullback

US stock valuations experienced downward pressure earlier in 2025 as tariff policies created market uncertainty. The S&P 500's price-to-earnings ratio declined notably during the February-April period, reflecting investor concerns about:

- Potential Supply chain disruptions
- Increased expected input costs for corporations
- Potential retaliatory measures from trading partners
- Reduced profit margin expectations

Subsequently, markets responded positively when the Federal Reserve cut rates in mid 2025 to support growth. However, a cooling jobs market with delayed labor reporting created uncertainty about the economy's health. Simultaneously, sticky inflation made the Fed's policy path unclear, leaving investors uncertain whether rate cuts would materialize quickly enough to offset tariff-related economic headwinds.

Recovery to All-Time Highs

Despite these headwinds, US equity valuations (in min 2025) have since recovered to historically elevated levels. As of late November 2025, the valuations of US stocks paint the following picture:

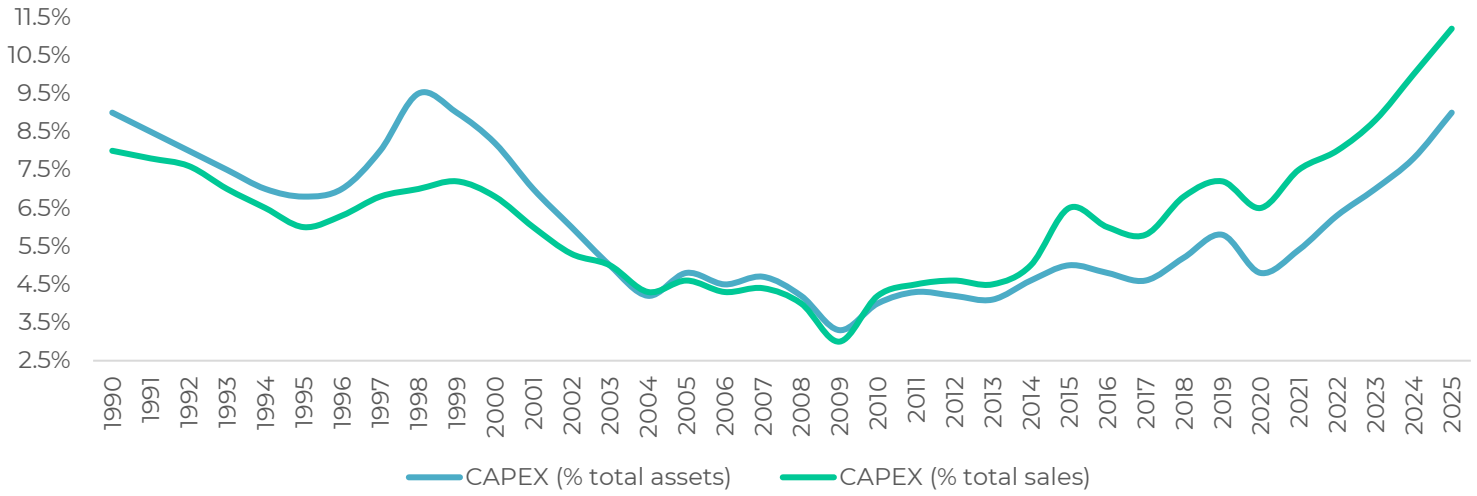
- **S&P 500 P/E Ratio**: Trading near 27x, significantly above the long-term average
- **Magnificent 7 P/E**: Approaching 38x, reflecting high valuations for mega-cap tech labor stocks
- **Ex-AI Stocks P/E**: Around 20x, indicating the AI sector is driving much of the valuation premium.

The disparity between AI-focused technology stocks and the broader market highlights how concentrated the valuations have become. As many economists say that this AI boom bears an unmistakable resemblance to the tech boom of the late 1990s. A boom that potentially bears the risk of a bubble.

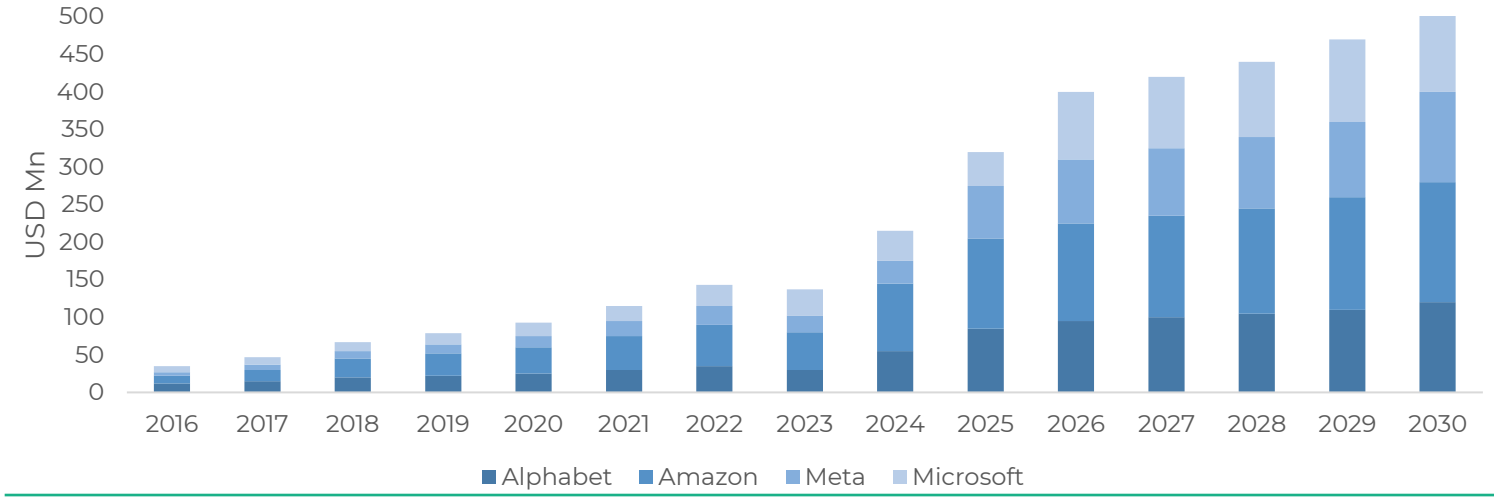
Source: Bloomberg, Warning: The Fed Can't Rescue AI – Paul Krugman and KTrade Research

Financial Market Bubble Risk

US Technology CAPEX (% of Total Assets / Sales) Ratios



Listed Big Tech CAPEX forecasts will persist



Capital Expenditure Trends

- Technology sector have reached levels not seen since the late 1990s dot-com boom:
  - **CAPEX as % of Total Assets**: Currently around 9-11%, almost nearing peak dot-com levels from 1999-2000
  - **CAPEX as % of Total Sales**: Hovering near 11%, the highest in over two decades

- Major technology companies are forecasting significant capital expenditure through 2030, with combined annual spending projected to exceed $500 Bn. This investment wave centers primarily on AI infrastructure including data centers, specialized chips etc.

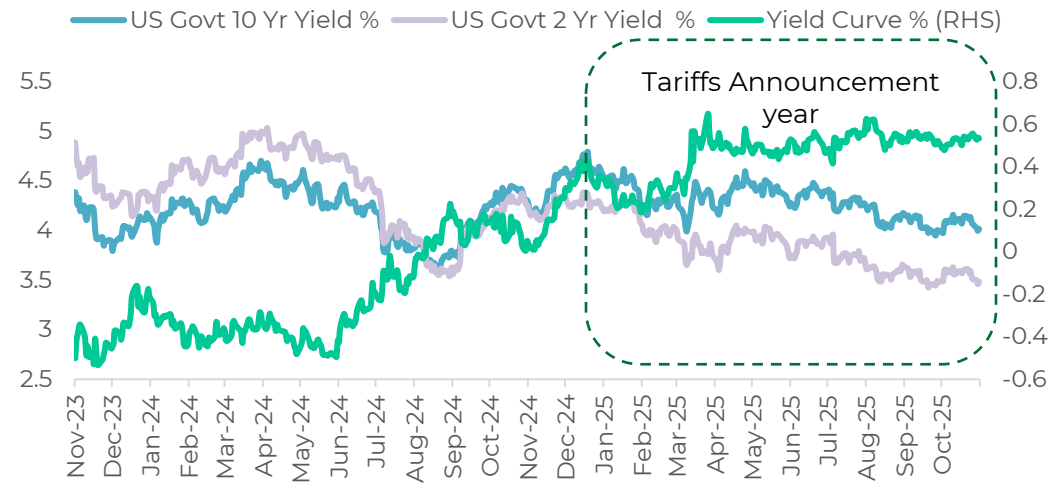
- While AI may indeed increase productivity and efficiency, the combination of stretched valuations, record CAPEX commitments, and historical parallels to previous technology bubbles warrants caution.

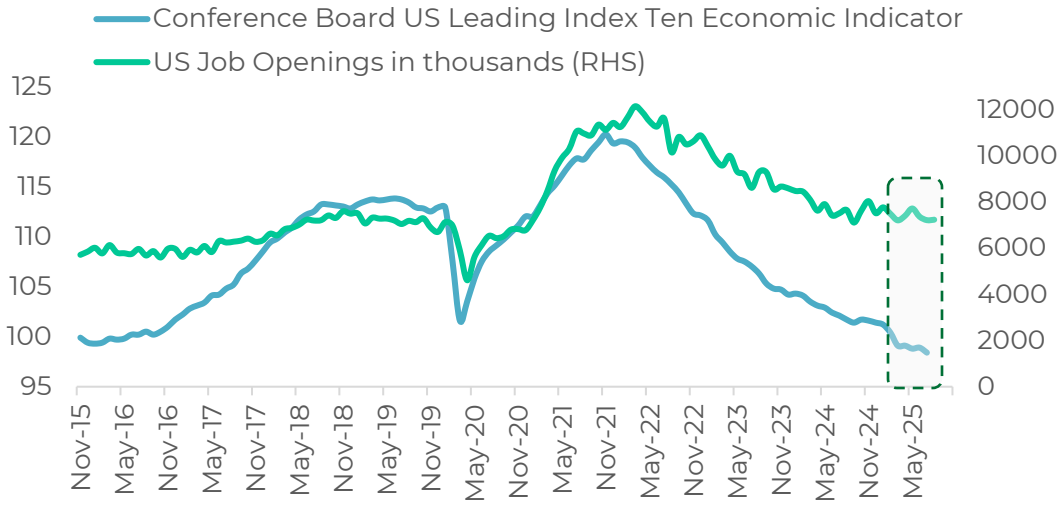
- Investors should carefully consider whether current prices adequately reflect the execution risks and potential for below than expected outcome inherent in these massive capital deployments.

Source: Fidelity Multi Asset research report and KTrade Research

Bonds Market

- **Tariffs have consistently acted as a significant drag on global economic growth, leading to downward revisions from institutions**





Yield Curve Steepening

- The Treasury yield curve has been steepening after coming out of an inversion, which historically serves as a warning signal before economic recession.
- Shorter-term US Treasury yields have fallen, while yields on longer-dated bonds could remain elevated, thanks to the threat of higher inflation and investor concerns surrounding the federal deficit.
- This steepening happened because the Federal Reserve cut rates three times in late 2024, causing short-term yields to fall faster than long-term ones.
- A steeper curve means more opportunities to capture yield in longer-dated bonds, but it also comes with risks.

Why No Recession Yet?

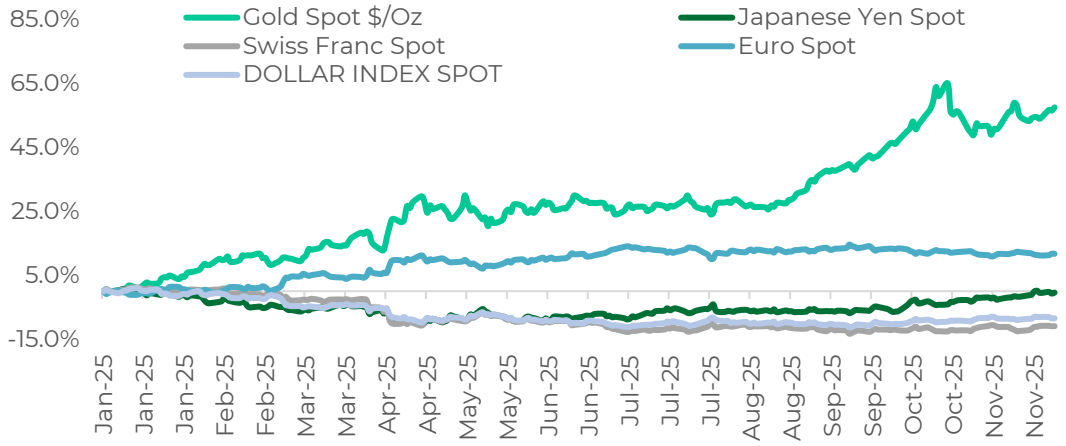
- The key difference this time is the US job market is still better than pre-pandemic levels potentially negating the possibility of a recession or perhaps delaying it.
- One this to note is that the US real GDP is still holding at reasonable levels approximately 3% amidst manufacturing as a contractionary level.
- However, the Leading Economic Indicator still indicates uncertainty in the market.

The key indicator to watch out for, in the coming months, is the US jobs market which will drive fed's policy and key US Govt. policies.

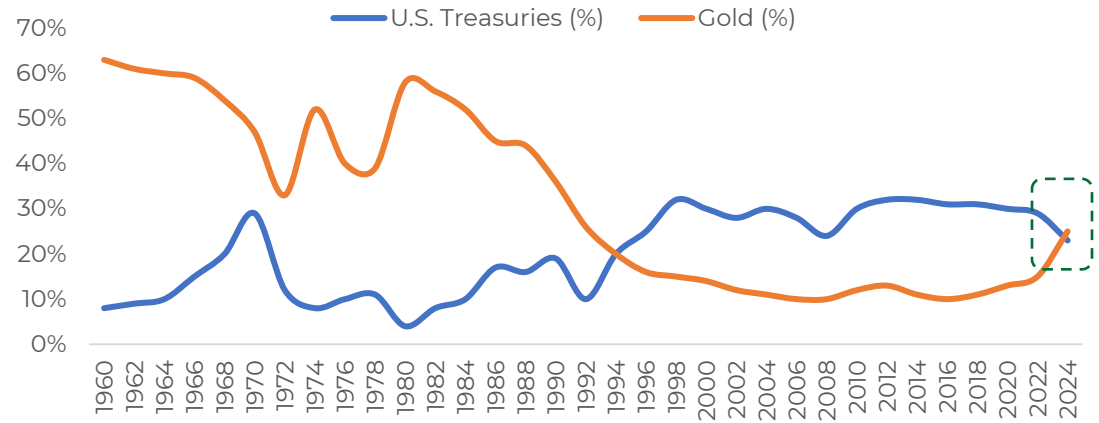
Source: Capital.com article on Bond yields and KTrade Research

Gold Prices, Global Currencies and Safe-Haven Dynamics

- **In a historic reversal, 2025 marks the first time in decades that central banks hold more reserves in gold than in U.S. Treasuries, signaling greater questioning around dollar hegemony and rising demand for geopolitical hedges.**
- **Gold's greater than approx. 30% year-to-date surge positions its role from a slow-moving diversifier to a high-volatility performer similar to the 1970s.**



Gold Surpasses U.S. Treasuries in Central Bank Reserves for the First Time in Decades

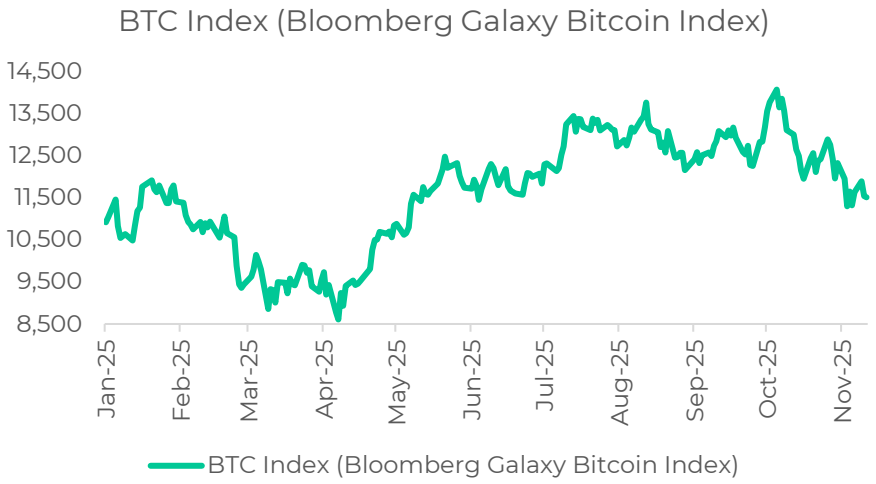


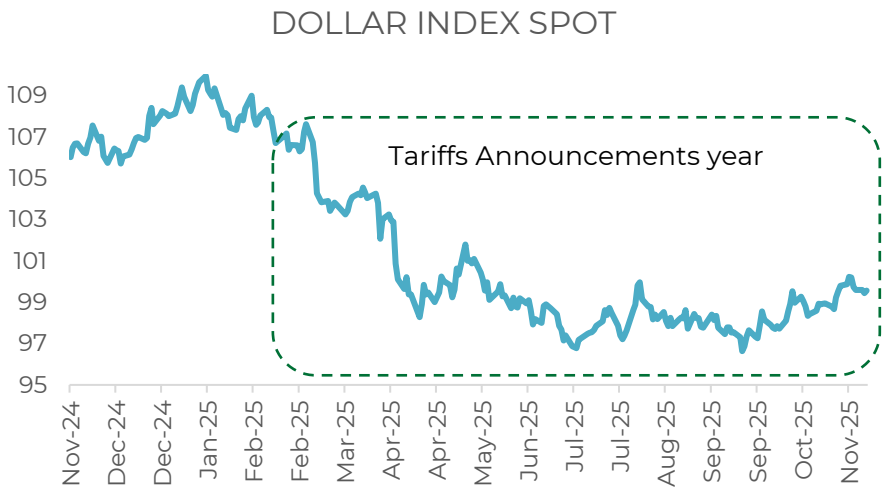
- The real interest rates and broader macroeconomic factors are generally considered key long-term drivers of gold prices, rather than short-term events. Uncertainty prevails in the markets as investors are more focused on the U.S. fiscal outlook with expectations of a widening deficit seen as supportive for gold over the medium to long term.
- Government treasury department/Institutional investors are running out of option as there is no worthwhile currency (Euro, Yen, Swiss franc etc.) to invest in to build up reserves of the central banks or form part of their portfolio. Gold is now considered the most reliable asset to add to the portfolio.
- A persistent central bank gold purchases, particularly from emerging markets, paired with a powerful rally in gold prices have led to central banks holding a larger share of reserves in gold than in U.S. Treasuries.
- This reversal reflects not only portfolio rebalancing, but also geopolitical hedging and a questioning of the long-term role of the dollar.
- Since the 2000s, gold's role has been quietly rebuilt, while Treasuries have faced erosion from rising U.S. debt levels, geopolitical frictions and questions around dollar hegemony.
- In 2025, for the first time in roughly three decades, gold again surpassed Treasuries in central bank reserve share, signaling one of the most consequential portfolio rebalancing in modern history.

Source: World Gold Council, Wisdontree - Central Banks, Gold and the Shifting Foundation of Reserves, UBS analysis on interest rates and KTrade Research

Bitcoin's Rise: The Digital Flight from Dollar Dominance

- **Bitcoin's rise is powered by supply limitations, political optimism for crypto, and the asset's status as a hedge against inflation**
- **The dollar's fall reflects macroeconomic policy uncertainty and reduced confidence in US fiscal and monetary management.**





Reasons for Bitcoin Price Increase

- Market experts predict continued bullish momentum for Bitcoin throughout late 2025 due to rising uncertainty in the USD and unclear Trump administration policy
- A key supply-side factor is the 2024 Bitcoin halving event, which reduced the supply rate of new coins and historically tends to trigger bull runs.
- Political developments, such as the election of major US states gained momentum towards Democrats and the winning of new NYC mayor how WisdomTree has a socialist democratic stance towards policy. Trump administration pro-crypto policy stance including promises to position the US as a cryptocurrency innovation leader and possibly establish a national Bitcoin reserve, have bolstered investor optimism.
- Macro factors like Federal Reserve interest rate cuts have pushed investors toward Bitcoin as an inflation hedge amid fears of currency devaluation attracting both retail and institutional buyers.

Reasons for USD Dollar Decline

- The US dollar has weakened significantly in 2025, with the dollar index declining significantly in the first half of the year.
- This decline is linked to unpredictable and unfunded fiscal policies, including erratic tariff policies (Tariffs dividends) and tax reform debates, which have raised concerns about the Federal Reserve's independence and diminished the dollar's reliability as a safe-haven asset.
- The dollar's overvaluation over prior years has also reduced US global competitiveness, with tariffs representing a response but also fueling uncertainty and volatility.
- Changes in interest rate expectations and a general loss of confidence in US economic policy have further pressured the dollar downward.

Bitcoin's rise is powered by supply limitations, political optimism for crypto, and the asset's status as a hedge, while the dollar's fall reflects macroeconomic policy uncertainty and reduced confidence in US fiscal and monetary management.

Source: Bitcoin (BTC) Price Prediction by Steve Taylor on Changelly blog, Morgan Stanley – Depreciation of the Dollar and KTrade Research

China Winning the Trade War

China achieved escalatory dominance

- China has proven able to withstand US coercion and retaliate effectively. When Trump imposed "Liberation Day" tariffs in April, they were reversed after Wall Street slumped. Recently, after China imposed rare-earth export limits, Trump threatened 100% tariffs but backed down again. China's stock market has risen 34% in dollar terms in 2025, double the S&P 500's rise.

  America Soybean Market suffering from trade wars

  - American soyabeans was a $12bn market for mid western farmers last year and America's largest export to China. America. After the US Tariffs announcements, the Chinese government ordered Chinese buyers to shift all purchases to other countries, mainly Brazil and Argentina, leaving American crops to rot in the field. This was an economically adverse hit to the American agriculture farmers.

    Recent US-China trade talks

    - The recent trade deal between the U.S. and China October/November 2025, yet to be formally signed, includes key agricultural commitments. China has agreed to purchase 12 million metric tons of American soybeans in 2025 and 25 million metric tons annually for the next three years. Additionally, the People's Republic of China will resume purchases of U.S. sorghum, hardwood, and softwood products.

Rare-Earth elements as China’s ultimate Weapon

- China dominates rare-earth mining and has a near-monopoly on refining, establishing a global licensing regime for virtually all rare earths, lithium-ion batteries, and production technologies. US has only one active mine and virtually no refining capacity. China's rare-earth controls threaten to paralyze American manufacturing, while new US-Australia mining facilities could take half a decade to come online, creating a “near-term leverage asymmetry in China’s favor.

Manufacturing Dominance Provides Structural Advantage

- China’s manufacturing output represents 35% of global total, threefold US’s and exceeding the next eight countries combined. By 2020, US manufacturers became three times more reliant on Chinese inputs than vice versa. China now processes the majority of critical minerals including cobalt (dominant share), rare earths (near-monopoly), manganese, natural graphite, and lithium.

China identified US's vulnerabilities seven years ago by assessing its own weaknesses and then systematically addressed them while identifying US's chokepoints. China now wields economic coercion more effectively than US's own tactics, demonstrating that US may have started the trade war but China is gaining the upper hand.

Source: The Economist (Why China is winning the trade war) and KTrade Research

Policy Implications and outlook

- **The current trade policy environment presents a challenging outlook, with risks skewed toward slower growth and persistent inflation.**

Global Trade Partners' Responses

- Global trade partners, including China, the European Union, and Canada, have responded with retaliatory tariffs on U.S. exports. The responses have included intensified talks around new free trade agreements among affected partners (e.g., China, Japan, India and Korea) to mitigate the impact of U.S. policy. The retaliatory measures and the resulting global economic slowdown are directly impacting the U.S. economy by creating a negative demand shock for U.S. exports, which feeds back into the U.S. economy, further dampening growth prospects. The negative effects of foreign retaliation further reduce U.S. revenue and exacerbate the economic cost of the trade war.

Short-Term vs. Long-Term Economic outlook

- **Short-Term**
  - The immediate outlook is characterized by significant headwinds. The IMF forecasts U.S. growth at 1.8% for 2025 a substantial 0.9 percentage point reduction from its January projection.
  - Simultaneously, inflation is expected to rise by approximately 1 percentage point above pre-tariff forecasts. This troubling combination of slower growth and elevated inflation positions the economy perilously close to stagflation territory.
- **Medium to long-term**
  - The medium to long-term consequences are even more concerning. Tariffs are expected to systematically decrease competition and stifle innovation across industries, leading to a measurable loss of aggregate productivity.
  - This structural damage will create a persistent drag on the long-term growth potential of the U.S. economy, effects that could persist for years beyond the immediate tariff period.

Recommendations for Mitigating Adverse Effects

- **Restore Trade Policy Stability:** The first priority is to restore trade policy stability and forge mutually beneficial arrangements to reduce policy uncertainty.
- **Fiscal Consolidation:** The IMF recommends that the U.S. step up fiscal consolidation to address domestic imbalances that contribute to the trade deficit.
- **Business Mitigation:** Businesses can mitigate the impact by utilizing tariff exclusions, reclassifications, and shifting supply chains to lower-tariff countries.

Source: IMF paper on Trade Partners' Responses to US Tariffs, The Budget Lab at Yale and KTrade Research

Conclusion

The Trump administration's tariff strategy has fundamentally backfired, creating a cascade of economic challenges that undermine US economic prosperity while failing to achieve stated policy objectives.

- Tariffs have driven the Consumer Price Index to 3% annually by September 2025, with economists projecting further increases as the economy adjusts to approximately $30 billion in monthly tariffs. This places the Federal Reserve dilemma needing to combat its dual mandate i.e. maximum employment and stable prices
- Customs duties from tariffs account for only 11% of the $1.775 trillion fiscal year 2025 deficit. With debt approaching $38 trillion and a Debt-to-GDP ratio at 120%, tariff revenues are essentially insignificant to US's structural fiscal crisis. The policy imposes consumer costs while generating negligible fiscal improvement.
- The top 10% of earners now account for roughly half of all U.S. consumer spending—up from about 36% three decades ago—while the bottom 80% have seen spending growth barely keep pace with inflation.
- The U.S. dollar has weakened significantly in 2025, linked to unpredictable fiscal policies and erratic tariff implementation, which have diminished the dollar's reliability as a safe-haven asset. Gold prices have surged as investors seek alternatives, while Bitcoin has risen dramatically as a hedge against inflation and dollar depreciation. This flight from dollar-denominated assets represents a crisis of confidence in US economic policy management.
- U.S. consumer sentiment declined in October 2025, the lowest levels, with nearly half of surveyed consumers reporting worsening personal finances.
- Despite aiming to reduce trade imbalances, the tariff strategy has failed. China has proven resilient through trade deflection to new markets and massive domestic stimulus, weathering tariffs better than expected. The trade deficit persists because of fundamental domestic imbalances—excessive consumption, inadequate savings, and chronic fiscal deficits—not foreign malfeasance.
- The tariff experiment demonstrates that protectionism cannot generate prosperity. All economies pay a price through lower growth and higher prices, while global trade stability represents the path forward for sustained market prosperity. The US economy now faces slower growth, elevated inflation, deepening inequality, eroding dollar dominance, and diminished global leadership—all while tariffs generate revenue insufficient to meaningfully address fiscal challenges. Until policymakers reverse course toward engagement and address underlying structural issues through fiscal discipline and genuine competitiveness enhancement, the United States will continue bearing the compounding costs of protectionism.

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