Bill Adler is the owner of Stripmatic Products, a metal parts manufacturer located in Cleveland, Ohio. Bill was recently invited to bid on a contract to make commercial sausage stuffers for a company that wanted to replace its Chinese supplier. The customer had just one nonnegotiable demand: match China's price. Adler thought he could, but as he readied his proposal, talk of imposing tariffs on aluminum and steel imports sent the price of Stripmatic's main raw material soaring, and his bid failed. Instead of taking business – and jobs – from China, Bill is struggling to keep the work he already has.

Stripmatic's plight is an example of the hidden cost of protectionism. Over decades of increasing globalization, the benefits of freer trade became dispersed across countless, more efficient and competitive industries and less expensive products, and were thus often difficult to identify. The costs, on the other hand, became clear every time a factory closed. Now, that logic operates in reverse. The gains from protectionism can be seen in a reopened steel mill, but the full costs in foregone investments and jobs not created cannot be easily quantified. Those costs are no less real for the Stripmatics of the world, since Bill Adler cannot simply relocate his business outside of the U.S., as can Harley-Davidson, for example. The iconic U.S. company has announced it is moving some of its production of motorcycles for European customers outside of the United States, to avoid EU retaliatory tariffs. Harley Davidson will surely survive while Stripmatic may not, but the health of our economy as a whole is at risk when its winners and losers are determined by policymakers, and not the workings of the marketplace, itself.

Over the last several decades, globalization has benefited consumers while generating record corporate profits. It has massively increased wealth globally, as well as in the U.S., even if the distribution of that wealth has become increasingly uneven. It has led to the development of new technologies and business models that have expanded the reach of U.S. companies. This is largely a consequence of cost savings, as manufacturers moved some production to lower-cost locales with the emergence of China and other Asian economies in the global marketplace, causing global trade to soar and creating a complex, interlocking and interdependent supply chain. Roughly one-third of China's exports to the United States represents value created *outside of China* (i.e., imported from elsewhere into China and eventually exported to the U.S.) Therefore, tariffs directed at China's (or Canada's, or the EU's) exports to the U.S. will have a ripple effect, globally. It is equally true that a significant amount of U.S. exports is dependent upon imports from other countries, in particular the auto industry. Trade, in other words, is mostly about the supply chain. And tariffs directed at a single industry in a single country disrupts the global supply chain and creates uncertainty for U.S. companies and, consequently, the U.S. and global economy.

Normally, we would be looking to the onset of 2nd quarter earnings reports, which we expect will be largely positive. The economic backdrop, particularly housing and manufacturing, remain in upward trends, and leading economic indicators rose in May.

Interest rates have receded from their May highs, and equity valuations are reasonable. But in an atmosphere that might otherwise be supportive of an optimistic outlook, money managers are increasingly focused on growing trade tensions, and the increasing risk of a wider trade war.

Only a worst case scenario would be likely to kill the current expansion outright, but further escalation could certainly have a negative effect on economic growth or worsen any eventual slowdown, as well as add to the inflationary pressures that are already building. What the Federal Reserve would do in such a scenario – rising inflation and weaker economic growth – cannot be easily foreseen. The last time U.S. tariff rates went up in the context of Fed tightening was 1930, a circumstance no one wants or expects to re-visit.

Further widening of trade tensions would almost certainly result in a lowering of earnings expectations for the rest of this year and into 2019, as global companies face the challenges of weaker domestic and global markets and rising costs. This would, at best, add to the seasonal market weakness that is generally at its worst in late summer, and add to the market volatility that typically accompanies an election year.

Of course, rather than fear the worst, we can hope for a better case scenario. Those of us old enough to remember the Cold War are familiar with the acronym, MAD – Mutually Assured Destruction. Neither antagonist in the Cold War would invite its own destruction by attacking the other. The acronym, itself, seemed appropriate in concept, but it worked in practice. It is widely hoped – and expected - that the President's actions so far are politically symbolic and characteristic of his negotiating style, but that neither he nor his party – nor his antagonists - will risk forfeiting the benefits of globalization that have benefited the U.S. and global economies for decades. Like the nuclear standoff that prevented mutually assured destruction, that is what we're relying on.

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