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UNDERSTANDING TARIFFS AND TRUMPFLATION IN THE CONTEXT OF "THE DONROE DOCTRINE"


With tariffs and threats, Trump turns on America's closest allies

(Jabin Botsford/The Post)

Critics warn his posture could embolden China to expand ties to Latin American countries, and Russia to continue advances in Ukraine.

Washington Post – Feb. 2, 2025

As with pretty much *all* things *Trump*, the 47th president's announcement this weekend of broad tariffs on America's three largest trading partners—Canada, Mexico and China—is generally being greeted by one of two extremes of reaction: You love this, or you hate it. And interestingly, I have personally visited with more than one friend/colleague in Canada who is in the former camp, hoping that trump will straighten up *their* country by some of these things as well.

As I have already discussed these looming tariffs numerous times recently—most recently, in the podcast with Mike Fox of *The Prospector News* I just sent to you ahead of this issue—I won't spend a lot of time on this. None the less, I think there are some augmented and even new points now that I want to at least mention. **To be sure, this is all going to be a moving target!**

1. Before the election, now Department of Commerce Secretary-designate Howard Lutnick was singing from a different (and in my view, *better*) song book than he did this past week in his confirmation hearing. Previously, in a *CNBC* interview (for a snippet with the important "money quotes", see https://www.youtube.com/watch?v=uMAaqTseLGg) he opined that Trump, if elected, would be more "targeted" with his imposition of tariffs, sticking chiefly to protecting American industries and products where we *do* make things.

That, of course, is *not* now the case in *several* different respects. Starting with food, we import over 40% of the total of all of our food from Canada and Mexico. Show prices at the grocery store for most produce, for instance, will be rising.

Another egregious example looking just at the economics is the imposition of even that "benevolently"-reduced tariff (10% rather than 25%) on imported oil from Canada. As *everyone* has pointed out to President Trump, the well over four million barrels/day we buy of Canadian crude is *significantly discounted* below the typical WTI price. Contrary to Trump's periodic rhetoric to the contrary, America today can decidedly NOT do without this heavy oil, which some of our refining capacity is *specifically* designed to process into finished products.

So the result here, too, is simply going to be rising prices for consumers of refined products.

2. In his confirmation hearing before the Senate this past week, Lutnick changed his tune and said he *supports* "across the board" tariffs "country by country" (see https://apnews.com/article/lutnick-trump-tariffs-commerce-trade-ffee741e10c1c483ab03c564d6cd907a.) This was in order to "create reciprocity" and strong-arm trade partners into removing their unfair barriers to the U.S.

Now, I don't know if Lutnick has or has not had this conversation with his boss: but if his worry is genuine, he should most be pushing for bigger across-the-board tariffs on Europe and Japan, *if he (and the president) are going to be genuine about this whole gambit being about trade reciprocity in the first place.* As Lutnick correctly and strongly pointed out back in that above-linked *CNBC* interview, to this day America is allowing BIG tariffs on our exports to those areas for (as is the existence of N.A.T.O.) "reasons" that have LONG since expired.

The $64,000 question is…WHY is Trump starting out with the most onerous tariffs/treatment on our two closest and arguably most important trade partners?

3. "Keep your enemies close…but your closest friends *closer*." *(with apologies to Michael Corleone)* You can be forgiven—what with all the other news of recent days, not the least of which the twin air tragedies in Washington and Philadelphia—for missing **the most important piece of news, PERIOD, out of the Trump Administration's early days from this past week.** And that was newly-minted

Secretary of State Marco Rubio (whose transformation from a globalist neocon sure seemed at least half-legit!) expressing in an interview that **not only is the U.S.-led unipolar world order over, *but that America will be embracing and hastening that historical development*.** (Note: For Glenn Diesen's excellent and comprehensive analysis on this see https://substack.com/home/post/p-156221317.)

Trump's *tactics* in being a hard-ass with Canada and Mexico—and proportionately more so than with even China—are more likely than not initial negotiating tactics to eventually (in his mind, anyway) have more of a sway over those nations than currently. All this is an important back story; indeed the most important one: **Trump 2.0's *objective* of galvanizing U.S. economic power and military supremacy *in the Western Hemisphere* as the president seeks to extricate America, at least somewhat, from the many "foreign entanglements" we remain in.**

4. What might some other desired effects be? Of course, first and foremost we have the stated ostensible chief goals of curbing unwanted migrants from *both* Mexico and Canada into the U.S.

Beyond that, I've found interesting this weekend the extent to which Canada has been shaken out of its otherwise political stupor and purgatory that Prime Minister Castreau put the country in via the way he resigned and—with the Liberal Party overall—hoped to drag out a new national election as long as possible. Now, Conservative leader Pierre Poilievre is articulating a "Canada First" game plan as a response; *one which he suggests requires Parliament to be in session now.*

Pierre Poilievre • 2nd
MP for Carleton, Leader of the Conservative Party of C...
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We must put CANADA FIRST.

That is why Common Sense Conservatives condemn President Trump's massive, unjust and unjustified tariffs on Canada's already weak economy. Canada is the United States' closest neighbour, greatest ally and best friend. We share the longest undefended border and fought alongside Americans in two world wars, Korea and Afghanistan, where 158 of our brave men and women died helping the U.S. avenge the 9/11 attacks. There is no justification whatsoever for this treatment.

The Liberals must put aside their partisan interests and recall Parliament now to pass a Canada First Plan that will:

1. Retaliate with dollar-for-dollar tariffs carefully aimed at maximizing impact on American companies while minimizing impact on Canadian consumers. That means targeting U.S. products that we can make ourselves, buy elsewhere or do without. For example, we must retaliate against American steel and aluminium, as Canadians can make those vital products at home.

2. Put all the tariff revenues into help for affected workers and businesses; Government should not keep a dime of the new revenue.

3. Pass a massive emergency Bring It Home Tax Cut to bolster the economy, stop inflation and save and create jobs. Canada needs a massive tax cut on work, investment, energy, homebuilding and making stuff at home. The Liberal carbon tax and capital gains tax hikes must be the first on the chopping block.

4. Immediately scrap the Liberal anti-resource law C-69 and greenlight LNG plans, pipelines, mines, factories, and port expansions to overseas markets.

5. Bring in truly free trade within Canada by knocking down interprovincial barriers to help replace lost north-south trade with east-west trade and to make us self-reliant.

6. Rebuild our military and take back control of our borders to regain the confidence of our partners, assert our sovereignty, protect our people and put Canada First.

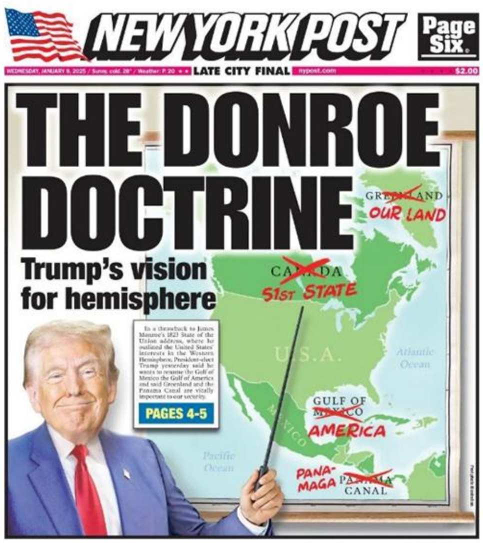
We will protect our economy, defend our sovereignty, bring home production and paycheques and never back down. We will put Canada First—now and always.

Nearby you see his comments from this weekend. Provincial Premiers Ford (Ontario) and Smith (Alberta) are among others also refreshingly getting behind a host of business-friendly measures to *help Canada's own economy*…

Elsewhere, Mexico's President Claudia Scheinbaum, as I commented on several days ago, has already refused Trump's demand to "renegotiate" the U.S.M.C.A. trilateral trade framework between our three countries ahead of its already-planned checkup in 2026. Aside from that, her Economy Minister Marcelo Ebrard warned this weekend that the imposition of Trump's tariffs on

Mexican goods is a blatant violation of the U.S.M.C.A. *which Trump himself signed during his first term in 2019.*

This all (and I suspect we're going to be dealing with these tariffs, counter tariffs and more for the foreseeable future) may well be a risky move on Trump's part to—as is characteristic for this elbow-throwing New York business man and street fighter—start with bluster and big demands on the way to "a deal." At least with Canada there are some signs (and hopes) that the Conservatives' fortunes will, net, be bolstered by a renewed "Canada First" attitude in the country.



Separately, and following this, an arguably taller order will manifest itself more in the form of **an effort to eradicate (chiefly) the disproportionate Chinese influence in our hemisphere**. This is starting with Panama and the Panama Canal (and bolstered on the Sunday talk shows this week by Rubio's blunt insistence that Panama is in "violation" of the deal giving them control of the key American-built canal. ***Later, one by one, this initiative will involve pretty much every country in South America.***

Russian press for one is, of course, suggesting that these American strong-arm tactics will accelerate the flight from the U.S. as global hegemon *and drive everyone into the arms of the BRICS* (see https://tass.com/world/1906619.) In the end, I think Trump would tolerate some of that for countries outside our hemisphere; *not so much otherwise*.

There's little doubt that—for now—uncertainty and even turmoil around all of this are finally going to end the euphoric moves for stocks and (already this weekend) crypto currencies. Pretty much everything that has had a speculative move in the recent past. With the president now admitting even himself that (who'd a thunk it?) Americans just might suffer from disruptions, etc., for a while due to all this, I daresay "The Math" I've been discussing is going to become a LOT more evident to everyone.

Yet, in ending (or I should say, briefly suspending) this subject for now, I *do* see and can understand the methods to Trump's madness here. Risky, yes: but this all doesn't *have* to end badly from an economic/investment standpoint, no matter the upheavals for the time being.

QUICK MARKET/ALLOCATION COMMENTS

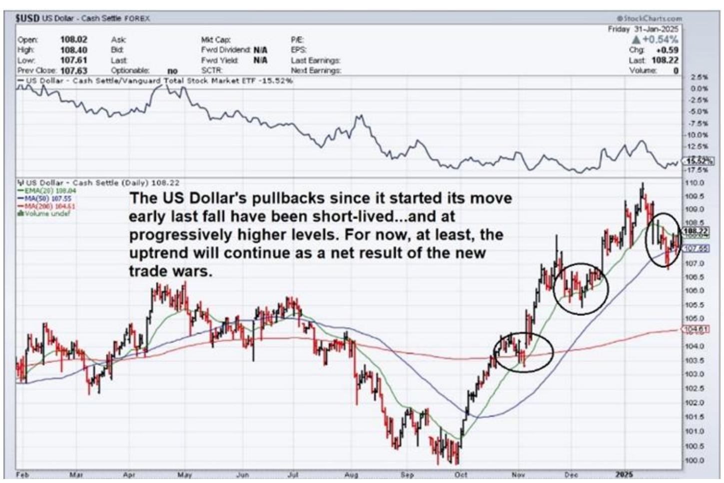
And upheavals there will be, as began to dawn on the stock market about midday last Friday when it was officially announced that the simmering *threat* of tariffs would indeed become *reality*. In the last couple hours or so of trading Friday, stocks quickly swung from gains to losses; and for *a second time* in 2025 seem of a mind to want to break down technically and *finally* write the epitaph to the bullish phase of the last couple years.

The bear has remained elusive. The downtrend started a couple weeks before Christmas was overcome almost as fast, as F.O.M.O. traders circled back…that HUUUGGE announcement of a $500 billion A.I. investment in America came…and the deregulation/cost cutting quest anchored by Elon musk got out of the gate quickly.

But we're dealing with a much more intractable worry for markets now in the form of an evolving trade war that likely will *not* be a flash in the pan. More tariffs are coming against the E.U. especially, the president promised this (Sunday) evening. And with the realization quickly setting in that there will be indefinite back-and-forth salvos among participants, suddenly the overall health of the global economy is being called into question *together with Fed policy*.

Interestingly, when asked tonight, Trump opined that the Fed's decision to hold interest rates steady this past week was "correct." *I guess he has enough on his plate now in starting new rounds of tariffs, etc., which he at least now admits will bring some "pain" and higher prices for Americans*.

The question will now evolve into whether *markets* might end up feeling sufficient pain to prompt the Fed to change its present neutral view of things one way or another.



The Fed's Chairman Jerome Powell last week is being vindicated this weekend and as the new week prepares to commence in wanting to wait and see how things evolve. As with the "balance of risks" he usually deals with (or often disingenuously *says* the Fed is dealing with) tariffs alone represent quite different risks to Fed policy and what might be the "right" moves. The president's campaign season rhetoric aside (and again, he's injecting a bit more reality into expectations now) **there is virtually no question that producer and consumer prices are going to rise *more* now than they would have otherwise**. Again, that's "The Math." And all his detractors are going to be gleefully beating the president over the head with HIS morphing Bidenflation into *Trumpflation*.

The charts of the U.S. Dollar and perhaps Treasury yields as well will be telling more of the story of the Fed's predicament; one that will be shared by central bankers and central planners alike elsewhere. As you see a bit above, the USD Index had already indicated that it wanted to make a stand around its 50 dma in this recent correction before moving higher anew. **Now, that seems certain, as "flight to safety" capital over all this will favor the dollar as much as anything.**

That, in turn, will add that much more stress to most basic commodities as well as the outlook for the global economy.

An interesting barometer also shown above is going to be what happens to the Treasury market at the long end. That chart has likewise shown yields in an uptrend. However, there's a chance that concerns over slowing growth and related angst could trump (pun intended) price rises/still-sticky inflation and—if this all goes on long enough—cause the Fed to consider *easing* somehow even if inflation is still high.

That up trending channel for the 10-year's yield *might* be showing us already a left shoulder and a head (circled) ahead of a right shoulder in such a topping (?) formation. This will bear watching; and might likewise mean we should add more companies and even ETFs of stories that are interest rate-sensitive but without debilitating exposure (if any) to the tariff wars.

Gold has benefitted from all the uncertainty and more, breaking its narrowing trend and moving in recent days to a new all-time high even now in US Dollar terms (*and in "loonies," moving across the C$4,000/ounce level!!*) **Some of the move over the last week or so especially came as the physical market for gold became somewhat stressed**. I've been passing along that news to you along the way; and even for silver, which has seen similar dynamics of spiking lease rates and more as has gold.

The main story is that some big players in New York have been asking for and having shipped physical metals from London (mostly) to New York. The LBMA has insisted that they still have a lot left; but were taking a bit longer to fill orders for logistical reasons. Whether the new high for gold and some recent catching up on silver's part continue or pause remains to be seen; now that the "news" of tariffs is in, the urgency may not be the same.

I'm especially curious to see how the universe of gold and silver-related equities respond; not only to the metals' moves (generally, P.M. equities have continued to underperform) **but especially as other investing themes are taken off the table.** As you know I have incessantly insisted that this must happen before gold and silver equities can begin catching up at last: investors' other "play toys," as I have quipped, must be removed.

That started this past week when—as I discussed in my visit with Mike Fox—A.I. and related stocks in the U.S. were revealed to be the asinine speculation at current prices some of us have insisted they are. Now, it appears the broader health of the economy is going to be called into question. *All of this* too, mind you (as I also discussed in my visit with Fox) comes as the credit cycle is *way* overdue for a retrenchment of some kind. At least President Trump will be able to blame a punk stock market on other factors, I guess…his needing to fight myriad trade wars, clean up the border and SO much more due to what he inherited (and he'll be correct on *some* of that, to be sure.)

So as these next few days unfold, I'll be fitting my thinking cap extra tightly to decipher what we should be doing differently—or in addition to—where we're at with our portfolios now. Unquestionably, it will be a troubled environment that we face; but with a lot of liquidity still in markets, there's no question that money that gets scared out of the most suspect areas is going to go *someplace*.

As always, stay tuned for follow-on issues and/or e-mail alerts as I make some decisions, which could be coming frequently beginning in just the next day or two as more things become evident.

Don't forget to follow my thoughts, focus, occasional news on covered companies AND MORE pretty much *daily* ! ! !

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