News Flash - US Tariff Announcement

Introduction

On 2nd April 2025, U.S. President Donald Trump announced a series of new tariffs, collectively referred to as the "Liberation Day" tariffs, aimed at restructuring international trade relationships and bolstering domestic industries. These measures include a universal baseline tariff of 10% on all imported goods, with additional reciprocal tariffs targeting specific countries based on their existing trade barriers against U.S. products. Canada and Mexico are excluded from this round of Tariffs.

Key Aspects of the "Liberation Day" Tariffs:

Baseline Tariff: A 10% tariff applies to all imports into the United States, effective 5th April 2025.

Reciprocal Tariffs: Additional tariffs are imposed on countries with significant trade barriers against U.S. goods. Notable examples include:

- China: 34%
- European Union: 20%
- Japan: 24%
- India: 26%

Automobile Tariffs: A 25% tariff on all foreign-made automobiles is set to take effect at midnight on 3rd April 2025.

Based on information available at this stage, Bloomberg estimates that these country-specific tariffs could add up to around 17 percentage point (ppt) the US average effective tariff rate, using the 2024 US trade composition.

- The White House flagged that these new tariffs won't come on top of the sectoral levies on steel and aluminium, as well as the new duties on cars and car parts due to start from April 3. Energy imports are also excluded, as well as some other products already threatened by additional sectoral tariffs.
- The new tariffs will be additional to levies already charged on individual countries, according to the executive order.
- Taking this into account, Bloomberg estimates that these new "reciprocal tariffs" could add around 17% to the average effective tax rate. Adding to tariffs on China, Canada and Mexico already implemented, this could take the average effective tariff rate to around 22%, from 2.3% in 2024.

Estimating the impact on the US economy is not straightforward. A Fed model from 2018 suggests each 1 percentage point (ppt) hike in the tariff rate lowers Gross Domestic Product (GDP) by 0.14% and pushes up core Personal Consumption Expenditures (PCE) prices by 0.09%. Hiking tariffs by 17ppt with this announcement would therefore point to a Gross Domestic Product (GDP) hit of 2.4% and a price boost of 1.4% - likely playing out over the next two to three years.

- For inflation, firms' pricing power, dollar moves, and the underlying state of the economy all matter, and interact in unpredictable ways. Early evidence from the data underscores the complexity. Import prices are up since Trump came into office, pointing to pass-through of tariffs to US buyers. At the same time, inflation readings in categories where imports are an important part of the consumer basket are down — possibly reflecting front loading of imports leaving retailers with an excess of inventory.

Potential Impacts on Investment Markets

1. Equities

- **Short-Term Volatility:** Global equity markets may experience increased volatility, particularly in sectors tied to global trade — including industrials, autos, and technology.
- **Exporters & Multinationals:** U.S.-based companies with global supply chains or significant foreign sales may face higher input costs and retaliatory tariffs, affecting margins.
- **Domestic Manufacturing Tilt:** U.S. companies with a domestic production base may benefit if reshoring trends accelerate or trade barriers become entrenched.

2. Fixed Income

- **Inflation Risk:** Tariffs on imports typically increase input costs, which can filter into higher consumer prices. If inflation expectations rise, bond yields could follow suit.
- **Central Bank Response:** The Federal Reserve may be slower to cut rates, especially if tariffs are inflationary, adding duration risk to long-dated bonds.

3. Commodities & Currencies

- **Commodity Prices:** If global growth slows due to a trade disruption, commodity demand may weaken — oil and industrial metals are particularly sensitive.
- **U.S. Dollar:** Uncertainty and capital flight may initially strengthen the USD, but long-term trade imbalances and fiscal risks could reverse this trend.

4. Geopolitical Risk

- The likelihood of retaliatory measures from China, the EU, and other major economies may lead to a broader trade war environment, which markets have historically reacted to with caution.

Portfolio Considerations

This is a rapidly changing environment, with the potential for escalation via further tariffs from other countries, or alternatively, exemptions based on negotiation. Given the lack of clarity around the path forward, we expect that volatility is likely to remain elevated and we remain focused on investing for the long term.

We are not suggesting any changes to portfolios on the basis of today's announcements, however if you have questions about your portfolio, we suggest raising them with your adviser to ensure your portfolio remains appropriate for your objectives and risk tolerance.