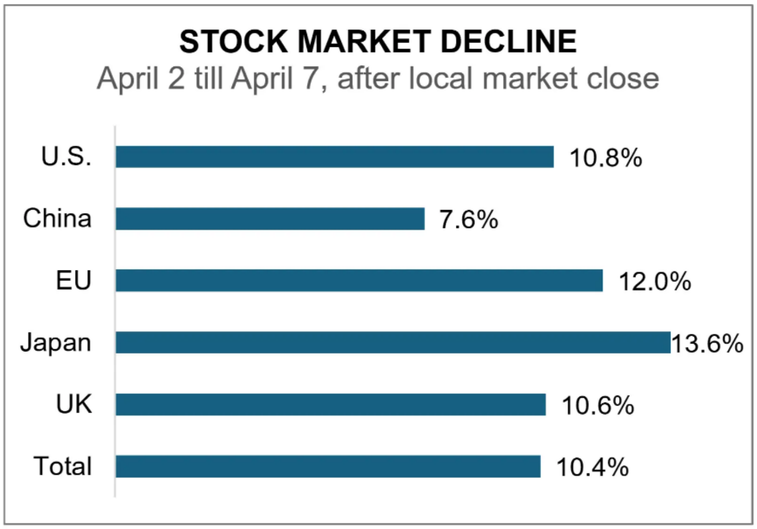
TELLUSANT QUICK READS

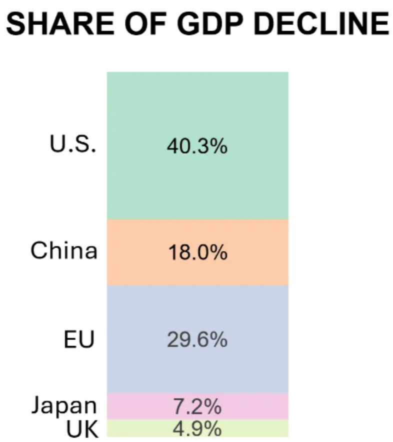
TARIFF IMPACT EVENT ANALYSIS

In the evening of Wednesday, April 2, the White House announced global tariffs. This is an event analysis that quantifies impact on GDP growth.

The method is to take the stock market index immediately before the announcement (here market close on Wednesday, April 2), and compare it to the same index exactly three workdays later (here market close on Monday, April 7).

1. The graph below shows the stock market impact for five major economies. Combined, they fell 10%. All countries declined, as predicted by the law of comparative advantage.
2. China fared best. This is likely because imports and exports are not a large part of the Chinese economy. Other countries had larger declines, with Japan suffering the most.
3. The share of stock market value destroyed was led by the U.S. This is in large part because the U.S. uses public stock markets more than other countries. In the EU, company capital is more often provided through private transactions (except in the Nordics).

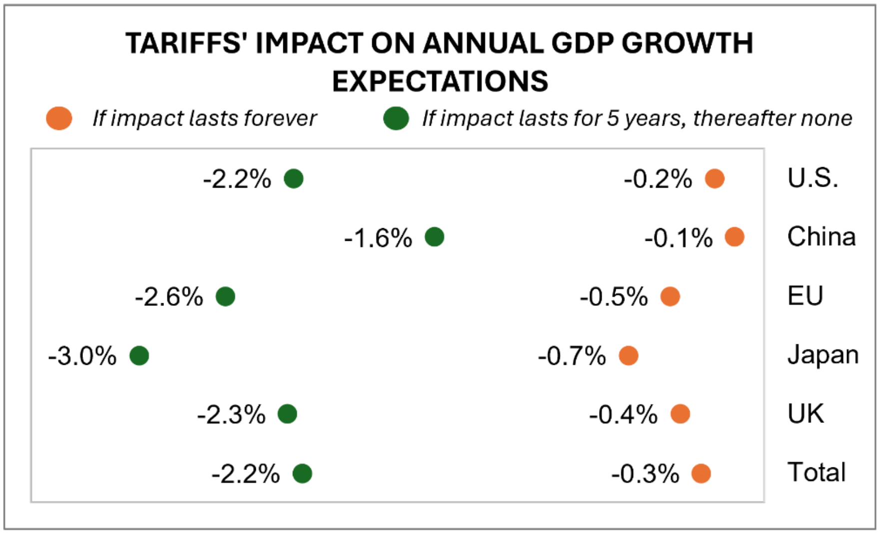




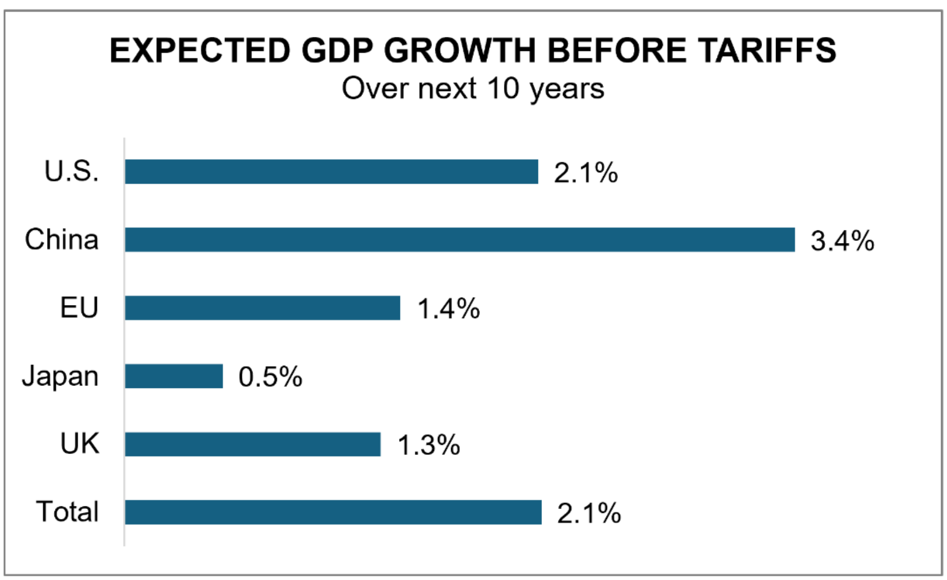
4. The next graph translates the stock market decline into GDP impact. a) Stock price is equal to the sum of future cash flows, discounted back to current date. b) GDP is the sum of value added. c) Corporate cash flow overlaps with GDP, so the analysis should work approximately.

   The important adjustment in this is to calculate the current year value from the infinite stream of future annual cash flows. This is done with the common 'perpetuity with growth formula' *Present value = Cash flow year 1 / (Risk-adjusted discount rate - Expected growth)*.

   Two scenarios are shown:



5. In orange, the assumption is that the negative impact goes on forever and is evenly spread over the years. The annual impact on GDP growth is between -0.1% to -0.7%. Japan suffers the most, but no country is unscathed.
6. In green, the assumption is that the impact is only during the next 5 years. After this, thew impact is zero. This leads to a large negative impact; between -1.6% and 3%. China again does least badly, while Japan suffers the most.
7. Compare this to the expected GDP growth before the tariff announcement, shown below. All countries may go into recession except China (which still will have subpar performance).



How good are these event analyses? They reflect the collective wisdom on the day of the event. After that day, there may be new events, or a reassessment of the situation by market analysts.

This analysis is a spot-view of current knowledge. Yet it is an important indicator for policy makers.