Tariffs wilt a once-rosy outlook

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Lawrence Aragon | **David Bogoslaw** | **Ryan Hibbison** - 6 March 2025

With the S&P 500 gaining an astonishing 23 percent in 2024, inflation easing and a new US president eager to give corporations more leeway by cutting regulations, this year was shaping up for a long-awaited rebound in IPOs and M&A, providing much needed liquidity to LPs.

But as we near the end of the first quarter, there is growing uncertainty about the economic outlook, driven in large part by President Trump's move this week to put a 25 percent tax on goods from Canada and Mexico and a 10 percent tax on imports from China, prompting the US's three largest trading partners to retaliate with taxes on US imports.

Public equities were immediately spooked, giving back this year's gains and more. Despite Trump walking back parts of his tariffs on Thursday, the Dow Jones fell about 1 percent, the S&P was down 1.78 percent and the NASDAQ was off by 2.61 percent.

Michael Mufson, managing partner at Mufson Howe Hunter, an M&A advisory firm in Philadelphia, tells *Venture Capital Journal* that VC is not immune from feeling a negative impact from tariffs.

While most people thought tariffs were a poker bluff that the administration wouldn't follow through with, "now we're seeing tremendous concern among investors – private equity and late-stage venture – because everyone is affected," Mufson says. "We have a couple of transactions that import a lot of raw materials and we're going to have to put those on hold until the tariff policy is decided by the administration [and doesn't seem to be changing] day to day."

Less than two days after announcing the tariffs, Trump on Thursday said he would delay his Mexico tariffs for a month. Also, commerce secretary Howard Lutnick reportedly said Trump would likely announce a one-month delay on Canadian tariffs.

Sting for start-ups?

A prolonged trade war could hurt US start-up funding, says Chase Seklar, a growth investor formerly with Advaita Capital in Los Angeles.

"I was discussing with my peers the ramifications for both US and European start-ups," he tells *VCJ*. "US start-ups have historically experienced a large stream of foreign funding, either through the flow of capital through US venture firms or direct (as seen by large growth checks from sovereigns, etcetera), which may cause a stunt in capital flow for US start-ups."

Seklar adds that frontier technologies such as AI and robotics "may see diminished global traction and revenue streams, as sentiment for US products begins to fall as well as the possible increased cost of products through US tariffs."

It is unclear if tariffs will throw a wrench into IPO plans. "If institutional investors aren't feeling good about the economy, they're not going to drive the valuation up," Mufson notes. "If the valuation doesn't look like it's going to go up, investors don't want to invest. So, I would think it would put a bit of a question on the IPO market."

Yet another factor that could chill IPOs is growing concern that the US economy may slip into recession, which is looking more likely, according to Mohamed A El-Erian, former CEO of Pimco and president of Queens College, Cambridge.

In a Bloomberg column this week, El-Erian points to three troubling indicators:

"First, lower-income households have been struggling, burdened by dwindling savings, maxed-out credit cards and mounting debt. Second, the corporate sector is now adopting more of a wait-and-see approach, faced with a barrage of policy pronouncements and an increasingly unpredictable environment. Third, the threat of a tit-for-tat tariff war has become much more of a reality this week, with the potential to disrupt global supply chains and stifle economic growth."

For now, at least, buzzy companies like Bain Capital-backed Kestra Medical Technologies are still finding an appetite for new issues. Even as the Dow, S&P and NASDAQ were all down 1 to 3 percent as of midday Thursday, the wearable defibrillator company priced its IPO at $17 per share (above its marketing range of $14 to $16) and began trading at $22.95. At that price, Bain's 25.18 million shares (per Kestra's S-1) were valued at more than $577 million.

One IPO does not mean the IPO window is open for everyone. If the trade war continues and the economy goes into recession, then it will be frozen shut – and LPs will just have to keep playing the waiting game on distributions.

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