Hilco Global
Asset Smarter

SMARTER PERSPECTIVE: TARIFFS

The Impact of 2025 Tariffs on Asset-Based Lenders With Retail Exposure

By Alexander McKeown and Dominick Keefe

April 2025 Markets remain unsettled following the Trump administration's recent tariff announcements, which were deeper and broader than expected and have significantly altered global trade dynamics. On April 2, the U.S. unveiled a sweeping tariff policy imposing a universal, baseline tariff of 10% on imports from all countries, except Canda and Mexico. These tariffs went into effect on April 5, with additional steep tariffs targeting specific nations scheduled for April 9. Almost no country was spared, with many Eastern Asian countries such as Vietnam – a country with a very large trading surplus to the U.S. – seeing staggering 46% tariffs imposed.

However, in a dramatic reversal on April 9, the White House announced a 90-day pause on tariffs following reports that more than 75 countries had reached out to the U.S. seeking to negotiate new trade deals. As of the publishing of this article, the 90-day pause is in effect with one exception: China, which has received an increased tariff of 125% based on its implementation of 34 retaliatory tariffs on U.S. imports and, as President Trump put it, "the lack of respect that China has shown to the World's Markets." Unquestionably, this unprecedented shift in the global trade order and the unpredictability of future tariff actions is set to cause significant changes to the retail landscape and across supply chains throughout 2025.

While protectionist-leaning policies have been characteristic of U.S. trade policy over much of the past decade, these newly announced and implemented tariffs are a regime change and are certain to play an integral role in shaping the retail industry's financial and operational dynamics moving forward. This article discusses these trade barriers and their associated implications on consumer sentiment, retail and CPG NOLV's, and lending practices, all of which will collectively influence the retail sector's stability and profitability in the coming years.

The Tariff Landscape and Historic Protectionist Trends

Protectionist trade policies have intensified under both the Biden and Trump administrations, signaling a bipartisan shift toward shielding domestic industries from foreign competition and attempting to reshore manufacturing back to the U.S. During President Trump's first term, the U.S. pivoted from its historical free trade stance by imposing tariffs on China, marking a significant policy shift. The Biden Administration, to the surprise of many, further advanced Trump's pivot by placing additional tariffs on China. In addition to doubling down on these tariffs, Biden sought to protect and boost American industry through vast subsidies, including the CHIPS Act and the Infrastructure Investment and Jobs Act, a policy move widely supported by economists who argue that tariffs and subsidies must be complementary policies and are insufficient on their own. The rationale is that if America wants to invest by subsidizing industry, it should then move to protect those investments with tariffs. Under President Trump's second administration, tariffs are now being aggressively expanded as part of a concerted effort to protect domestic investments and reduce America's trade deficit. While beyond the scope of this article, it is also worth noting that President Trump has indicated a desire to push rates lower in order to refinance trillions of dollars of U.S. debt.

The rapid and aggressive implementation of tariffs will impact retailers in three critical ways:

1) Consumer Spending: Retailers

must contend with how consumer spending adjusts in the face of economic uncertainty, compounded by a falling stock market and unpredictable policy shifts. Historically, such volatility tends to erode consumer confidence, leading to more cautious spending patterns, particularly in discretionary categories.

2) Rising Import Costs: Retailers will face higher costs on imported goods, especially in key segments like consumer electronics, apparel, and home goods. However, unlike the tariffs imposed in 2018, retailers now have less ability to pass these costs onto consumers due to the current economic environment. Elevated inflation levels, tighter household budgets, and shifting consumer preferences toward affordability make prices increases a risky strategy.

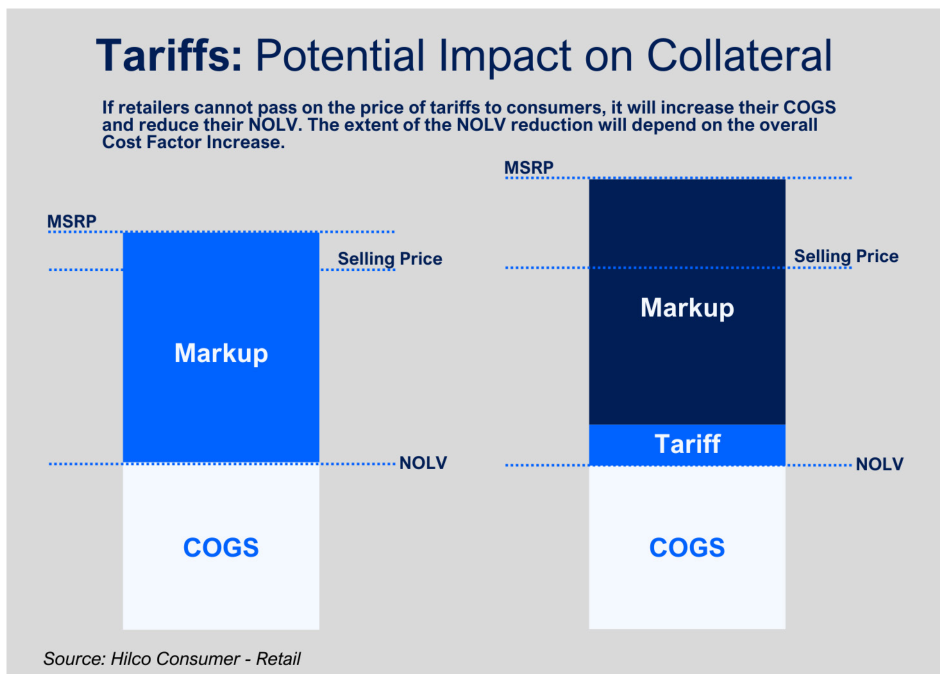
3) Supply Chain Inflexibility: Reshoring manufacturing to the U.S. is a multi-year process requiring significant capital and logistical overhauls. With tariffs likely to remain in place, companies reliant on imports from high-tariff countries (e.g., Vietnam or China) will see immediate spikes in cost of goods sold (COGS). These businesses have limited options – 1) absorb the costs and erode their margins or 2) raise prices, risking consumers pulling back in already inflationary environment.

How Tariffs Are Assessed and Paid

While tariffs are often discussed thematically, the mechanics of how they are actually assessed and paid are frequently overlooked. Tariffs are collected by U.S. Customs and Border Protection (CBP) at the port of entry when goods are imported into the United States. Upon arrival, the importer of record typically the retailer itself – or a customs broker acting on their behalf – files the required entry documents, including a commercial invoice, packing list, and bill of lading. CBP reviews these documents to verify the classification of goods under the Harmonized Tariff Schedule of the United States (HTSUS) and to determine the applicable tariff rate. The resulting tariff amount is calculated based on the declared transaction value, defined as the price actually paid or payable for the merchandise when sold for export to the U.S., inclusive of certain additions like packing costs, assists, commissions, and royalties.
Critically, tariffs are assessed on the act of importation, not on the financial transaction itself. Even if goods are manufactured abroad by a U.S.-based company and transferred without a formal sale, a fair market value must still be declared. CBP requires that value to reflect what an unrelated third party would have paid, preventing companies from avoiding tariffs by simply moving goods between their own entities.
CBP enforces compliance by reviewing commercial invoices, purchase orders, and payment records, and can conduct random inspections, issue Requests for Information (RFIs), or initiate audits known as Focused Assessments.
Understating declared values can result in significant penalties, seizure of goods, and further enforcement actions. Tariffs increase COGS and, therefore, pricing and margin strategies. Because tariffs must be paid regardless of whether goods eventually sell, retailers bear these costs upfront, catalyzing broader operational and financial ripple effects as tariffed inventory moves through their systems.

Consumer Sentiment and Spending Power

The U.S. economy is increasingly divided into the "Haves" and the "Have-Nots." A February report by The Wall Street Journal and Moody's Analytics revealed that the top 10% of earners – those making $250,000 or more annually – account for roughly half of all consumer spending in the U.S., translating to nearly 1/3 of the nation's GDP. This concentration of economic power underscores a growing disparity, as the middle and upper middle- and upper middle-class, historically the engine of the U.S. economy, are now showing signs of financial distress. In response to the University of Michigan's much watched April survey on consumer sentiment, the chief U.S. economist at Pantheon Macroeconomics, Samuel Tombs, remarked that, "Consumers have spiraled from anxious to petrified." The Survey found its second lowest consumer sentiment reading ever, 50.8, down from 57 last month. Meanwhile, according to the Federal Reserve Bank of St. Louis, personal savings rates are historically

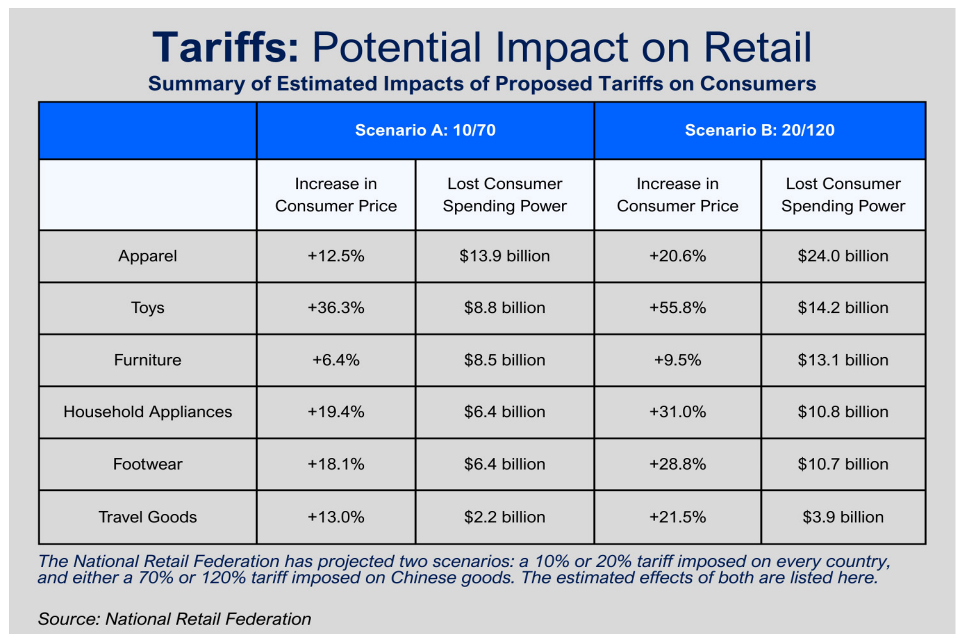


Source: Hilco Consumer - Retail

low and consumer credit card debt is at an all-time high. Delinquency rates for low credit score borrowers climbed from 7.32% in March 2024 to 8.9% at the end of last year.

The weakened U.S. consumer has manifested through an acceleration of retail store closures. According to Retail Dive, from 2024 through mid-February 2025, almost 9,900 stores closed as compared to just 7,700 openings. Iconic brands such as Party City, Big Lots, JoAnn Fabric, Forever 21, and Hudson's Bay Company are closing all (or substantially all) of their stores, while others, like Advanced Auto Parts and Rite Aid, have announced hundreds of closures. Consumers are becoming increasingly selective about where they are spending their money as budgets are further constrained, leaving retailers in a precarious position. It will be much harder for retailers to pass along price increases than it was in 2020 when savings were up and government stimulus was abundant. For retailers to find success moving forward, it is critical that they provide compelling products and value that resonate with consumers despite constrained budgets. Those who adapt effectively will win, while those who fail to meet evolving consumer demands risk falling behind in this unforgiving market.

These developments present a uniquely challenging environment for retailers, forcing them to navigate a landscape shaped by shifting economic policies, changing consumer behavior, and rising costs. While some premium and luxury brands catering to higher-income segments may be resilient, Hilco expects that many mass-market and value-oriented retailers – those reliant on middle- and lower-income consumers – are likely to face significant headwinds and will struggle to maintain sales volumes. Unlike the initial waves of trade wars or pandemic-era disruptions, the ability of retailers to push tariff-related cost increases on to consumers has diminished considerably. Many retailers will be left with little choice but to absorb some degree of these additional costs. Margin erosion will pressure cash flow and profitability, threatening the financial viability of many businesses.



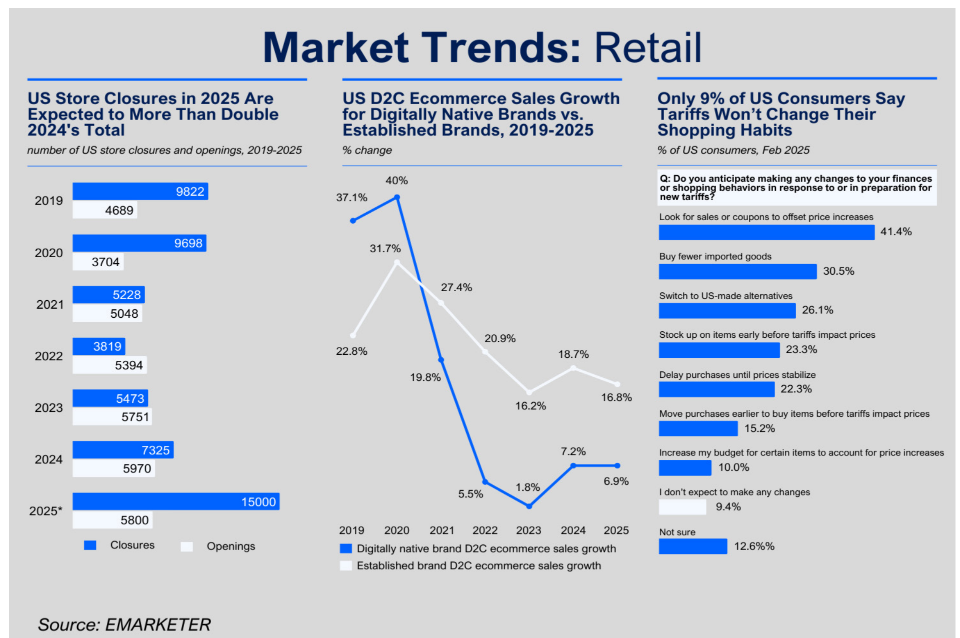
Tariffs: Potential Impact on Retail

Summary of Estimated Impacts of Proposed Tariffs on Consumers

	Scenario A: 10/70		Scenario B: 20/120	
	Increase in Consumer Price	Lost Consumer Spending Power	Increase in Consumer Price	Lost Consumer Spending Power
Apparel	+12.5%	$13.9 billion	+20.6%	$24.0 billion
Toys	+36.3%	$8.8 billion	+55.8%	$14.2 billion
Furniture	+6.4%	$8.5 billion	+9.5%	$13.1 billion
Household Appliances	+19.4%	$6.4 billion	+31.0%	$10.8 billion
Footwear	+18.1%	$6.4 billion	+28.8%	$10.7 billion
Travel Goods	+13.0%	$2.2 billion	+21.5%	$3.9 billion

The National Retail Federation has projected two scenarios: a 10% or 20% tariff imposed on every country, and either a 70% or 120% tariff imposed on Chinese goods. The estimated effects of both are listed here.

Source: National Retail Federation



Source: EMARKETER

Impact on NOLVs and the Retail Landscape

The effects of tariffs on Net Orderly Liquidation Values (NOLVs) will unfold gradually as inventory sells and is replenished in the normal course. Retailers that have taken steps to effectively adapt to evolving consumer preferences and demand will be less vulnerable than those that relied on short-term pandemic-driven gains but failed to implement critical strategic, operational improvements to carry them forward. Retailers that manufacture and source goods from the U.S. will enjoy a competitive advantage, as their cost structures are less vulnerable to tariff-related disruptions. To navigate these challenges, retailers should adopt flexible strategies to mitigate tariff-related cost pressures. Key actions include renegotiating supplier contracts and reviewing their inventory management to reduce carrying costs and prioritizing high-margin, fast turning items.

For lenders and financial stakeholders, it is essential to closely monitor retailers'

Cost Factors – the ratio of a product's cost to its selling price – and projected NOLV impacts to make informed decisions about financing structures and advance rates. Increasing the frequency of appraisals for stressed and distressed credits is a prudent step in this volatile environment. Several factors will impact NOLVs, including product type, pricing flexibility, and inventory cost basis. Essential goods and staple products may see less impact, as demand remains stable even under inflationary pressures. However, discretionary goods, seasonal items, and specialty products are likely to face greater volatility as higher costs compress margins and lead to inventory devaluation. For example, if tariffs increase the cost basis of imported apparel by 35%, but consumer spending power remains constrained, the retailer would have little option other than to discount heavily, potentially resulting in the sale of goods below cost. Such scenarios could play out across the industry in the months ahead, eroding NOLVs and intensifying liquidity pressures for many retailers.

While tariff impacts will vary across retailers, Hilco anticipates that companies with higher exposure to discretionary goods and weaker brand loyalty will experience a sharper decline in liquidation values. For this reason, lenders and financial institutions should adopt a nuanced approach, evaluating retail borrowers on a case-by-case basis to account for differences in product categories, souring strategies, and consumer demand elasticity in the months ahead.

The Impact of Tariffs on Domestic Pricing, Margins, and Borrowing Bases

Tariffs raise the cost of imported goods, but their impact extends to domestically manufactured and sourced goods as well. As prices of imported products increase, so too do domestically manufactured goods that are untouched by tariffs. Domestic producers typically raise prices to just below the new, higher prices passed along to consumers, creating expanded margin opportunities without losing competitiveness. Retailers are likely to raise retail prices across the board immediately to reflect the overall market increase caused by tariffs, expanding margins on goods already in the U.S. As a result, retailers may temporarily enjoy wider margins, however, margin expansion is likely to be short-lived. As older, lower-cost inventory, sells through and is replaced by higher-cost goods, margins will normalize and likely compress consumers to remain sensitive to price increases. If retailers cannot pass through the full impact of higher COGS to consumers without hurting demand, profitability will deteriorate over time.

An additional, critical dynamic for asset-based lenders (ABLs) to monitor is the inflationary impact of tariffs on borrowing bases. Since most borrowing base certificates (BBCs) are tied to the cost value of inventory, the higher costs driven by tariffs will immediately increase the amount that retailers are eligible to borrow against until a new appraisal is completed. Compounding this risk to lenders, to the extent interest rates decrease as a result of the next FOMC meeting in May, retailers will be further incentivized to draw down any excess availability, taking advantage of increased liquidity at a lower borrowing cost. This creates incremental and disproportionate risk for lenders because retailers could borrow more based purely on inflated inventory costs, without a corresponding adjustment to advance rates or collateral eligibility criteria, placing lenders in an over-advanced position.

To mitigate risk, lenders must proactively monitor changes in retailers' cost factors, sales performance, and margin trends, and consider implementing inventory reserves or tighter eligibility standards where appropriate. As the retail landscape adjusts to tariff-driven cost pressures, disciplined, forward-looking lending practices will be essential to minimizing unintended exposure.

Moving Forward: Lending Practices and Risk Management

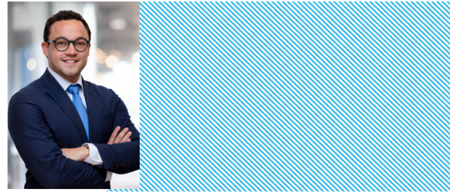
Operating in a trade environment shaped by tariffs is increasingly becoming a long-term reality rather than a temporary disruption. This development, combined with the confluence of economic factors that are straining consumer spending power, serves as a critical warning sign for ABLs with retail exposure and covenant-light facilities. It underscores the need to reassess existing risk models and adapt strategies to mitigate potential losses.

Lenders should avoid a blanket approach

to tariff-related risks, such as immediate appraisal adjustments across their portfolios. Instead, we advise that they adopt a more nuanced strategy tailored to the health and risk profile of individual borrowers; a discussion that should take place with their appraiser. For healthier borrowers, maintaining the current appraisal cadence may suffice. However, for those on a lender's watch list or showing early signs of distress, lenders should consider increasing appraisal frequency to semiannual or even quarterly once the tariffs go into effect. For any borrowers showing signs of distress, lenders should engage experienced advisors early to evaluate the impact of tariffs on collateral and identify strategies to protect their position before NOLVs deteriorate. This could include inventory monetization strategies to generate immediate liquidity. Ultimately, the ability of lenders to remain agile and proactive will determine how effectively they can manage the risks posed by a tariff-driven global economy while supporting borrowers through these challenges.

Concluding Thoughts

In this rapidly evolving retail environment, companies that proactively adapt to the realities of higher import costs and shifting consumer dynamics will be best positioned for resilience. As tariffs continue to shape the industry, strategic foresight and financial agility will be critical to long-term success. Reach out to our team to discuss any emerging challenges impacting businesses within your retail portfolio. Hilco is actively working in various capacities with many of the industry's most historically successful retail companies and their lenders, and we are here to help you as well.



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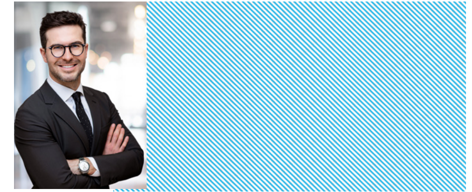
Alex joined Hilco Merchant Resources in 2017 with a focus on business development across the company's global retail platform. Since that time, Alex has originated and helped to structure numerous transactions, facilitating the restructuring and/or recovery of billions of dollars in asset value. In addition to his business development efforts, Alex has played an integral role in supporting the company's strategic growth initiatives. This has included the launch and development of ReStore Capital, a Commercial Finance Company focusing on Retail and Consumer Product Goods (CPG) companies; the growth and development of CareerFlex, a cloud-based outplacement and job search tool focused on retail employees affected by Reductions in Force (RIF); and HMR's other core subsidiaries.

Alex now Co-Heads Business Development & Sales at Hilco Consumer-Retail, responsible for origination efforts and deal structuring. He regularly interacts and works with C-Suite executives in the retail and CPG space. Contact Alex at amckeown@hilcoglobal.com or 847.313.4719.



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Dominick Keefe serves as Senior Vice President and Co-Head of Business Development at Hilco Consumer-Retail. He co-leads origination efforts and delivers creative asset-backed financing and asset monetization solutions that unlock liquidity for retailers and consumer goods companies. A strategic dealmaker, Dominick brings expertise in complex restructurings, recapitalizations, and M&A transactions to transform financial challenges into strategic advantages. His approach is complemented by a background in real estate from his previous role within Hilco's lease restructuring group. By coordinating capabilities across Hilco's operating companies, he creates innovative financial pathways that address a wide range of client situations.

Dominick is an active member of several professional organizations, including the Turnaround Management Association (TMA), Secured Finance Network (SFNet), Association for Corporate Growth (ACG), and American Bankruptcy Institute (ABI). He holds a Master of Business Administration from the Kellogg School of Management at Northwestern University and a Bachelor of Business Administration from the Knauss School of Business at the University of San Diego. Contact Dominick at dkeefe@hilcoglobal.com or 847.691.5301.