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WEALTH MANAGERS

Navigating Tariff Turmoil

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Backdrop

On the 2nd of April, US President Donald Trump announced sweeping import tariffs, in a move he believes will encourage consumers to buy more American-made products, increase tax receipts and lead to a huge increase in domestic investment. These tariffs came on top of those previously announced, which included 25% on imports from its closest trading partners, Canada and Mexico, and 20% on Chinese goods. Rather than being reciprocal (i.e., mirroring the tariffs already charged by trading partners), the 'Liberation Day' tariffs instead appeared to have been based on a very simple calculation, taking each foreign country's trade surplus in goods and dividing by two. The announcement introduced a baseline 10% tariff on 60 trading partners, including the UK, with others subject to far more punitive measures. Tariffs were so far reaching that they extended to uninhabited sub-Antarctic territories, as well as US military bases who only import US goods.

There were several key developments in the following days. On the 3rd of April, China retaliated with a reciprocal 34% tariff on all US goods, initiating a tit-for-tat exchange of increasingly punitive tariffs, culminating in a 125% on Chinese imports to the US, and 84% for US goods imported to China. The two countries are now essentially locked in to an all out trade war.

Following a week of stock market volatility, during which the Trump Administration repeatedly assured onlookers that tariffs would only come down if trade partners erased their trade surpluses with the US, on the 9th of April the President announced that he would be putting the majority of tariffs on hold for 90 days. However, a 10% universal levy for all countries would remain in place, as would the 125% tariff on Chinese goods and 25% on aluminium, steel and cars. As I draft this article, several trading partners have announced the suspension of counter tariffs, including the European Union, which will suspend all countermeasures to 'give negotiations a chance'.

How will this impact US consumers and the wider economy?

It is impossible to forecast the potential impact of recent developments, not least because the situation continues to evolve at breakneck pace. The events of the last seven days have overshadowed what were already major policy announcements. The 25% tariff on steel and aluminium, for instance, will have a major impact on US manufacturers and their customers. They have already increased the production cost of the best selling US-made vehicle, the Ford F150 pickup, by around $400. If businesses pass these costs on to consumers, inflation is likely to accelerate, squeezing US consumer finances

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and potentially challenging the current narrative of a steady downward trend for interest rates. Policy volatility is also bad for businesses, both in the US and globally. New orders and major capital expenditure are likely to be put on hold whilst uncertainty persists. US small business confidence was already declining in the run up to April 2nd, falling for the third straight month in March. Recent events will have done little to calm nerves.

How have markets responded?

Markets were sharply lower following the Liberation Day announcement. Between the 2nd and 8th of April, US equities fell around 10%, with similar losses for European and UK equities. Emerging markets were equally hard hit, with Chinese equities in particularly down more than 13% at their lowest point. Initially, recession fears saw bond yields fall (i.e., prices rise). However, from the 7th of April yields, particularly on longer dated US government debt, began to rise sharply, briefly topping 5%. Following Trump's decision to roll back some of these tariffs, yields declined; many economists believe the rising cost of debt was a major factor in the President's apparent about turn. The roll back also sparked a recovery across equity markets, with US stocks recording one of the largest aggregate one day gains in history. However, at the time of writing, most major markets remain firmly in the red.

How should investors respond?

Periods of market volatility can be stressful for investors; it will likely be some time before we get clarity on outcomes, and months before any potential economic impacts are felt. For long-term investors, the adage 'time in the market, not timing the market' holds true – history suggests trying to trade around periods of volatility is an inherently risky strategy. Ensuring a suitable level of diversification (with respect to both geography and asset class) – and retaining a long term view – is often the best strategy. At Whitechurch, we construct portfolios with a long-term focus, designed to maximise resilience through a range of possible market outcomes. All of our portfolio holdings remain under constant and ongoing review.

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