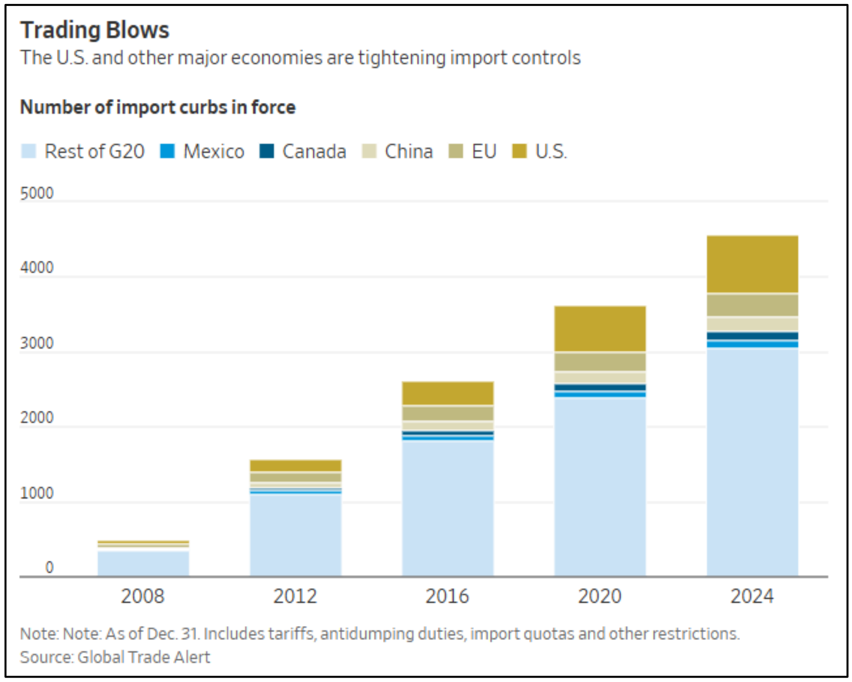
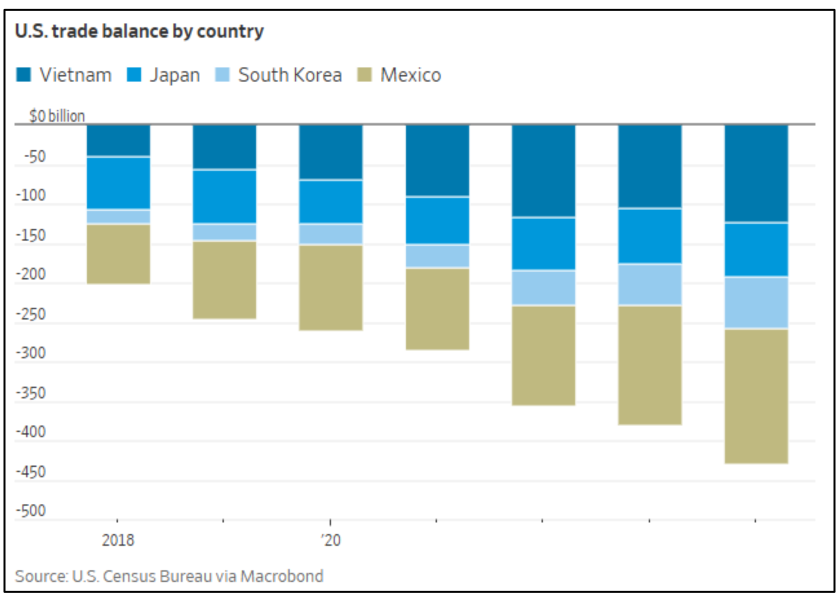
Distinguishing between tariff negotiation and lasting implications

The Trump administration's newly announced tariff regime represents a significant escalation in trade policy and has injected renewed volatility into markets. With effective tariff rates doubling on average—from around 10% to over 23%—the near-term impact on growth, inflation, and corporate margins is unlikely to be negligible. While comparisons to historical trade blunders like the Smoot-Hawley Tariff Act are not without merit, we believe the current environment, both economically and structurally, is markedly different, and the long-term multi-year effects of tariffs are likely to be more nuanced.



Note: Note: As of Dec. 31. Includes tariffs, antidumping duties, import quotas and other restrictions.
Source: Global Trade Alert



Source: U.S. Census Bureau via Macrobond

The goal of these policies is a strategic recalibration of US trade relationships, aimed at leveraging negotiation power. Under President Trump's reciprocal trade policy, tariff rates vary by country, with a minimum of 10% and many set significantly higher. The announced rates were larger than expected; however, it is important to note that they are intended to decline over time as negotiations progress. That said, initial analysis of the formula used to determine these rates suggests they are based on trade deficits rather than effective tariff rates. This distinction could hinder resolution efforts for two reasons: (1) it risks inflaming tensions with other countries by misrepresenting the rationale for tariffs, and (2) trade deficits are inherently more difficult to resolve than adjusting tariff structures and trade policy.

The likelihood of a recession has increased as investment spending could remain subdued as businesses wait for greater clarity, and real disposable income may face pressure as higher import costs filter through to consumers, but the US economy enters this new policy change from a position of relative strength.

Unemployment remains near historic lows, consumer spending is solid, and corporate balance sheets are healthy. This macro backdrop provides a cushion that was absent during past trade crises. Importantly, the US economy is now largely services-based, with services representing well over 70% of GDP and employment. In contrast, when the Smoot-Hawley Tariff Act was enacted, agriculture and manufacturing represented about 70% of the economy, making it significantly more vulnerable to trade disruptions. Furthermore, while Smoot-Hawley was a poorly timed and damaging policy, the collapse in US trade volumes is largely attributed to the Great Depression, not the tariffs alone. While U.S. imports declined 66% and exports 61%, global trade fell by 66%—indicating that the downturn was global in nature, rather than purely tariff-induced. As a result, we continue to view a recession as a risk, but not the base case.

Rhetoric vs. Reality: A Familiar Playbook

During his first administration, President Trump's trade threats often gave way to negotiated outcomes. While the overall US trade deficit widened, bilateral deficits—particularly with China—declined meaningfully as tariff pressure prompted shifts in sourcing and supply chains. That experience serves as a useful analog. The current policy, by tying U.S. tariffs directly to partner-country trade behavior, appears designed to encourage reciprocal de-escalation. Should other countries reduce their barriers, the U.S. rates would decline accordingly, offering a clear incentive framework for negotiation.

However, this round of tariffs appears broader in scope and more aggressive in nature than previous iterations. The policy also comes at a time of elevated geopolitical sensitivity and fragile supply chain networks, adding complexity to an already uncertain landscape.

Navigating a more Volatile Macro Environment

While the short-term may prove challenging—particularly if tariffs remain elevated or retaliatory measures escalate—we remain constructive on the medium- to long-term prospects of the companies in our strategies. Notably, the structure of the tariff plan, with duties explicitly linked to a country's trade behavior, leaves open the possibility of negotiated de-escalation. And because these measures were enacted via executive authority, they can be reversed or adjusted as conditions evolve or administrations change.

We believe it is critical to separate macro noise from long-term structural opportunity. The companies within our strategies are well equipped to navigate this transition, and we maintain a constructive long-term outlook, grounded in the strength of secular trends, innovation, and strategic execution.

The Importance of Fundamental Analysis and Active Management

With tariff rates varying by country and company-level exposures varying widely, in-depth fundamental analysis is essential to assess impacts. A core element of Brookmont's investment process is identifying companies aligned with durable secular trends—such as innovation in obesity and oncology, artificial intelligence, energy transition, automation, and geopolitical instability. These trends are generally less sensitive to cyclical trade dynamics and more tied to multi-year demand curves. Companies we invest in also often benefit from robust pricing power, competitive moats, and innovation-driven differentiation—qualities that can provide resilience during periods of broader market disruption.

While the tariff escalation raises uncertainty and the risk of economic friction in 2025, we believe our focus on companies with strong competitive positions, robust secular growth tailwinds, and global flexibility leaves us well positioned to navigate this environment. Volatility may persist, but the foundation for long-term value creation remains intact.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities.

Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Index. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. The minimum investments and advisory fees required differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future returns