Trump & Tariffs

On Wednesday 2nd April 2025 President Trump announced and signed Executive Order 14257. This order introduced a raft of large and painful tariffs that impact virtually every other nation on the planet with the aim of reestablishing the US's economic independence.

The initial impact has been negative, with significant falls in global markets. The fallout from Trump's tariffs deepened further today as China announced retaliatory measures. China imposed an additional 34% tariff on all US goods, the broadest ever seen. Our economics research provider described this as 'aggressive' and 'escalatory' surmising that the ongoing trade war between the two nations is unlikely to cease any time soon.

Trump's tariffs are an effort to rebalance the books. He claims that these are reciprocal and believes that they will work to reduce trade deficits by making foreign goods less attractive and boosting domestic production. It is a clear attempt to bring its trading partners to the table for renegotiation on US terms. Investors do not like uncertainty and at this particular point in time uncertainty has spiked. This approach appears to be more of a doctrine for Trump and in that regard, at what point does he feel a 'fair' deal looks like and will all deals require Trump's personal attention and will this slow negotiation down? The longer this takes, the greater impact to supply chains. In time, companies will adjust output and reduce its workforce.

In light of the announcement recession probabilities have increased and as a result many forecasters have dropped their year-end forecasts for most equity markets. So how have global equity markets moved since the original announcement on the 2nd April? As it stands the MSCI All World Index has fallen circa 12.5%. Around that, the S&P 500 has fallen around 9.25% though this will likely be more on the US open today. Our own FTSE 100 has fallen around 10.2% and in Europe, the STOXX 50 is down 13.04%.

At this uncertain and somewhat panic filled juncture, it is difficult to see what happens next.

In order to try and do so we must attempt to understand what President Trump is trying to achieve. Remember, as we have noted, to President Trump the tariffs are an opening gambit which are designed to unlock negotiations with other nations. Deals will now be done which will reduce the current tariffs to more acceptable levels which both parties will be able to live with.

Tariffs at these initial levels will have a significant negative impact on global growth, inflation and earnings. President Trump knows this and will now begin to negotiate deals. Unfortunately, this may take a little time as Trump will want to negotiate each deal personally, and can only do one at a time. It is also worth remembering that most of Trump's executive orders have been challenged in the courts with nearly half being rejected. Trump expects this and therefore if he gets a fraction through this is a win as far as he is concerned.

The policies of President Trump's government can be broken down into five key themes. Deglobalisation, Deportation, Deficit-Financed Tax Cuts, DOGE & Deficits and Deregulation.

Deglobalisation

Trump's 'America First' views are not new, he has talked about the downside of free-trade and the appeal of tariffs for literally decades. Trump believes in deglobalisation, this should come as no surprise to anyone as he has been saying this since the 1980s. He is open to doing deals but the US trade deficit has to be reduced. Tariffs will reduce the deficit, this does work, and has worked – for example the tariffs applied during his first term helped to significantly reduce the US's trade deficit with China. Currently tariffs are averaging at 25% which is extremely high and every 1% increase in tariffs equates to a 0.10% to 0.15% impact on growth and inflation respectively. Trump does understand this. In addition to tariffs, export controls, capital restrictions and FX scrutiny are also likely, China will be the main target but, as we saw from last week's Executive Order, others are possible too. A Mar-a-Lago Accord, within which all countries come together to work out a solution, is possible but not likely. Doing so would require cooperation, and the size of interventions would be limited by reserves of key partners.

Deportation

Trump is serious about deportation. Following a massive increase in migration, Trump campaigned on this issue and has won on it. This means he has a mandate. Immigration across the southern border had fallen back under the previous Trump presidency before spiking by a massive 490% under President Biden to the point where most commentators admit it was completely out of control. Crossings have fallen under Trump 2.0 and are now at their lowest in years. However, cutting migration can be a headwind for economic growth and 0.20% to 0.50% has already been shaved off US growth since Trump was elected due to falling migration numbers.

Deficit-financed Tax Cuts

Despite all of the cuts and savings promised by DOGE, the real fiscal action is likely to be in Congress with the extension of the expiring 2017 Trump tax cuts. Republicans have proposed cuts to Medicaid to partly offset the cost of tax cuts. However, given that up to 1 in 3 Americans now depend on Medicaid and most of them live in Republican states, it makes sense that cuts will be smaller and Medicaid will be left alone. This means that easier things to cut will be cut and things which will encounter more pushback will not. Unlike in 2017, when Trump originally passed tax cuts, Republicans now have a much smaller majority in the House. This will complicate their passage.

DOGE (Department of Government Efficiency) and Deficits

In his statement on Wednesday 2nd April, President Trump said that he has got tariffs out of the way and he will now move onto tax cuts. Tax cuts are different to tariffs in that they must be signed off by congress. His plans to cut taxes will cost an additional $4 trillion over a 10-year period, this is on top of the $4 trillion already needed to meet mandatory spending.

DOGE-related savings have been more incremental so far, and Elon Musk will probably be out before the summer. The cuts to government departments being proposed by Musk would also have real economic effects and both federal workers and government contractors are vulnerable to a pull-back.

The key thing to remember about DOGE is that Musk and his department can only come up with suggestions and proposals to cut costs. Congress ultimately controls the purse strings and will have to vote on any changes. In order to make any kind of difference, DOGE will have to cut mandatory spending (Medicare, social security, Medicaid and other benefits) which makes up the 60% of government spending. Tinkering with discretionary spending will not make any difference (interest expense accounts for 14%, Non-defence spending, 13% and defence spending 13%).

As a result, deficits still look like the biggest loser from the election given very high initial conditions. Tariffs may raise revenue but are likely to be spend on additional tax cuts. Despite the debt dynamics, the dollar is sticking around as the reserve currency and Treasuries will continue to be the reserve asset. They both appear to be the cleanest dirty shirt.

Deregulation

Deregulation actually means the absence of new regulation, not the scrapping of existing regulation, this is however just as powerful. The most important regulator, The Fed, will remain independent regardless. Three out of seven Fed Governors, Jerome H Powell (also Chairman), Philipp Jefferson (Vice Chairman) and Adriana Kugler all have terms that end during Trump 2.0. Trump will not be able to insert who he wants into these roles as candidates must go through the Senate.

In summary:
It is a mixed picture economically under Trump 2.0, the overall impact will depend on how much focus he puts on the individual components of his changes.

Historically, the first year after an election was good for stock markets, however things look like they will be different this time. There will be winners and losers with uncertainty and over-reactions creating rich opportunities for stock pickers and active managers.

Within our portfolios, we feel global and asset class diversification will be extremely important going forward. Our fixed interest exposure remains short duration, providing us with a defensive base, and within equities we focus on quality companies with strong balance sheets.

Markets will recover from this current sell-off, but at the moment we need to be patient and wait for news on the trade negotiations. As of this morning, world leaders appear to be queuing up to speak with Trump and begin negations on tariffs for their countries. Markets will respond positively for news of deals as and when they reached and should start to bounce back.

Our message to clients, their agents, and advisors would be this: It's natural to feel uneasy in this environment. However, a portfolio should form part of a wider investment strategy. The strategy and portfolio should be frequently reviewed as standard and should account for events of this nature. However, it is a good time to reevaluate goals and objectives, revisit risk, reestablish time horizons and make any adjustments where necessary. It is important that one is be able to sleep at night. Ultimately though investing is a long game, and timing the market is notoriously difficult, especially in relatively short periods of time. With a sound strategy an investor should be armed to ride out relatively short-term shocks, continue with prudent rebalancing, and meet their goals and objectives as planned. Where suitable they may even seek out assets which they feel are at a deep discount to their longer-term prospects.

Here we will continue to monitor, keeping our eye on earnings and any dividend revisions which may mean portfolios need to be adjusted. We too will also seek out opportunities for our clients amongst increased volatility.

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