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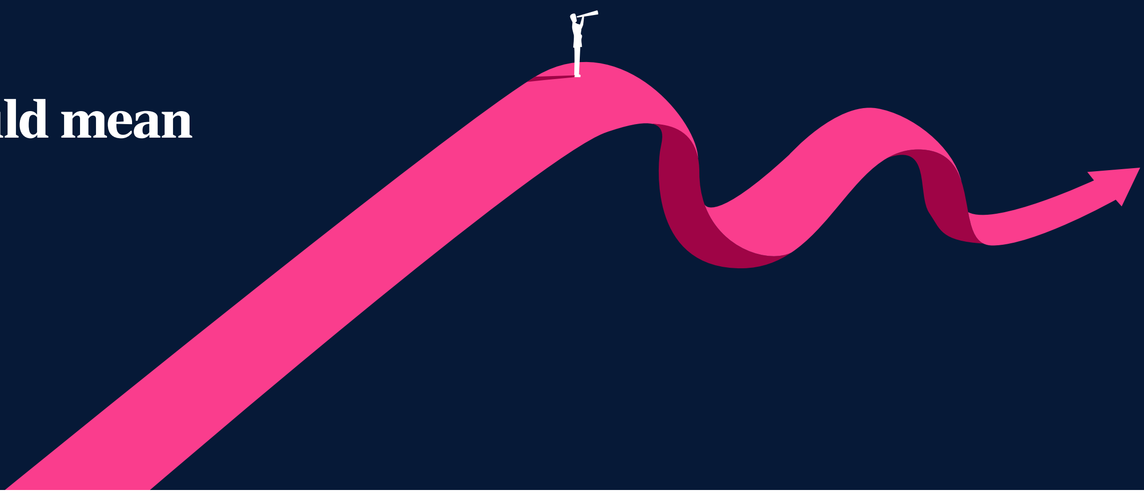
What tariffs could mean for your wealth



From the Field

Key Insights

- An erosion of trust around U.S. policymaking could reverse portfolio flows into the U.S., weighing on U.S. dollar assets.
- Tariffs are deflationary for countries that export to the U.S., meaning rate cuts are possible across developed and emerging markets.
- Global trade will continue but will be reconfigured. There will be winners and losers in this process.

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When writing about Trump's tariffs in February, I predicted that their bite would be worse than their bark. However, hardly any of us could have predicted the chunks that would be taken out of risk assets following Trump's "Liberation Day" announcement on April 2. Watching the press conference, I was reminded of the opening scene from the (original) "Gladiator" movie, when the Romans are confronting the Barbarians. General Maximus tells his lieutenants to "unleash hell"—and a maelstrom ensues.

What we know

The tariff rates announced on Liberation Day were shockingly higher than expected, with a 10% baseline plus additional reciprocal "bespoke" tariffs imposed at the country level. Using methodology that I might describe as "questionable," the tariffs appeared to have been calculated as the trade deficit expressed as a percentage of the imports divided by two. The response from counterparties thus far has been a mix of retaliation (China), threats but no retaliation yet (E.U.), umbrage (Canada), obsequiousness (Mexico, UK), and silence (U.S. Congress).

At a general level, the market reaction has been largely as expected (risk assets bad, "safe haven" assets strong), although the picture is a little more nuanced than that. Volatility is elevated. Tariffs simultaneously have an inflationary and recessionary impulse. Given the negative reaction in equity markets, the recessionary impulse appears to outweigh the inflationary impulse (according to index-linked bonds, inflation expectations have risen only slightly). Risk-off currencies have been strong, although the dollar has been weak. Europe and Asia have been the worst affected, while Latin America—most of which only felt Trump's baseline—has been largely spared.

How to react

Experience suggests that wholesale portfolio moves at this juncture are likely to be wrong as immediate market reactions are usually as much about positioning as thoughtful fundamental thinking (initial price moves are often counter-indicative of future trends). Take a coffee (before the price of your latte is subject to tariffs) and give yourself some time and space to think. What does this mean in the medium and longer term?

Markets can adjust to protectionism, but not chaos. As long as there is uncertainty around the rationale for tariffs (Is it: (a) a negotiating tool, (b) a way to lower the deficit and generate tax revenues, (c) reindustrializing America, or (d) phone a friend?) there will be dissonance in the markets. Scope remains for negotiation and further retaliation. However, Treasury Secretary Scott Bessent's cryptic comment that "as long as [other countries] don't retaliate, this is the high end of the number" suggests that this is not part of the plan. As my colleague Matt "Vix" Howell (Head of Derivatives and Multi-Asset Trading Solutions) continually reminds us, elevated volatility and high multiples make uneasy bedfellows. For the time being, valuation will be your friend.

Trade deficits turn into trust deficits. It could be that an erosion of trust around U.S. policymaking reverses portfolio flows into the U.S.—which have been massive in recent years—and weighs on U.S. dollar assets.

With a slightly longer lens, it is also worth considering what could go right. There is a saying that markets stop panicking when central banks start panicking. The odds of more rate cuts from the Fed have increased and it may be that the U.S. administration is on standby to pivot to fiscal stimulus. Although U.S. import tariffs are damaging to domestic business confidence, they are enormously deflationary for countries that export to the U.S. There is scope for both developed and emerging economies to cut rates.

Although global growth will be hit, global trade is not going away. Patterns of trade will reorient, however. There will be winners and losers in this process.

As General Maximus said, strength and honor to you all.

> "Although global growth will be hit, global trade is not going away.

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