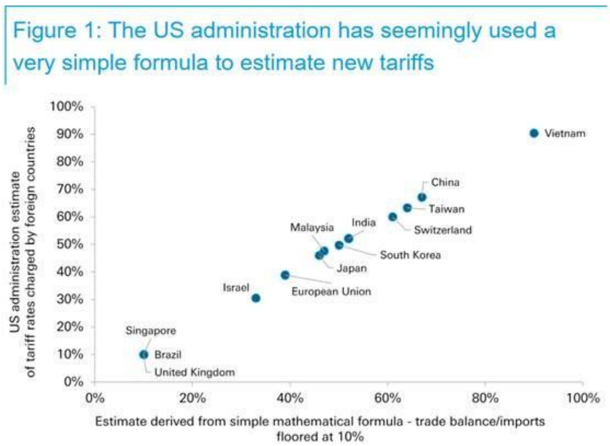
Trump Tariffs - Market Volatility

Monday 7th April 2025

The tariffs announced by Trump on so called 'Liberation Day' were bigger and much more comprehensive than the market had expected.

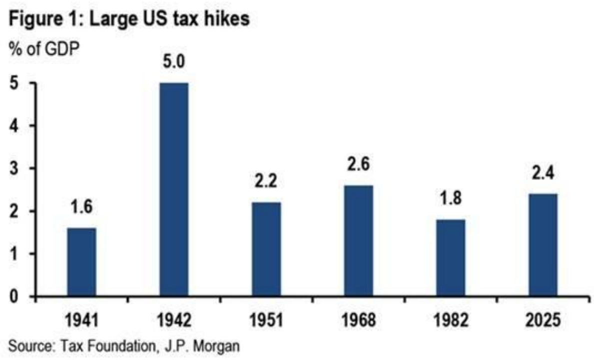
The consensus was for an overall tariff level of circa 10% with specific carve-outs for certain sectors including autos, steel, rare earths and specific countries (China/EU). Overall, the effective US tariff rate on imported goods is set to move from 2.5% to 22% - the highest it has been since before the First World War.



Depending on their impact on the absolute level of imports if these tariffs are maintained then they are estimated to raise somewhere between $750Bn - $850Bn of tax revenue, and while some of this may be absorbed by players in the supply chain, the vast bulk will be paid by US consumers, with a skew to the lower income cohort.

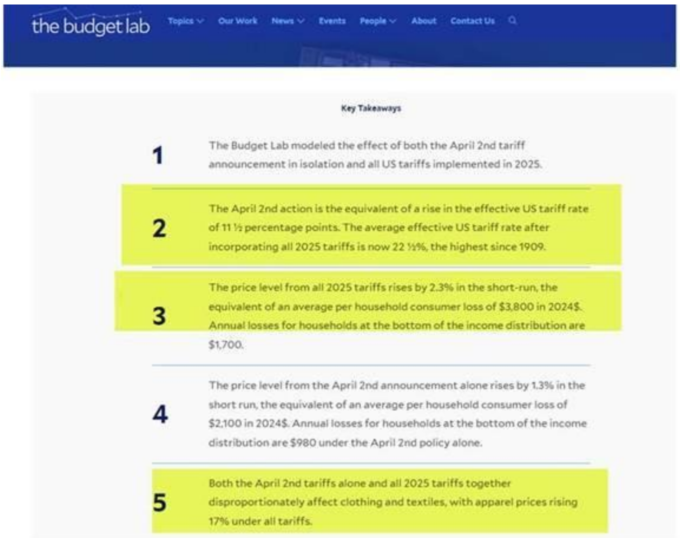
These tariffs represent tax on the US at the current levels of circa 2.5% of GDP - considerably more than the approximately 0.9% of GDP announced in the recent UK budget.

The chart below puts the moves in some context.



Rosan Helmsley Ltd, 1000 Cathedral Square, Cathedral Hill, Guildford, Surrey, GU2 7YL | 01483 90 40 40 | www.rosan-ifa.com

The Yale Budget Lab has modelled the impact on the US consumer and their take-aways are noted below:



the budget lab Topics Our Work News Events People About Contact Us

Key Takeaways

1 The Budget Lab modeled the effect of both the April 2nd tariff announcement in isolation and all US tariffs implemented in 2025.

2 The April 2nd action is the equivalent of a rise in the effective US tariff rate of 11 ½ percentage points. The average effective US tariff rate after incorporating all 2025 tariffs is now 22 ½%, the highest since 1909.

3 The price level from all 2025 tariffs rises by 2.3% in the short-run, the equivalent of an average per household consumer loss of $3,800 in 2024$. Annual losses for households at the bottom of the income distribution are $1,700.

4 The price level from the April 2nd announcement alone rises by 1.3% in the short run, the equivalent of an average per household consumer loss of $2,100 in 2024$. Annual losses for households at the bottom of the income distribution are $980 under the April 2nd policy alone.

5 Both the April 2nd tariffs alone and all 2025 tariffs together disproportionately affect clothing and textiles, with apparel prices rising 17% under all tariffs.

The UK has done relatively well with tariffs (ex-autos and steel), with rates being set at the lowest level of 'only' 10%. Similarly, the EU was at the lower end of the spectrum at 20%. The US administration has focused on the trade gap with the US and that saw the Asian countries hit the hardest, which beyond the overall headline rate, has been the biggest surprise of the announcement.

The US has scrapped tariff exemptions for small packages (those less than circa $800) from China, which impacts specific Chinese retailers - companies such as SHEIN, TEMU, ALIBABA who have historically used low value shipments to circumvent tariffs and tax.

Figure 1: US tariffs back to levels last seen in the early 1900s

Effective rate moving from 2.5% to c.22%

Source: Datastream, BNP Paribas Exane estimates

Trump's goal here has clearly been to bring countries to the negotiating table that he perceives have 'ripped off' the US for years and in some cases decades, thereby establishing a new world trade order.

The announcements on Wednesday don't provide any clarity on ultimately where these trade policies will land, although it does highlight the scale of the Trump administrations intent to fundamentally reset America's trading relationships with the rest of the world.

The US Commerce Secretary, Howard Lutnick, has asked other countries to bring forward policies that can see tariffs reduced. Indeed, retaliatory reaction is likely from some, (China have announced this already) and of course Trump himself has threatened to respond to any retaliatory action with further tariffs.

It will be interesting to see in the coming days, whether negative market moves and polling lead to any pivot in policy by the Trump administration, though this seems unlikely based on Trump's initial comments.

One thing is for sure, one of Trump's major barometers for a successful presidency, revolves around the stock market and whereas he won't necessarily be concerned about short-term market moves, he will be very focused on delivering positive market moves through the term of his Presidency. Anything else he would view as an abject failure.

As we have come to see, Trump delivers policy in his own unique way, with no filter. His shock tactics clearly don't sit well with most, and the wealth destruction we are seeing short-term, would most certainly, in our view, not be part of his agenda.

The question will therefore be whether these extreme tactics will bring forward negotiations with the wider world on global trade that ultimately deliver what Trump would regard as a more fair trading back drop. What is hard to ignore is that many countries have trading terms that have certainly provided barriers to fair trade. We don't need to look far in Europe to see the consequences of, for example, the EU Common Agricultural Policy (CAP) operated in France and the policies around corporate plagiarism and IP theft in the Far East, specifically China.

What are the likely impacts of the Trump Tariffs proposals?

In the US, inevitably the tariffs will be inflationary - it maybe we see inflation peaking at close to 4% in Q4 this year. In addition, a weaker dollar (this trend has started over the last month), has provided a further headwind. Like the impacts of the UK budget, we know that the tariff hit is a one-off and so we can expect elevated inflation to be relatively short-term.

In the short-term, there has been a 'stagflation' narrative, and the key question for the US will be how quickly the Fed reacts to the inflationary impact of tariffs and considers the wider impacts on the risk to growth.

The biggest problem here is the uncertainty that the tariffs are creating for US corporate and consumer confidence, and of course the current fall in the US stock market and around the world, will magnify this problem. Like the BREXIT situation, the opportunity costs for corporations of having to manage tariffs and look again at supply chains, is likely to be significant.

Trump's objective of the further reshoring of US production capacity cannot really be achieved in the short-term (one to two years), - construction of new factories takes time. Reshoring clothing production, for example, will be much more expensive in the US than it was in Asia and therefore US consumers will just have to pay higher prices if this is the objective.

For the UK

In the UK we export circa £60 billion per annum of goods to the US, of which 25% is cars. We have seen over the weekend that Jaguar Land Rover have announced they are temporarily halting all supply of their product to the US while they digest the ability to charge higher prices or change their geographic sales strategy.

The absolute impact of tariffs for UK GDP is only about 2% and therefore is low. In the UK a weaker dollar will also be helpful for inflation.

If the UK does not retaliate with tariffs on countries that have been hit hard by the US, then the UK could see cheaper imports and therefore lower inflation. There is a potential upside therefore, for domestic UK stocks.

How should we react?

Past shock events - some in relatively recent memory such as Covid - are generally not a time to overreact and crystallise paper losses. Markets will recover and this short-term uncertainty will, in our view, bring countries to the negotiating table to agree new global trading terms that will need to be agreeable to all parties.

This Trump policy is initially throwing up significant barriers to trade that clearly go against the prevailing economic consensus and there will be likely be further volatility over the coming days and weeks.

What is clear is that the Trump administration is keen to reset the USAs trading relationship with the rest of the world and is happy to take some pain to get there. We are going to see lower growth in the US and higher inflation in the short-term and the higher costs will fall on the US consumer.

The rest of the world is going to suffer a headwind for growth too, though those countries with significant trade deficits with the US are likely to see potential fiscal interventions that will limit the fallout. The UK looks relatively well-placed in this scenario.

These are always highly stressful times for those with invested wealth in the markets, and our considered view is that these are not times for knee-jerk reactions.

Ultimately, stock markets hate unknowns, and this is fundamentally the reaction we are seeing play out currently in global markets. There will be a resolution to these trade disruptions and though it may take a little time, stability will return and once there is a sustainable framework to trade negotiations and known outcomes, stock market confidence will return.

We are here to provide perspective, guidance on strategy and deal with any questions that you may have. My 39 years in the wealth management industry have been framed by many significant market challenges, which at the time always feel extremely difficult.

The reality is that market fluctuations are a natural part of a stock market investing journey, and inevitably, we will see opportunities arise out of this period. For medium and long-term investors, this period, though inherently extremely frustrating, should not be the time to lose focus on the medium to long-term objective of wealth creation.

If you are in the decumulation phase (retired) and drawing down income from your invested portfolio, maintaining a balanced and committed investment approach will be sensible too, underpinned by access to cash requirements for the shorter term.

For those who have been waiting for an opportunity to start a stock market journey, or indeed those sitting on significant amounts of cash, there will undoubtedly be excellent buying opportunities in the days and weeks ahead.

Yours sincerely

Rob Sandwith | Chief Executive
rob@rosan-ifa.com