

CIO Notebook: Risk Assets Under Pressure as Trump Expands Tariffs

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Article



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Despite short-term uncertainty, we believe that the U.S. will avoid a meaningful and protracted economic deceleration and that tariffs and trade policy changes may stimulate growth in Europe and Asia, narrowing valuation and earnings gaps

President Donald J. Trump declared a national economic emergency yesterday as the basis for a slate of sweeping global tariffs set to begin over the next week. He cited “large and persistent annual U.S. goods trade deficits” which have led to a “hollowing out of our manufacturing base” as rationale in his announcement.

Through the International Emergency Economic Powers Act of 1977 (“IEEPA”), the President announced a baseline 10% tariff rate for all imports from any destination country to go into effect on April 5th. He also announced meaningfully higher tariffs for sixty of the “worst offenders,” including tariffs of 34% on China (on top of the 20% levy already announced), 20% on the European Union, 32% on Taiwan, 25% on South Korea, 46% on Vietnam, and 49% on Cambodia. These reciprocal tariffs are set to go into effect on April 9th.

Notable exclusions to the reciprocal tariffs are steel, aluminum, autos and auto parts, copper, pharmaceuticals, semiconductors, lumber, bullion, and energy and certain minerals that are not available domestically. In addition, the current 25% proposed tariffs on Canada and Mexico remain in place, but nothing more has been announced for those two countries. The implication is that USMCA compliant goods will not be subject to any tariffs while non-USMCA compliant goods and non-USMCA compliance energy will be subject to 25% and 10%, respectively.

Equity, bond, currency, and commodity markets globally are reacting to the news, with U.S. equities down meaningfully to open the trading day. U.S. growth stocks and small cap names are faring the worst in early trading while the S&P 500 is facing its sharpest decline in two years. European and Asian equities also traded lower on the news but were down less than their U.S. counterparts. Yields are also moving lower, as the 10 Year Treasury now sits just above 4% -- well off its 2025 high of 4.8%. The VIX, often used as a measure of volatility for the U.S. market, surged over +20% following the announcement, and while gold was down modestly, it breached an all-time high in yesterday’s session; the dollar is also off more than -2%.

Concerns center on the impact of higher prices on both consumers and businesses. U.S. consumers have little appetite or ability to withstand another round of price increases so quickly following the recent bout of inflation. Businesses, therefore, may struggle to pass the price increases through their supply chains and/or to end consumers which may weigh on margins and the anticipated acceleration of earnings in 2025. Even if tariffs are negotiated lower or removed – the White House statement noted that the President could roll back the tariffs if he believes the threat is “satisfied, resolved, or mitigated” – the overhang of uncertainty is unlikely to lift fully in the near future; this points to an inflection of economic activity likely delayed to the back half of year if more clarity is delivered.

What remains up for debate as it relates to the President’s actions is if this is part of an aggressive approach to engender concessions from trading partners or if it is indicative of a broader, longer-term plan to generate meaningful revenue to offset the spending necessary to deliver on Trump’s tax promises while also shrinking the budget deficit. Our view remains that the reciprocal tariffs are likely to result in negotiation with some of our trading partners and the more specific actions already announced for Canada and Mexico, with no further escalation today, point to a goal of renegotiating the USMCA well ahead of its 2026 planned review.

Post-press conference comments from U.S. Treasury Secretary Scott Bessent pointed to the announced tariff rates as the “high end,” provided that countries do not retaliate. He also noted that his focus, and that of Congressional Republicans, is now squarely on passing the tax bill, which includes not only the extension of tax cuts within the 2017 Tax Cuts & Jobs Act (“TCJA”), but also potentially a suspension of taxes on tips and Social Security payments as well as the deductibility of interest paid on auto loans for purchases of American made autos.

While tariff revenues will certainly be a welcome addition to the assets side of the balance sheet, we believe that maximizing that revenue source is unlikely to be the primary driver for the Trump Administration. We are also encouraged by the shift of attention to addressing both the looming debt ceiling breach and the expiring tax cuts as this reflects one of the key platform promises that is likely to cushion the sentiment blow inflicted by today’s announcement. Evidence of meaningful progress in cementing the pillars of the TCJA and demonstrating a concerted effort to tackle the burgeoning budget deficit could help create a ceiling on long-term yields which would be beneficial for borrowers across the U.S. economy – not least of which is the U.S. government.

However, we would be remiss not to acknowledge that the level of uncertainty, at least in the short-term, has been raised by these actions. Retaliation is likely, particularly from the “worst offenders.” There are likely to be countries which take issue with the Trump Administration’s calculation of “tariff charged on the U.S.” given that this was based on the trade balance versus the actual levies on U.S. goods – and therefore is difficult to counter in the short to mid-term. Recession risk and inflation expectations are likely to increase modestly and the combination of potentially slower growth and higher prices will once again shift attention to the Fed and the difficult position it may be in should tariffs of this magnitude remain in place for an extended period.

Despite this overhang, we believe that the U.S. will avoid a meaningful and protracted economic deceleration. We expect uncertainty to ease as we move closer to the second half of the year and believe a sustainable rotation away from 2023–2024 equity market leaders is underway as U.S. trade policy changes encourage growth stimulus in Europe and Asia, narrowing gaps in earnings growth and valuation. We maintain a balanced view on asset allocation, focusing on diversification across regions, sectors, and styles to manage risks from both inflation and growth slowdowns.

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