

What is the "TACO" trade?



Trade negotiations are likely to become more intense as we approach the G7 meetings on June 15-17 in Alberta and continue into the expiry of the 90-day pause on tariffs in July. Market volatility is likely to continue based on the back-and-forth negotiations and social media posts of the President. Investors will need to focus on fundamentals and look through the volatility to persevere in the months ahead.

First coined by Robert Armstrong in the Financial Times, "TACO" stands for "Trump Always Chickens Out" and refers to the perception that President Trump has consistently reversed his positions on increasing. While the market has rebounded in May on Trump's moderation of his extreme policies, there is a concern that investors will rely on Trump continuing to back down and that economic conditions will return to "normal".

On April 2, President Trump had announced a tariff of 10% on all countries importing goods into the United States and, in addition, "reciprocal" tariffs based on an importing country's trade imbalance in manufactured goods with the US. These were on top of sectoral tariffs that Trump imposed on specific imports, such as Steel and Aluminum. The flat 10% tariffs and specific goods tariffs have remained in place and Trump just "announced" that he is increasing the Steel and Aluminum tariffs from 25% to 50%, the so-called "reciprocal" have been paused until July 9 to allow for trade negotiations with individual countries. While Trump's administration has said that dozens of countries are "begging" for a deal, only the United Kingdom has signed an agreement which proved to be only a framework for future negotiations. In addition, after CEOs of major US retailers, including Walmart, advised that the severe reduction in imports from China could result in empty store shelves, Trump reduced tariffs on China from 145% to 30%.

In May, markets perceived the reversals by Trump as a confirmation that the tariffs were only a negotiating tactic and that the tariffs were not permanent, thus, the phrase "TACO" gained popularity. When asked about it, Trump countered that he has only temporarily paused tariffs to allow negotiations while other tariffs are still in place. Now that Trump has learned of the term "TACO" trade, there are concerns that he will harden his position to try to not look weak.

In fact, the tariffs that have remained in place are approaching the 1930 Smoot-Hawley tariffs which contributed to the decline in the American economy. The Trump administration maintains that these tariffs will increase economic activity inside of the US and increase US employment. In contrast, popular economic theory indicates that the tariffs will result in lower earnings by corporations, a slowdown in economic activity, increased unemployment and less consumer spending which will then lower corporate earnings further and continue the adverse implications.

Although the phrase "TACO" has referred to an easing in tariff tensions, it is likely a phase in the ongoing negotiations, and continued volatility in Markets is likely. Investors will need to maintain focus on the fundamental valuations of investments to take advantage of any distortions in pricing of investments.

Kevin Dolan, B.A., LL.B.

Portfolio Manager and Investment Advisor

Research Capital

199 Bay Street, Suite 4500

Toronto, Ontario, M5L 1G2

kdolan@researchcapital.com

T 416-860-8664

C 416-432-9538

F 416-860-7671

Toll-Free 855-860-8664

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