

Tariffs and Recession Fears: What the Economic Downturn Means for You

Admin User · December 20, 2025

Don't get caught off guard by a recession. Discover tailored financial strategies for different life stages, from building an emergency fund to managing investments in a downturn.

By David Marra

If you've been watching the news—or your portfolio—chances are you're starting to feel the fear of a looming recession. Yet if you were to look at the labor market alone, you'd hardly suspect anything was going awry. Unemployment is low.

Unfortunately, the concern is with what lies ahead. If a recession materializes, history suggests a 15 to 30% drop in the stock market. As former Treasury Secretary Lawrence Summers recently remarked, "We're very likely, in the context of a recession, to see markets reach levels significantly below their current level."

As for why this recession chatter has now emerged, the answer is: tariffs stacked onto an already cooling economy. As a portfolio manager, trying to keep track of the administration's trade policy announcements has been both dizzying to follow and challenging to understand. While the trade policy can appear unclear, what is clear is what tariffs represent for consumers: tariffs are a tax on consumers. They suppress consumer demand by leaving people with fewer real dollars to spend.

As it stands, the current U.S. effective tariff rate is at its highest since the 1930s. While the U.S. economy is not in a recession today—and the exact future of these levies remains uncertain—tariffs of this level, staying in place for any significant amount of time, will make a downturn difficult to avoid. JPMorgan Chase CEO Jamie Dimon has warned that a recession is a "likely outcome" of the economic turbulence sparked by the White House's aggressive moves.

Signs of an expected increase in the price level have already begun to appear, with many analysts raising their year-end inflation expectations for 2025 from around 2% before the tariffs announcement to now around 3.5%. Fears of tit-for-tat tariff retaliation by U.S. trading partners—China being the prime, but not only, example—only further add to this sense of worry.

What is a Recession?

In technical terms, a recession is a period of economic decline in which the GDP of a country experiences at least two quarters of negative growth. While not all recessions are created equal, they tend to last an average of 17 months and see the market fall an average of about 30%.

Despite each one having, at least in hindsight, a root cause, they almost always materialize quickly. One day, the economy seems to be chugging along with consumers spending and businesses investing—and then very suddenly everything goes sideways, and consumers and businesses alike are pulling back at the same time.

What a Recession Means in Practice

The effects of recession are extremely tangible for everyone from young entry level workers starting out, to those in the middle of their careers with families, saving for retirement, to retirees. Though we haven't seen these tariff (or tax) increases manifest as higher prices yet, it's only a matter of perhaps a couple months (mid-summer) before the cost of buying a new car or building a home jumps up by thousands of dollars, if the tariffs stay in place until then. Surveys of expected vacation plans have already dropped as the percentage of Americans planning a trip in the next six months—39.7%—sits at its lowest in 15 years, excluding the pandemic.

Expect three things in the event of a recession: the economy contracts, unemployment rises and the deficit grows. We might expect to see an added two million people or so become unemployed. And recessions aren't just bad for consumers, they're bad for the federal deficit. That's because, historically, they lead to less income from taxes and the need to cushion the shock on households via higher unemployment benefits. In past recessions, the budget deficit has grown by around 4% of GDP, equivalent to an additional \$1.3 trillion erosion of U.S. government finances. Nasty stuff all around.

What Recession Means for You & What to Do

Recessions aren't good for anyone, but they affect different people in different ways. The potential implications for the unemployed, those with job security and for retirees are all

quite different. Below I consider four groups (employed, unemployed, near-retirees and retirees) and suggest some actions you can take depending on where you might land in the event a recession materializes.

The Employed

1. What recession means for you: If you either reasonably expect to or do manage to keep your job in a recession, you're obviously in a good spot. Unfortunately, with job uncertainty and perhaps even some fear of job loss, it might not feel like it.

2. What to do: Channel your worry into planning ahead for a period of unemployment. If you feel you're able to withstand being out of work for a period of time, it will be less stressful. Have an emergency fund. The average recession length is around 17 months. I generally recommend keeping about the mid-point of that, or about nine (to twelve if you can) months of your usual spend in cash as a safety net. If you do become unemployed, and things do not look promising, you can make your safety net last longer by cutting back. A nine-month safety net can last twelve months with some prudent (and, yes, perhaps painful) budget trimming.

The Unemployed

1. What recession means for you: If you do find yourself without a job in the lead up to or midst of a recession, you'll be in an unlucky but not uncommon situation. As I mentioned earlier, it's something roughly two million Americans might experience. The harsh reality of finding oneself here without having a cash safety net is that most likely it's going to be necessary to draw down your investments to fund daily expenses.

2. What to do: If you're forced to liquidate, it's important to have a strategy: where to start and which investment accounts should be an absolute last resort. Start by consulting your account and wealth adviser, if you have one. If you don't have one or both of these, now would be a good time to get one. These experts are your best resources because they will know your situation and have the knowledge to assist you in an appropriate manner. Here are a few things to consider: After savings, non-retirement taxable brokerage accounts are accessible without the early withdrawal penalties that come with retirement accounts. With the help of an adviser/accountant who's well-versed in tax loss harvesting methods, you may be able to sell in a way that reduces your tax liability. Within retirement accounts, Roth IRA contributions can be withdrawn tax and penalty-free. Traditional IRAs and 401(k)s will generally be treated as an absolute last resort. In almost all cases (there are a few exceptions for things like disability or disaster relief that can be found on the [IRS website](#)), withdrawing before age 59½ means incurring an additional 10% penalty on top of the income tax to be paid. And 401(k) loans—which allow you to avoid tax and penalty if paid back on time—are unfortunately rarely allowed for unemployed folks. Bottom line: talk to experts, be smart.

Near-Retirees

1. What recession means for you: Typically, recessions are associated with declines in the stock market. While markets do eventually recover as the economy recovers, if you're approaching retirement and you're largely invested in equities, it can be a nail-biting experience to lose 10%, 20% or 30% of your hard-earned savings in a matter of months. In these near-retirement years, diversification and risk-management are absolutely essential.

2. What to do: Consider your risk preferences very carefully—many people think they're okay with riding it out but start to get very uncomfortable when they lose 15-20% more on top of the 10% they've already lost. If you're more risk-averse or your planned retirement is right around the corner, it's wise to consider a diversified portfolio that includes a healthy allocation to safer assets like dividend-paying stocks, bonds, perhaps some gold, and for more sophisticated investors, an allocation to active risk hedging strategies that can profit from market declines. Seeking guidance from an adviser you trust and being brutally honest with yourself about your tolerance for loss is a good first step here.

Retirees

1. What recession means for you: Because retirees are typically mostly fixed-income investors—and therefore the group with the least exposure to risk assets like equities—recessions aren't quite as worrisome, so long as you have a sufficient capital base. Though equities will tend to decline, bond returns tend to generally be healthy. Of all investors, retirees are often best positioned to weather a recession with minimal lifestyle disruption.

2. What to do: If your portfolio is, as is most likely, overweight bonds and underweight equities, consider yourself well-positioned. If not, well, you know what to do...

Final point: Most economists think we are not in a recession today and it still appears to be a flip of the coin whether a recession will materialize or not. Hopefully, the tariffs will be very short-lived. At the same time, as we all know, hope is not a strategy. Start taking some prudent steps now, based on your situation. You'll rest easier and more importantly, you'll be prepared for whatever comes next.

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