

Insights Engine

Trade Policy is Changing—Are Markets Paying Attention?

Executive Summary

The upcoming July 9 deadline for the imposition of U.S. reciprocal tariffs (which are slated to come into effect by August 31) poses one of the most consequential policy inflection points in 2025. Despite its significance, capital markets continue to underprice the potential disruption. The deadline has become a non-event for markets, with investors seemingly unfazed by the uncertainty surrounding President Trump's trade policy. Despite the president's repeated threats to impose tariffs on various countries, market participants have grown accustomed to his on-again-off-again approach to trade policy, dubbing it "TACO" or "Trump Always Chickens Out." Equity indices have rallied on hopes of last-minute trade deals, while volatility indicators remain benign. This apparent complacency stems from investor assumptions that the administration will either delay or dilute tariff measures, as has been the historical pattern. However, the structure and scope of this round differ meaningfully. The Trump administration has formalized a multi-speed tariff regime with country-specific escalation potential—ranging from 10% to 50%—and legal authority that could override traditional multilateral trade norms.

To date, only a few countries—namely the U.K. and China—have secured finalized deals. At least 16 nations remain in negotiation limbo. Failure to conclude these talks could reimpose significant cost burdens across industries, with employers facing an estimated \$82.3 billion in annualized tariff exposure. Supply chains—particularly in electronics, autos, and retail—face the risk of margin compression, input inflation, and logistical disruption. Meanwhile, global manufacturing data remain weak, and monetary policy is constrained. For corporate decision-makers, the coming weeks demand active scenario planning, operational risk mapping, and renewed focus on strategic sourcing resilience.

Tariff Cost to U.S. Employers: Direct cost of planned tariffs (JPMorgan Chase Institute)

\$82 B

49.0

ISM Manufacturing PMI: Fifth consecutive month of contraction (U.S.)

Implied EUR/USD Volatility: Signals low market concern near tariff deadline

8.5%

16

Countries in Active Talks: Still negotiating ahead of July 9

Markets Discount Risk as July 9 Deadline Approaches

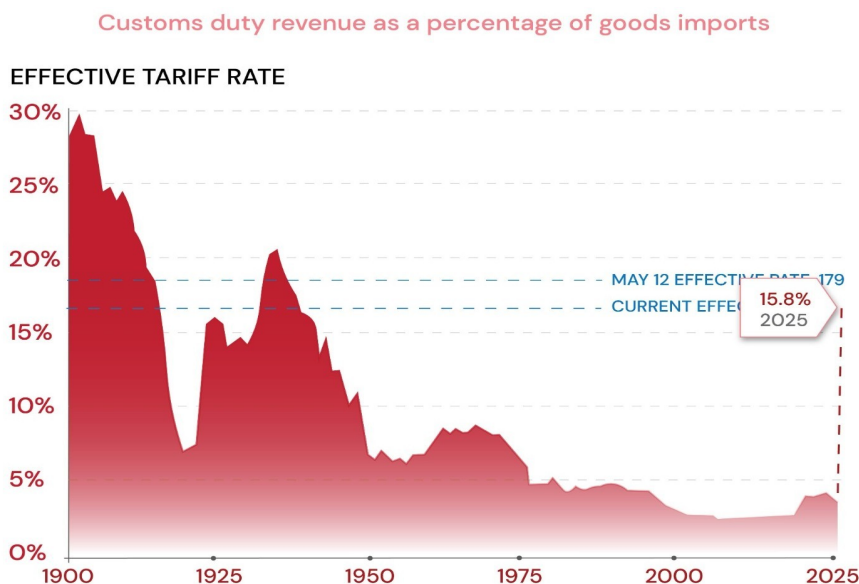
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Despite the potentially sweeping implications of the July 9 deadline, capital markets appear unfazed. The CBOE Volatility Index (VIX) has hovered below 20 for most of the past two months, indicating a relatively relaxed risk environment. Likewise, implied volatility in EUR/USD options expiring just before the tariff deadline stands at 8.5%—well within its 3-month range. These signals suggest investors expect either a negotiated resolution or a partial, staggered implementation of tariff measures.

This sentiment appears rooted in the Trump administration's historical behavior. Traders have coined the acronym "TACO"—short for "Trump Always Chickens Out"—to describe a consistent pattern of rhetorical escalation followed by tactical retreat. This perceived predictability has dulled market sensitivity to policy headlines, especially in the absence of clear implementation guidance.

Yet this assumption may be dangerously outdated. The current round of tariffs involves formalized frameworks, published USTR memoranda, and legal infrastructure designed to bypass multilateral oversight. The language from senior officials, including Treasury Secretary Scott Bessent, suggests a shift toward assertive implementation with limited carve-outs, signaling that July 9 may be less symbolic and more operational.

U.S. Effective tariff rate recedes amid white house dealmaking



Source: [Yahoo! Finance](#), [Bureau of Economic Analysis](#), [Yale Budget Lab](#)

Equity Markets Rally on Selective Deal Momentum

Over the past week, U.S. equities have posted strong gains as investors bet on imminent trade deals. The Dow Jones Industrial Average climbed 3.0%, the Nasdaq 2.8%, and the S&P 500 2.4%. This performance is underpinned by

expectations that key trading partners—particularly the EU, India, and Japan—will reach last-minute accommodations to avoid steep tariffs.

Part of this rally also stems from recent corporate developments. Oracle rose 4% on upbeat earnings in its cloud segment. GMS Inc. jumped 11.7% following its acquisition by a Home Depot affiliate, reflecting investor confidence in strategic M&A. Juniper Networks and Hewlett Packard Enterprise both issued upward guidance revisions, supporting broader sentiment.

However, this momentum may be misaligned with underlying trade policy uncertainty. Many of the nations still in negotiation—including South Korea, Vietnam, and Mexico—represent critical links in U.S. supply chains. A breakdown in talks could introduce sudden input cost inflation and earnings volatility across multiple sectors.

A Tiered Tariff Architecture Is Taking Shape

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The Trump administration appears committed to a differentiated tariff regime based on negotiation outcomes. Countries are being categorized into three groups, with escalating tariff rates tied to perceived compliance:

- **Full-Agreement Countries**
 - Nations that have finalized bilateral deals, securing exemptions or minimal tariffs (e.g., U.K., China).
 - Tariffs: 0% to 10%
 - Benefits: Lower policy risk, stable sourcing.
- **Negotiating Countries**
 - Countries in active discussions expected to receive transitional treatment (e.g., Vietnam, India, Japan).
 - Tariffs: 10% to 25%
 - Status: Uncertain; risk of reversion to higher brackets.
- **Non-Compliant or Adversarial Countries**
 - Nations that have resisted negotiations or sought WTO recourse (e.g., EU, Brazil, Argentina).
 - Tariffs: Up to 50%
 - Consequence: Likely to face inflationary shock and retaliatory pressure.

Notably, Vietnam's recent agreement includes a 20% tariff on direct imports and a 40% levy on goods re-exported through Vietnam from third countries. In return, the U.S. secured duty-free access for a limited set of American goods. This model suggests that even "resolved" deals may include high effective rates.

Supply Chains Face Sector-Specific Vulnerabilities

The burden of tariff escalation will be felt unevenly across industries, depending on import exposure, pricing power, and inventory elasticity. Key impacted sectors include:

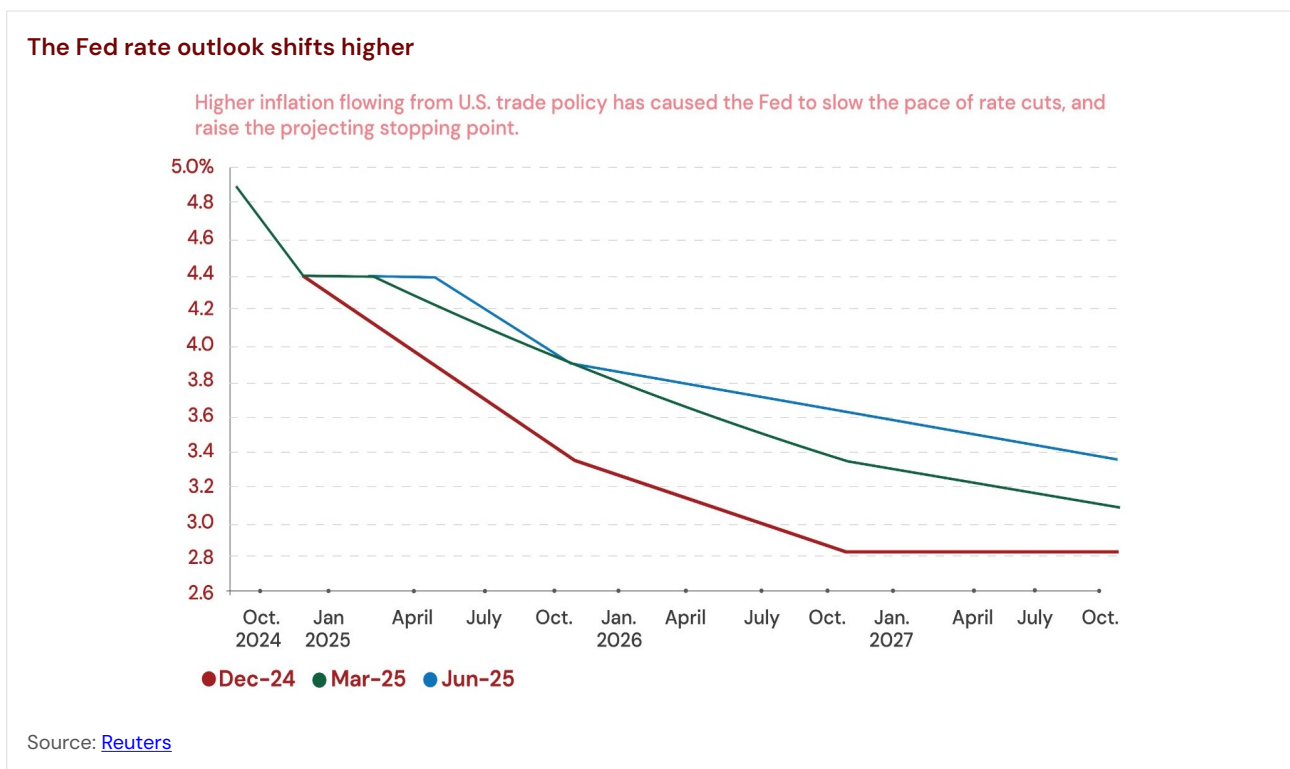
- **Consumer Retail & Apparel:** Heavily reliant on imports from India, China, and Bangladesh. Tight gross margins limit passthrough capacity, raising risks of margin compression.
- **Automobiles & Components:** Dependent on cross-border component integration, especially from Mexico, Japan, and the EU. Tariffs could inflate BOM (bill of materials) costs by 7%–12%.
- **Technology Hardware & Electronics:** Exposed to Southeast Asian suppliers for semiconductors and PCBs. Potential delays and cost surges may affect FY2025 guidance.

- **Industrials:** Imports of capital goods and raw materials from Brazil, Germany, and South Korea may see dual-pricing regimes emerge, increasing complexity.
- **Agribusiness:** Risk of retaliatory tariffs from China and the EU could impair export volumes and farmer margins, particularly in soybeans, pork, and corn.

The emerging trend among large manufacturers is accelerated supplier diversification and forward purchasing, though capacity and inventory constraints limit room for maneuver.

Inflation Pressures and Monetary Policy Constraints

The macroeconomic impact of the tariff regime could be profound. JPMorgan Chase Institute estimates that U.S. employers face a potential cost burden of \$82.3 billion annually from current tariff proposals. This equates to approximately \$2,080 per employee or 3.1% of annual payroll expenses—implying potential trade-offs between pricing, hiring, and profitability.



The inflationary impulse may compel companies to raise end-user prices or reduce capex. More concerning is the feedback loop with monetary policy. The Federal Reserve has already paused its rate-cut trajectory in light of trade-related inflation uncertainty. At its June meeting, the Fed revised its GDP growth projection down to 1.8% while citing upside risks to inflation.

Fed views of 2025

The Fed first published projections for 2025 in the fall of 2022. Since then the median outlook has shown stickier inflation and a higher benchmark interest rate. Coming projections will involve a reset around the Trump administration's emerging tariff and other



Source: [Reuters](#)

Manufacturing data support this caution. The U.S. ISM Manufacturing PMI printed at 49.0 in June, marking its fifth consecutive month below the neutral 50 level. New orders and factory employment also declined, confirming softening business sentiment. A broad-based tariff shock could accelerate this trend, creating stagflationary conditions that limit policy flexibility.

Global Manufacturing and Diplomatic Reactions

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Global manufacturing data indicate an economy already straining under the weight of uncertainty. The Eurozone's HCOB Manufacturing PMI rose marginally to 49.5 in June, but key economies—Germany, France, and Italy—remain in contraction. In Asia, the China Caixin PMI fell below 50, while Japanese output expectations deteriorated.

From a diplomatic standpoint, major trading partners are adopting divergent strategies. The EU has offered a 10% baseline tariff but seeks product-specific exemptions. However, internal divisions and political optics limit its ability to concede further. India has expressed readiness to finalize a framework, while Japan continues technical negotiations on semiconductor and auto components.

The risk of retaliatory measures is real. Several countries have signaled potential countermeasures, particularly if the U.S. imposes blanket tariffs rather than negotiating product-level exemptions. The result could be a new round of tit-for-tat tariffs that reverberate through commodity, energy, and logistics markets.

Legal and Institutional Risks Complicate Outlook

Adding to the uncertainty is the legal status of the proposed tariffs. Two recent federal court rulings have cast doubt on the legality of certain reciprocal measures, although appellate decisions are pending. If these rulings are upheld, implementation could be delayed or rescinded, triggering legal restitution claims from affected businesses.

Compounding this is the logistical difficulty of delivering on the administration's "90 deals in 90 days" campaign. As of early July, only a handful of agreements have been finalized. Many partner countries continue to cite lack of clarity on compliance standards and exemption mechanisms.

Strategic Implications for Financial Leadership

For CFOs, treasury heads, and strategy officers, the implications of July 9 are significant. The wide range of potential tariff rates—and the asymmetric risks they introduce—warrants immediate planning across multiple business functions.

Recommended priorities include:

- **Exposure Mapping** – Identify and quantify import dependence across business units and suppliers.
- **Scenario Modeling** – Build financial simulations under 10%, 25%, and 50% tariff conditions.
- **Contract Renegotiation** – Introduce force majeure and duty-adjustment clauses in major supplier agreements.
- **FX & Commodities Hedging** – Consider options and swaps to manage input cost variability.
- **Stakeholder Communication** – Prepare proactive messaging for boards, investors, and clients.

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