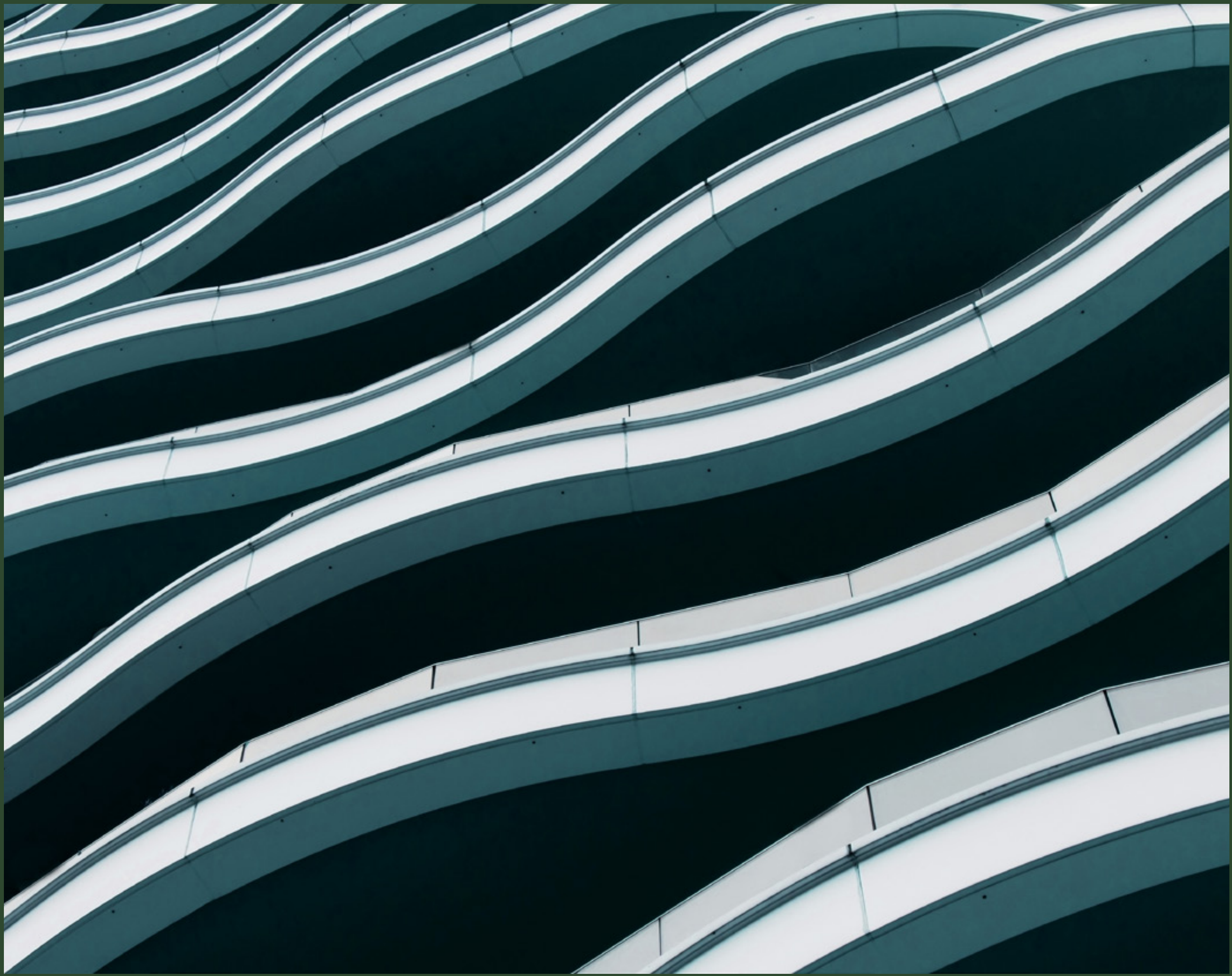
Tariffs, Trades and Tectonic Shifts: The Rules Have Changed

By Paul Ehrlichman



FLEXTION It's about *time.*

The United States' sweeping tariffs—levied on virtually every nation, inhabited or not—have thrown the global economy into disarray. At Flextion, we respect uncertainty. We embrace chaos, not as a threat, but as a signal-rich environment for the discerning investor.

Right now, the air is thick with forecasts. Smart people are working overtime to make sense of what comes next. But history tells us that almost all immediate conclusions will be wrong—especially when the next policy pivot could come from a single tweet on "Truth Social."

The urge to react quickly, to assign meaning to every market tick or geopolitical move, is natural. **But we urge the opposite: patience, not panic.** Turn off the news. Go for a walk. When the noise subsides, the signals start to show. Sometimes in a storm, the right move is to lift anchor, feel the direction of the current and only then decide your heading.

Market Moves: A Shift Beneath the Surface

Recent market behavior—particularly around "Liberation Day"—feels like a turning point. A repricing is underway across global asset classes. Extreme and unsustainable divergences are starting to unwind.

- The Mag 7 is underperforming.
- Semiconductor stocks are faltering, despite booming AI demand.
- Small caps continue to lag amid signs of economic slowdown.
- Meanwhile, European financials, gold, non-U.S. industrials and international small caps are breaking out.
- Chinese equities—once deemed "uninvestable"—have surged 40% over the past year.

Momentum is no longer the only game in town. Quality, dividend yield, value and defensiveness are reasserting themselves. U.S. earnings estimates were trimmed last quarter—off historic highs—while European forecasts saw modest upgrades. Buying what's been left behind and trimming what's priced for perfection still makes sense. Our current recommendations in international, small-cap, and value strategies reflect that view.

Tariffs, Trade and Tectonic Shifts

President Trump's trade policy doesn't stem from a belief in free trade—it assumes that all imports are harmful. This view is not just flawed; it's at odds with America's economic reality:

- The U.S. is the second-largest exporter globally.
- It leads the world in profits generated from trade.
- American companies are at peak profitability and enjoy record-high valuations.
- Industrial production, capacity and foreign direct investment are all at historic highs.

Not everyone has shared equally in that prosperity—but claims that the U.S. has been "robbed and looted" don't match the data. And hostility to imports won't fix inequality—it may just dampen future growth.

Let's not forget, tariffs under President McKinley helped trigger the Panic of 1893, with unemployment rocketing from 4% to 20%. Today's proposed offset—a flood of adaptive capital and labor investment—sounds great on paper. But in reality, uncertainty chokes spending. Microsoft is already delaying data center construction. Retailers and consumer goods firms are announcing layoffs. The cycle has begun.

The Fed, the Debt and the Dollar

A short-term stock rally followed the 90-day "negotiation" window. But the real volatility may be ahead—especially if the Fed doesn't cut rates at its May 7 meeting. The Atlanta Fed's GDPNow is flashing weakness, setting the stage for more political turbulence ahead of the 2026 midterms.

If economic pain deepens, expect Trump to escalate his attacks on the Federal Reserve. Restructuring threats may reemerge, just as the U.S. Treasury prepares to issue a staggering $11 trillion in new debt. The pressure on the dollar could be profound.

A Wake-Up Call for the World

Paradoxically, these disruptive moves have catalyzed positive momentum abroad. Europe, including the U.K., is finding new resolve—pursuing growth and assuming greater responsibility for security. China is deepening regional alliances, stimulating its domestic economy and reducing its dependence on exports. As the U.S. descends the value chain, the rest of the world is climbing it—poised to capture more of the profits from global trade.

A Dangerous Flashpoint

The most worrying dynamic may be the increasingly confrontational posture toward China. History warns us: when dominant powers resist the rise of new ones, conflict often follows. Graham Allison's book, *Destined for War* notes that in 16 historical cases like this, only four avoided wars. If we're transitioning from post-WWII globalism to a pre-war, national-mercantilist world, we should brace for more volatility—and possibly more violence. As Singapore's Prime Minister Lawrence Wong recently put it: "Global trade will no longer be guided by economics, but by political affiliations." He's right. The rules have changed.

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About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

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