

Darringer Stewart Research
Read less. Learn more.

The 2026 Impact of Tariffs

We show that both current and previously existing tariffs are set to have a much larger than anticipated impact on market uncertainty. We find that unemployment data is understating hiring hesitancy, while borrowing data also points to a weakening consumer burdened by strained supply chains. We expect CPI will increase faster than markets anticipate as companies shift away from eating tariff costs. P/E ratios, along with the S&P 500 hitting a record 6389.77, suggest markets are underpricing the risks of rising inflation, a slowdown in hiring, and a weakening US consumer.

Contents

Setting the Scene: Current Drivers of the Market.....2-3

Indicators of High Tariff Impacts

 Misleading Unemployment Data.....3-5

 Less Americans Qualifying as Unemployed.....3-4

 Post-Covid Tailwinds Keeping Hiring Afloat.....5

 Price Levels.....5-6

 ‘Buy Now Pay Later’ Trends.....6

 Market Attitude6

Conclusion and Extrapolations.....7

Sources.....7

Theo Darringer

The Pennsylvania State University
B.S. Economics
B.S. Computer Science
Class of 2029
+1 [REDACTED]
tad5916@psu.edu

Michael Stewart

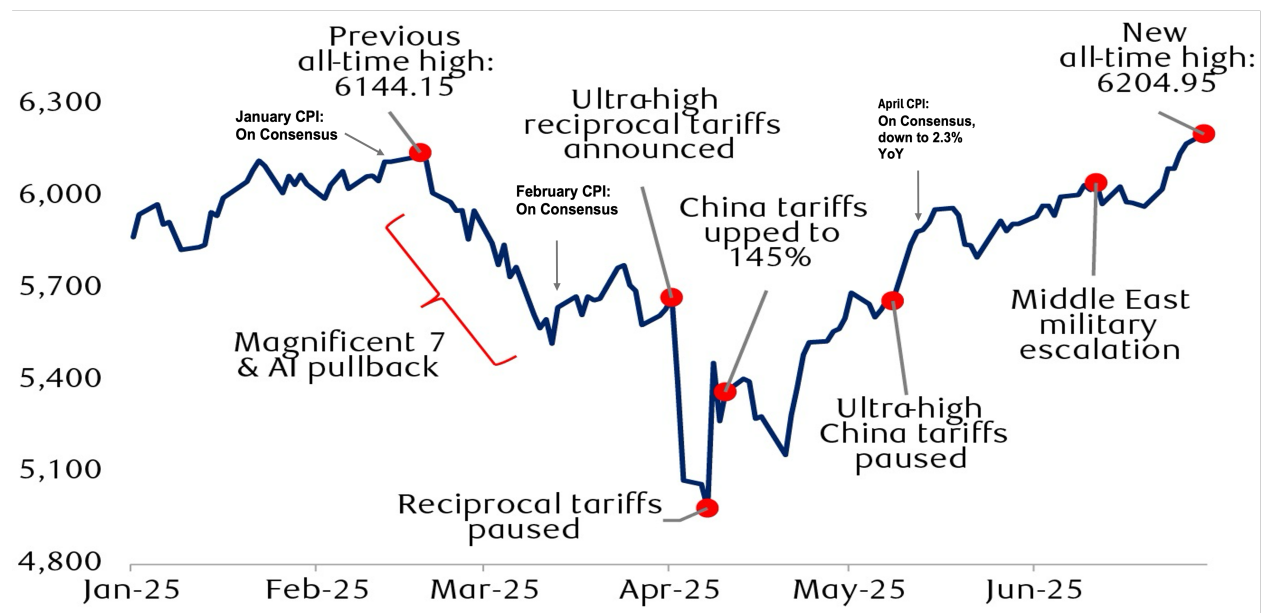
Northwestern University
B.S. Economics
B.S. Mathematics
Class of 2028
+1 [REDACTED]
mikeystewart2028@u.northwestern.edu

Published Aug-28-2025 00:00 EST

Section 1 – Setting the Scene

Current Policies and Significant Developments

U.S. equities are currently ‘macro-focused’; much of what is driving stock prices is tied to global news around middle east regional geopolitics, Federal Reserve policy on future rate cuts, and above all, tariffs. Due to the turbulent nature of the administration’s trade policy, with headlines of new tariffs, retaliatory measures, threats of increased levies, policy pauses, and other macroeconomic developments, the resulting uncertainty is felt more by the common investor.



Source: RBC Wealth Management. Additional annotations added.

Interest Rates

The discussion of the ‘could have been’ soft landing peaked in September of 2024. Ever since, turbulence in the form of trade uncertainty has been introduced, throwing the Federal Reserve off course of its focus on post-Covid inflation. While key indicators such as the core Personal Consumption Expenditures (PCE) and the Consumer Price Index (CPI) seem to show optimism towards the Fed’s 2% inflation target, trade uncertainty has hindered the advancement of adequate rate cuts. Adopting a ‘wait and see’ policy, the Fed has held the federal funds rate steady throughout the year as tariff impacts unfold, despite the market

pricing in two quarter rate cuts this year. Investors currently anticipate a 25-basis count rate cut in September.

Trade Policy

Moreso than in his first term, President Trump has shown a serious desire to cut back on globalism and protect American production. The vehicle through which he has decided to act on this, tariffs, pose obvious threats to a) consumer spending, b) a 2% target annual inflation, and 3) policy stability. Since the April 'Liberation Day' selloff, these threats have since wavered in importance, shown in all three indexes hitting record highs in recent days.

In the face of uncertainty, strong hard economic data seem to be the drivers of this market rally, with core indicators showing a stronger economy than markets expected. As of August, the Producer Price Index (PPI) has decreased ~ 25% from January to June, with the Consumer Price Index (CPI) also decreasing 10% from January to June, alleviating inflationary worries. Furthermore, after a modest month of hiring in May, the 206k jobs added in June, ~16k above consensus, temporarily remedied worries of a cooling job market* (*We are aware these figures have been significantly revised, and provide commentary in a later section*)

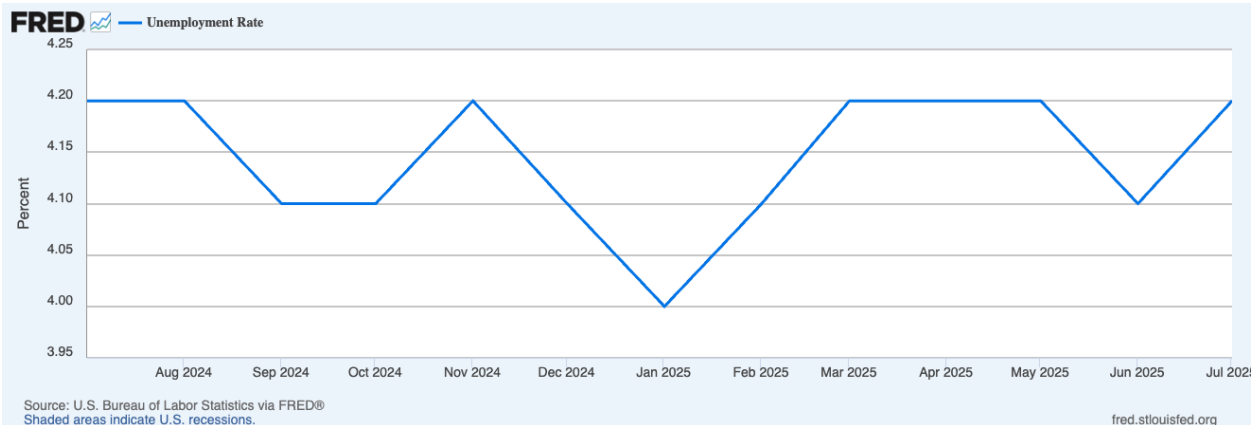
However, diving deeper into these indicators, we find *post-Covid* growth and a delayed onset of a slowing economy giving a false sense of security to investors.

Signs of Tariff Impacts Exceeding Expectations

Section 2 – Misleading Unemployment Data

While miniscule spikes in unemployment data have brought investors to factor in nearer-term rate cuts, it is our view that unemployment data is underrepresenting the effects of tariffs on the job market. Post-covid hiring trends and fewer Americans qualifying as unemployed may be skewing U.S. Bureau of Labor Statistics (BLS) data.

(continued)



Past Year Month-to-Month Unemployment Rate

Post Covid Tailwinds Keeping Hiring Afloat

One factor suppressing unemployment levels is strong rehiring in three sectors that have been steadily adding jobs as the economy recovered from the pandemic: hospitality, construction, and health care. While we see the U.S. consumer as weakening (as discussed later), the rebound in spending on services and assets (real estate – mainly by the upper class) has kept alive the job market in those industries.

Sector	Total Unemployed July 2024 (in 1000s)	Total Unemployed July 2025 (in 1000s)
Educational Services	302	358
Manufacturing	537	641
Food Services	679	609
Construction	420	379
Health Care	671	665

Source: U.S. Bureau of Labor Statistics. Data published August 1, 2025.

Because hiring in these sectors (shaded) is attributed to post-Covid tailwinds and is unrelated to current trade policy, it is our opinion that unemployment data could be an inaccurate indicator of how the American economy is responding to its new tariff environment.

Less Americans Qualifying as Unemployed

An “unemployed” person is defined by the BLS as someone who does not have a job, is actively searching for work, and is available for work. Year-over-year employment participation rate has dropped 0.5% from 62.7% to 62.2%. We maintain that market uncertainty stemming from fluctuating trade policy is causing American citizens to leave the labor force due to poor job prospects. While a seemingly small drop, when considering the

year-over-year unemployment rate range is 0.2%, we see how this trend could be decreasing 'unemployment levels' while masking job losses.

Section 3 – Price Levels

After a turbulent first quarter marked by volatile trade policy, mass selloffs, and peak consumer fear, fundamental economic data served as a key confidence booster for market recovery. Entering summer, CPI levels were approaching the Fed's 2% target despite active tariffs, hiring exceeding expectations despite investment concerns, and paused reciprocal tariffs seemingly signaling an end to inflation worries. However, as the delayed impacts of tariffs now set in during back-to-school season, consumers are feeling increased strain.

A recent report from Goldman Sachs indicates that amid initial trade policy uncertainty, firms opted to hold price levels steady despite seemingly increasing input costs. Why increase prices and upset customers for tariffs that could be gone tomorrow? In June, the report estimates that firms were absorbing 64% of price level increases, with foreign exporters and consumers absorbing 14% and 22% respectively. However, as tariffs remain to be a cornerstone of the administration's trade policy, firms have no choice but to raise prices. In the Philadelphia Federal Reserve's August manufacturing survey, they found that prices paid by manufacturers in surrounding east-coast cities have hit levels last seen in May 2022. Furthermore, these same firms expect to raise prices by 4.1%, a rate that exceeds wage increases and demonstrates decreased consumer buying power. As firms continue to shift costs, analysis from Goldman Sachs estimates that by October, consumers will pay 67% of tariffs costs.

This recent data sheds light on the misleadingly positive inflation data seen earlier in the year and demonstrates how consumers ultimately carry the burden of increased price levels. Despite consumer confidence decreasing and August inflation expectations ticking up, S&P 500 valuations remain within 0.5% away from all-time highs. The main justification for this is strong earnings despite uncertainty, but we believe the market is not adequately pricing in the decrease in spending to come in the coming months.

Section 4 – Buy Now, Pay Later Trends

Microeconomic indicators that most analysts overlook also point to a weakening consumer. “Buy Now, Pay Later” (BNPL) points to a weakened consumer. While we cannot attribute the increased usage of BNPL to a slowing economy, as the service is simply becoming more popular, the reasons people use the platform are shifting. Key points:

- Of all Americans who used BNPL, 41% have made a late payment in 2025, compared to 34% in 2024.
- 33% of users see BNPL as a ‘bridge’ to their next paycheck, up slightly from 30% in 2024.
- More Americans are using BNPL to buy needs, not wants. 25% of users paid for groceries and other day-to-day expenses with BNPL, up from 14% in 2024. That’s a 79% increase.

This data points to a weaker middle/working class consumer. Most of this strain is not directly result of tariffs. Higher prices at the grocery store, a tightening job market, and housing costs are likely the cause. Even electricity prices, which have been steadily increasing more than twice as fast as inflation because of increased demand of the energy for AI. No matter the reason, a consumer who is already losing buying power is ill-prepared to pay surcharges of 20%+ on the majority of their purchases.

Section 5 – Market Attitude

At the time of writing, most financial institutions have priced in a 6% drop in long-run U.S. GDP because of tariffs set by President Donald Trump and the reciprocal tariffs that followed in recent months. This pessimistic viewpoint largely differs from that of main street investors, where S&P 500 options data (VIX) show implied volatility (IV) levels down 18.46% year-to-date, now sitting at a 14.62%. A decrease in IV could be justified if a lackluster rebound followed the 13% drop in U.S. equities, however consistently strong performance suggests investors are confident stocks will stay at the same levels they are currently at.

Section 6 – Conclusion and Extrapolations

There are three main ways an investor could hedge or profit from the assumption the thesis plays out to be true.

- A) Call credit spreads on index-based ETFs. As hiring slows and signs of a cracking middle class come through in jobless claims, consumer sentiment, and consumer spending, multiples on S&P 500 ETFs can be expected to shrink. Smaller valuations would make OTM call options less valuable, making a bearish call credit spread position worth more.
- B) ETFs that track or single stock positions in sectors that perform relatively well during economic downturn. Utilities, consumer staples, and healthcare would not be as affected by a tariff induced recession as other sectors such as technology or consumer cyclicals.
- C) Put options or shorting companies in the consumer cyclical sector. A stricter American consumer would avoid buying non-essential items or services such as eating out (Chipotle - CMG), buying cars (Ford Motor- F), or air travel (Southwest - LUV).

Active investors, should they agree with the key points made here, should brace for the trends we expect to take place throughout 2026.

An unrealized slowdown in hiring, shifting business sentiment around tariff costs, and a fragile U.S. consumer all point to markets underpricing the near term and long run effects of tariffs.

This report was written between June 21st and August 28th.

Sources:

[US Bureau of Labor Statistics](#)

[Federal Reserve Bank of New York](#)

[RBC Wealth Management](#)

[Federal Reserve Bank of Philadelphia](#)

[Cable News Network \(CNN\)](#)

[Federal Reserve Bank of St. Louis](#)

[Federal Reserve Bank of Richmond](#)