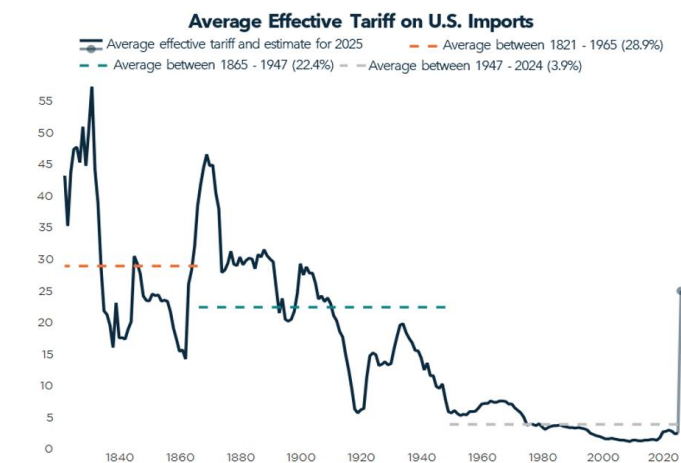


Implications of the new American foreign policy

On April 2nd (nicknamed "Liberation Day" by President Donald Trump), the announcement of "reciprocal tariffs" might raise the effective rate on American imports to the highest level in over 100 years. Even before its implementation, the proposal for such a significant increase in tariff barriers has already reignited the debate on why this type of policy lost prominence in the past – and why it is now reemerging with force in the current scenario.



The 2025 estimate reflects the average rate among various projections.
Source: Tax Foundation, Turim

A brief history of international trade

Until the 18th century, international trade was conceived as a competition for resources (notably precious metals), following the principles of mercantilism. For this reason, the economic policies implemented by national states were highly protectionist: high tariffs on imported goods, subsidies to manufacturing and exports, and laws that favored the formation and maintenance of monopolies.

The origins of modern economic thought on international trade emerged only at the end of the century, from the studies of Adam Smith (1776), who advocated specialization and productivity as the true sources of nations' wealth. In the following years, David Ricardo (1817) formalized these ideas through the theory of comparative advantage, which showed how free trade allows productivity gains by directing each country's productive resources to the activities in which they are most efficient.

Despite the advances in economic theory on the subject, the widespread use of trade barriers remained present over the years. The British Empire instituted the Corn Laws in the 19th century to protect its farmers, while the United States and Germany imposed various tariffs¹ to protect their industries. Only in the 1930s, following the adoption of the Smoot-Hawley Tariff Act, which imposed tariffs on more than 20,000 goods, raising the effective tariff rate on imports from 13.5% to 20% (recognized as a factor that worsened the Great Depression), did the negative effects of such measures become evident.

After World War II, the US emerged as the main leader among capitalist democracies in a devastated world, radically altering the guidelines of foreign policy. The focus shifted to international cooperation as a means of promoting economic stability and peace among nations ("Pax Americana"). For this purpose, pacts such as the

Bretton Woods system (1944)² and the General Agreement on Tariffs and Trade (1947)³ were established.

Although protectionist measures continued to exist, the focus shifted to non-tariff policies (such as quotas, subsidies, and trade sanctions), except in specific cases. This period was also marked by the emergence of regional trade agreements, such as the North American Free Trade Agreement (NAFTA, 1994)⁴, the European Union (1993), and the Southern Common Market (Mercosur, 1991).

The "academic consensus" on trade and tariffs

The dominant current in modern economic thought argues that free trade tends to be beneficial for all countries involved, especially the less productive ones, by allowing each nation to (i) focus on producing what it does relatively well – that is, where it has comparative advantages – and (ii) achieve economies of scale by expanding production in certain activities. By concentrating their resources in the most efficient areas, each country can produce more value than if they tried to manufacture everything they consume domestically, using this surplus to finance the import of goods (usually cheaper) in the international market. This tends to enhance global welfare and the individual performance of each economy.

"The most important fact about a free market is that no exchange takes place unless both parties benefit."

Milton Friedman in *Free to Choose* (1980)

However, the hypothesis that trade benefits countries does not mean that all individuals benefit. On the contrary, trade liberalization almost always creates winners and losers, shifting income from less competitive sectors to more efficient ones.

These effects hit the least mobile factors of production the hardest (those that have difficulty moving from losing sectors to winning ones), which implies adverse effects for some capital holders and a portion of the workforce. Additionally, changes in the production matrix can also affect the demand for inputs in other sectors, generating chain effects.

Despite the adverse effects, the vast majority of scientific studies favor trade liberalization as an alternative with more benefits than harm. Mainly because the aggregate gains are usually sufficient to compensate for the eventual costs of implementing support measures for those harmed by trade, such as unemployment insurance and subsidized retraining and relocation programs.

It is worth mentioning that these adverse effects are not inherent only to international trade. Factors such as technological advancement, changes in consumption patterns, and resource depletion can also cause similar effects.

In contrast, import tariffs are the oldest form of trade policy and have historically been used as a way to protect domestic producers and increase government revenue. This type of measure tends to reduce the difference between equilibrium prices in domestic and foreign markets, raising prices in the domestic market while reducing prices in

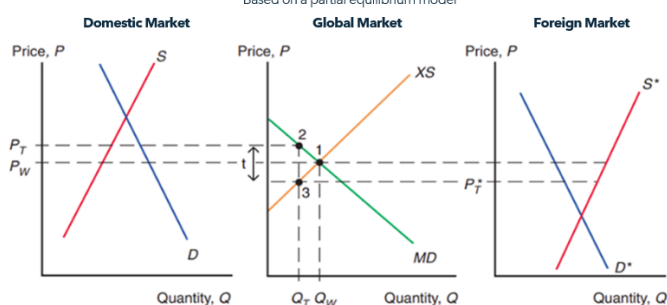
the global market. However, these effects depend on a series of assumptions and generate great uncertainty beforehand.

From the perspective of the country imposing the tariff, the price increase favors local producers but comes at the expense of consumers' welfare, who end up paying more for products. At the same time, taxation on imports increases tax revenue, financially benefiting the government. From the exporters' perspective, the tariff acts similarly to an increase in transportation costs: by making access to the market of the taxing country more expensive, it tends to reduce the demand for their products. This effect is more significant when the country imposing tariffs has a substantial share of global trade.

Consequently, the drop in demand may force exporters to lower their prices in the international market. In this case, part of the initial loss suffered by consumers in the country that applied the tariff would be offset by the reduction in global prices – which, in turn, decreases the exporters' revenue.

Representation of the effects of tariffs on price and quantity

Based on a partial equilibrium model



Source: International Economics Theory & Policy (2012)

In addition to the direct effects mentioned, this type of measure can also lead to a series of negative externalities, such as retaliations from trade partners (through the imposition of new tariffs, for example), the formation of lobbies (which may turn temporary policies into permanent ones), and the creation of allocative distortions (typically employed by market agents as ways to mitigate the impact of taxation).

It is worth noting that indiscriminate taxation of imported goods can affect not only the prices of final consumer goods in a country but also the inputs used in domestic production. This can be particularly adverse for economies that specialize in higher value-added products, which are typically associated with the final stages of global value chains. In such cases, rising input prices – assuming some degree of cost pass through, can raise the prices of exported goods, reducing the country's competitiveness in the international market and potentially diminishing its exports.

Given all this, the academic literature tends to support the use of this type of policy only in specific situations, and usually on a temporary basis – to respond to unfair competition policies adopted by other countries or to address issues of a less strictly "economic" nature, such as national security and sovereignty, for example.

Potential effects of "Liberation Day"

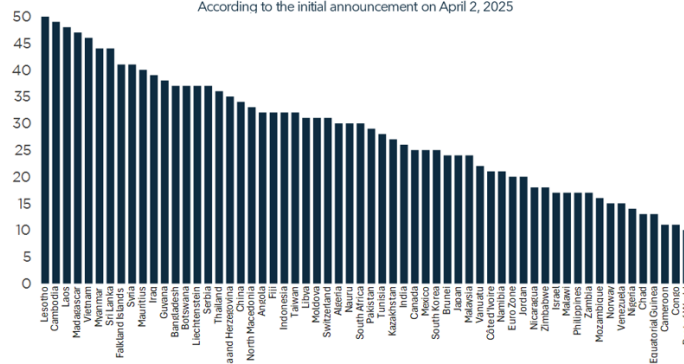
Claiming that the persistent bilateral trade deficits of the United States are the result of "a combination of tariff and non-tariff factors that prevent trade balance," the U.S. president resorted to the International Emergency Economic Powers Act of 1977 (IEEPA) to impose (i) a minimum tariff of 10% on all imports and (ii) higher "reciprocal tariffs"

on countries with which the United States maintains the largest trade deficits, excluding products – generally associated with other tariff measures – such as items subject to Section 50 USC 1702(b); steel/aluminum and automobiles/auto parts (subject to Section 232); copper articles, pharmaceuticals, semiconductors, lumber, precious metals, energy and other specific minerals unavailable in the U.S., as well as any other articles that may be included in future tariffs under Section 232.

According to documents later presented by the Office of the United States Trade Representative (USTR), the individualized rates were estimated to halve the bilateral deficits of the U.S. with each of its trading partners. The equation presented describes that the tariff shock (i.e., the rate change) necessary to balance bilateral trade balances would be given by the ratio between net exports (total exports in 2024 minus imports in the same period) and the total U.S. imports from each country, considering the elasticities of imports relative to prices ($\epsilon = 4$) and the pass-through of the tariff rate to the prices of imported goods ($\phi = 0.25$). It is noteworthy that the net result of these two estimates has a neutral effect on the equation ($4 \times 0.25 = 1$), causing the result to reflect only the bilateral deficit as a proportion of each country's imports.

Tariff rates applied to each country under the "reciprocal tariffs"

According to the initial announcement on April 2, 2025



(I) Includes tariff rates for Canada & Mexico announced before April 2
(II) Excludes effects of tariff measures on specific products

Source: The White House, Census Bureau, Turim

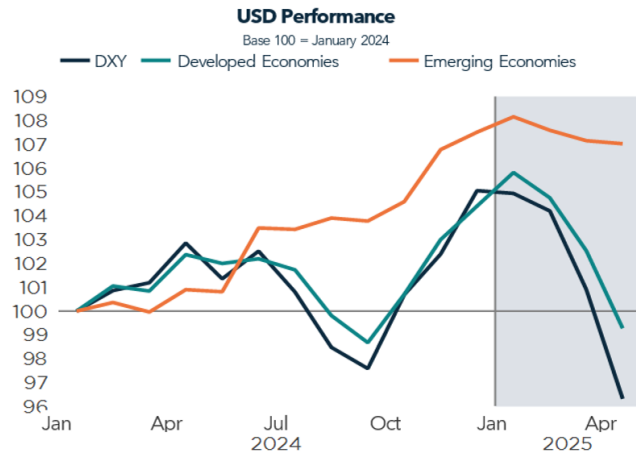
Assuming the stability in the composition of trading partners in the total U.S. imports (based on 2024 data), the estimated impact on the effective tariff after the April 2 announcement would be approximately 25 percentage points, disregarding exclusions. However, this estimate can vary depending on the elasticity of consumer demand concerning the price variation of imported goods, which should reduce the share of exporters affected by higher rates in the total U.S. imports.

China is the most emblematic example: its tariff rose from 34% announced on April 2 to 145%, after responding with retaliatory measures. For other countries, tariffs above 10% were temporarily suspended (except for Canada and Mexico, whose rates were set at 25% earlier, although subject to various exclusions related to the USMCA), due to "advances in negotiations" – interestingly, amid a sharp deterioration in the financial market.

If the hypothesis of import stability for the current scenario is maintained, the impact on the average tariff would rise to over 30%. However, it is widely agreed that the rates imposed by the two countries make any direct trade relationship between the U.S. and China practically unviable, which would lead to a much more

moderate rate increase. Even so, replacing Chinese imports, whether by domestic production or by imports from other countries, would still result in some inflationary pressure.

Furthermore, the pressure on imported goods prices could be even higher considering the recent behavior of the U.S. Dollar, which – contrary to traditional model hypotheses, as we saw in the previous section – registered a significant depreciation since the announcement of the new tariffs.



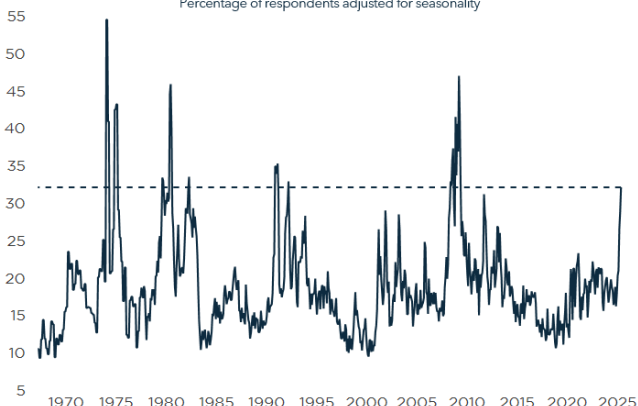
Depreciation may have been exacerbated by the already high starting point (read “expensive”) of the American currency – about two standard deviations above the historical average of the last 60 years in real effective terms. However, the particularly intense depreciation compared to other hard currencies vis-a-vis emerging market currencies reinforces the narrative that investors are increasingly seeking alternatives to the US market.

In any case, whatever the reasons behind the movement, the practical impact is clear: imports become even more expensive, putting pressure on inflation and reducing consumers' purchasing power, which in turn also increases negative risks for economic growth.

Although members of the US government have indicated that tariffs may fall after negotiations, the unpredictability of the policies adopted so far already imposes costs. Increased uncertainty regarding the economic cycle leads companies and consumers to delay investment and consumption decisions (especially of durable goods), while market volatility affects financial conditions, which in turn impacts the real economy.

Expectations for fewer jobs in the next six months

Percentage of respondents adjusted for seasonality



Motives of Trump and the Risk to Dollar Hegemony

Among speeches and publications, the president and his team have emphasized several points that can be understood as goals of tariff policies, including (i) reducing trade balance deficits, (ii) reducing public account deficits, (iii) attracting investments to expand industrial production in the U.S., and (iv) increasing bargaining power in international negotiations.

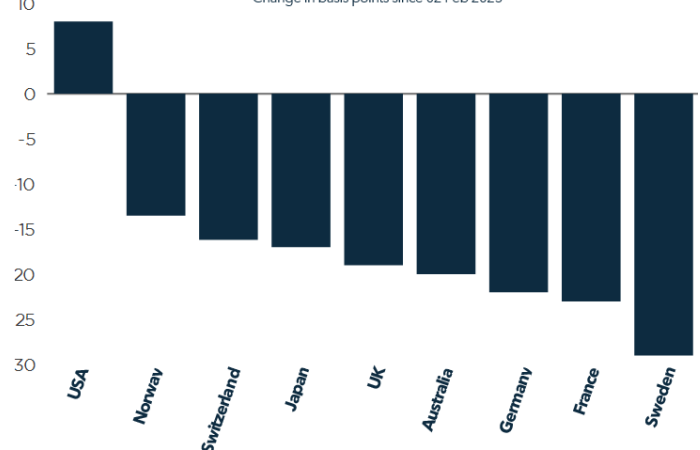
Trump seems to interpret the trade deficit as a transfer of income from the United States to other countries, although this has boosted the purchasing power of American consumers for decades. Furthermore, global demand for dollars has remained virtually unlimited, despite persistent current account and public deficits. This ability to finance oneself at low cost in its own currency (a privilege exclusive to the United States on the observed scale) has become known as the “exorbitant privilege.”⁵

Barry Eichengreen explores this phenomenon in his book of the same name. According to him, the rise of the Dollar begins at the end of World War I and solidifies after World War II through the Bretton Woods system. In this way, the United States became disproportionately influential—not only in international trade but also in global geopolitics. The author argues that the resilience of the currency as the world's primary reserve of value is explained by the liquidity of the American financial market, institutional trust, and the absence of viable alternatives.

From this perspective, combating the trade deficit (restricting the supply of dollars to the rest of the world) and destabilizing international agreements (risking the institutional credibility of the U.S.) could jeopardize this privilege. In such a case, imbalances in external and public accounts would tend to exert more adverse effects. It would also be natural to observe an increase in risk premiums embedded in American financial assets, which aligns with the relative performance of various assets since Liberation Day, even though price fluctuations may be erratic in the short term.

Change in 10-year government bond yields in selected countries

Change in basis points since 02 Feb 2025

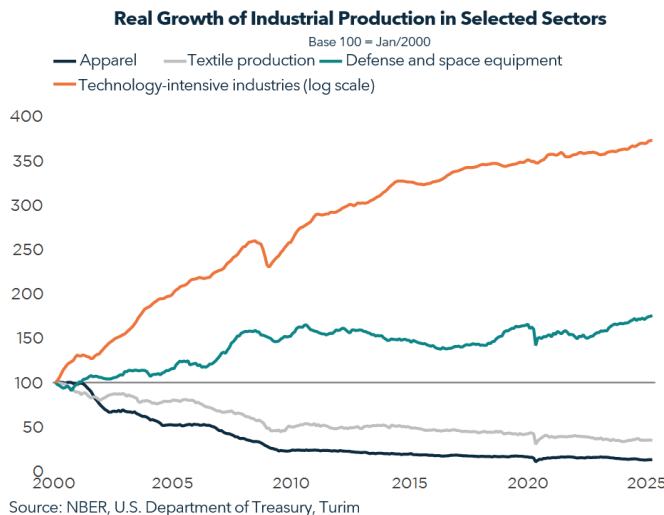


On the other hand, in an article published at the end of last year, Stephen Miran, president of the Council of Economic Advisors at the White House, argues that the exorbitant privilege comes with costs, particularly through currency appreciation. In this sense, the “umbrella” of global security (the role of “world police” exercised by the USA) and the provision of the global reserve currency

(which facilitates international trade between countries) can be interpreted as public goods subsidized by the U.S., which, therefore, should be compensated. This compensation, according to him, could come through import tariffs, foreign investments in factories in the U.S., opening markets for American products, and increasing domestic spending on defense. Similarly, currency depreciation could also result from coordinated actions, in a movement similar to the Plaza Accord ("Mar-a-Lago Accord").⁶

An important point in this line of argument is that potential adverse effects caused by the measures could be justified by the protection of strategic sectors, linking trade policy to national security. This is because losing industrial capacity and relying on more dispersed supply chains worldwide would increase dependence on external suppliers for inputs in areas such as public health (including components for drug production) and security (like the manufacturing of armaments).

In addition to these sectors, the American government also seems interested in expanding the technology industry—including themes like artificial intelligence and robotics—even though the high uncertainty associated with implementing new policies seems unfavorable to attracting private investment, at least in the short term. In any case, even if successful, a significant part of the industry's expansion would occur in sectors with lower added value, contradicting the trend observed in recent decades. In this scenario, a large portion of the jobs created would likely demand a lower level of qualification and offer lower salaries compared to other more competitive segments of the American productive matrix.



In summary, the current scenario seems to raise more questions than answers. The heightened uncertainty tends to reflect greater short-term volatility but could also signal the possibility of structural transformations in the coming years. The hypothesis of a potential reduction in the growth differential of the U.S. compared to other developed economies—part of the so-called "American exceptionalism"—supports the argument for a reassessment of geographic allocation in global portfolios. However, any movement in this direction requires caution and gradual implementation to mitigate the risk that short-term fluctuations result in permanent losses.

Footnote:

1. Examples: Dallas Tariff (1816), Tariff of Abominations (1828), Morrill Tariff (1861), and McKinley Tariff (1890).
2. The conference established the gold standard and created the International Monetary Fund and the World Bank.
3. The GATT set trade rules until it was replaced by the WTO in 1995.
4. Replaced in 2020 by the United States-Mexico-Canada Agreement (USMCA) after negotiations during Donald Trump's first term.
5. Term coined by the then French Finance Minister, Valéry Giscard d'Estaing, in the 1960s.
6. International agreement to depreciate the dollar and reduce the U.S. trade deficit in 1985.

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Geological Time: What only reveals itself with the passage of years

The modern concept of geological time emerged in the 18th century with the Scotsman James Hutton, considered the father of modern geology. It was Hutton who, by patiently observing the rock layers at Siccar Point, realized that those formations were not the result of isolated and rapid events, but of slow and cumulative processes. This understanding revolutionized our perception of time: it showed that the present is shaped by discrete and constant transformations, almost always imperceptible in everyday life.

There are bodies of knowledge that form slowly, in silence. Geology is one of them. It observes time not in months or years, but in eras. A rock carries in its layers the memory of millions of years – cycles of pressure, invisible transformations, movements that shape the landscape quietly.

The Grand Canyon, for instance, is the result of approximately six million years of erosion caused by the Colorado River, revealing rock layers that record nearly two billion years of geological history. In each of these layers, there is a silent testimony of climate changes, tectonic shifts, and the slow transformation of the Earth's surface.

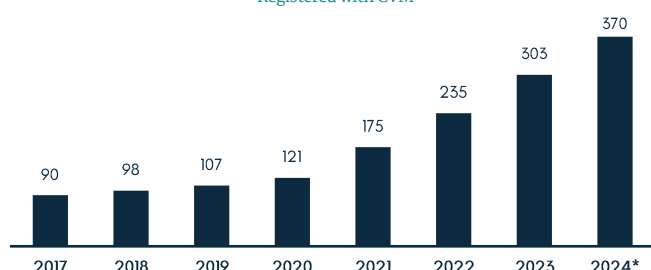
This attentive gaze toward what accumulates – rather than what merely glitters – offers valuable parallels for reflecting on other complex systems: **the building of a legacy, the financial market, the structuring of wealth, the solidity of an institution.**

The Difference Between Surface and Structure

In geology, the surface of a rock formation rarely reveals its true nature. What we see is merely the exposed layer – subject to wear, erosion, and environmental conditions. The structure, on the other hand, lies in the depths: it is the interlocking, mineral composition, density, and cohesion between layers that determine a rock's resistance and longevity. It is this invisible structure that supports the whole, absorbs pressure, and endures over time.

In many markets, we currently live in a scenario where the volume of information is growing exponentially – narratives often overshadow fundamentals. Over the past five years, there has been a significant multiplication of new players in the Wealth Management sector, alongside new business models and narratives. Since 2017, the number of active securities consulting firms registered with the Brazilian Securities and Exchange Commission (CVM) has more than quadrupled.

Number of Active Investment Advisory Firms in Brazil
Registered with CVM



Source: CVM | *data until August 2024

This movement reflects a healthy transformation in the market, with a greater diversity of alternatives available to investors. However, much like a geological formation, not every surface or structure proves capable of withstanding economic cycles, the complexity of investor demands, or the natural changes that time imposes.

And the cycles, inevitably, come. Crises such as that of 2008, the years of recession during President Dilma's administration, or even the recent shocks of the pandemic and the global interest rate hikes have served as stress tests for structures that, at first glance, appeared stable.

In hindsight, fragilities seem glaring – a phenomenon known as hindsight bias, explored by psychologist Daniel Kahneman, Nobel Prize winner in Economics, in his book "Thinking, Fast and Slow", dedicated to the study of cognitive biases that affect human judgment. Yet, in the midst of the cycles, distinguishing truly solid structures from those designed merely to thrive in favorable conditions is a complex task. The erosion brought about by these cycles – like the silent wear seen in geology – is what ultimately reveals these differences over time.

What endures after crises is what was built on solid values, a balance between innovation and consistency, as well as clear principles, independence, robust governance, and an unwavering commitment to delivering excellent service. In the end, solidity is defined by the ability to sustain value in the face of inevitable external and internal pressures over time. **Just like in geology, there are no shortcuts in wealth management.**

The Topography of a Legacy

Just like in a rock formation, the true value of a legacy lies less in what is visible and more in the quiet architecture that supports it. Excellence in financial management is essential, but equally important are well-thought-out succession decisions, sound legal structures, robust family protocols, and an investment philosophy aligned with the family's goals.

According to studies by the Family Office Exchange (FOX), more than 60% of high-net-worth families identify non-financial factors – such as family conflict, governance failures, and generational misalignment – as the greatest risks to wealth continuity. These risks do not appear in standard reports or statements, but like fissures in a rock, they can compromise the entire legacy structure.

In this sense, wealth management is not just about selecting assets; it is about understanding layers. Just as a geologist uses topographic maps to assess the stability and composition of terrain before major projects, a wealth manager must read the specific contours of each family or institution and build a structure that respects its topography: its history, values, limitations, and aspirations.

Beyond the Surface

One of the greatest lessons geology offers is that time doesn't just transform – it reveals. Rocks that appear identical on the surface can have entirely different compositions – and only careful, patient study can uncover the difference.

Similarly, the most important decisions in wealth management are not always the ones that generate immediate impact. Often, it is the quiet choices – solid governance, consistent strategic alignment, clear succession planning to ensure legacy continuity, disciplined risk management, or the ability to anticipate change with clarity – that prove most valuable over time.

Warren Buffett, regarded as one of the most successful investors in history, once described his strategy in a way that aligns naturally with the geological logic of time: *"Someone is sitting in the shade today because someone planted a tree a long time ago."* In other words, prudent, well-structured, and often quiet decisions are the ones that sustain value into the future – even when their fruits are not immediately visible.

This logic – that true strength is not always visible on the surface – was recently illustrated in the market with the implementation of CVM Instruction 179. By increasing transparency around internal structures of asset managers, including remuneration policies and governance disclosures, the rule brought previously hidden vulnerabilities to light. Some structures that once appeared solid revealed themselves to be overly concentrated, poorly institutionalized, or reliant on fragile foundations. It was a powerful reminder that, as in geology, one must look beneath the surface to truly understand a structure's composition.

Beyond revealing fragilities, market cycles also test the ability to adapt without breaking, a quality known as adaptive resilience. Like geological formations that respond to pressure and climate shifts by adjusting their internal structure without losing cohesion, the most robust institutions are those that evolve continually while preserving their essence. In this context, innovation is not just about anticipating trends but about building flexible and resilient foundations that can absorb inevitable market shifts without compromising core values.

Time as an Asset – and a Filter

The truth is that some elements are only revealed over time.

In his classic *Time's Arrow, Time's Cycle* (1987), Stephen Jay Gould argues that understanding geological history requires a shift in perspective: it is necessary to abandon a linear, immediate view and adopt a layered logic, in which events accumulate, overlap, and often become legible only in retrospect. This idea applies not only to rocks, but to any system that carries depth and interdependence – including the formation of a lasting legacy.

Geology teaches us that nothing truly solid is formed without patience or precision. **Time is not just a valuable asset – it is a natural and relentless filter: it tests structures, exposes hidden fragilities, and validates silent choices.** More than predicting every

movement, it is about distinguishing between what simply emerges and what quietly settles and endures.

Thus, in any strategy – whether in portfolio management, building strong governance, defining a clear risk policy, structuring assets, or maintaining consistency in institutional values and principles – true value is rarely revealed immediately. It becomes clear only as superficial layers erode, exposing what was built to withstand.

This silent filtering process is also evident in the industry itself. As highlighted in the Global M&A Report 2025 by Bain & Company, the wealth management sector is currently undergoing a clear wave of consolidation driven by the pursuit of scale, digitalization, and the growing sophistication of investor demands. It is, ultimately, the work of time as a filter.

Over time, attributes such as genuine independence, cost transparency, absence of conflicts of interest, and consistency in global investment management assert themselves as quiet fundamentals – essential for navigating different market cycles. While crucial, these traits are not always immediately visible to the investor's eye.

The geology of time, in the end, is the recognition that what endures is not defined by what it reveals externally, but by what it has accumulated internally. It is the understanding that the strongest structures were shaped over time, strengthened by coherence, and that their distinctiveness is revealed through the passage of years. Time does not reward permanence alone – but the ability to evolve without losing one's essence.

In our [first Letter Turim](#), published exactly twenty years ago, we wrote: *"one generation creates an opportunity which the next generation is able to embrace and optimize."*

Today, that perspective remains relevant and perhaps more than ever. **Legacies are not improvised. They are built in layers, patiently sedimented with coherence and depth.**