

"Liberation Day" arrived, and investors were given some clarity on what it means—but clarity doesn't equal certainty. In a nutshell, Trump's reciprocal tariffs exceeded expectations—and not in a good way.

The tariffs announced were far from targeted, with a 10% base tariff applied universally, plus additional tariffs on countries which, according to Trump, have "cheated America for decades." As he put it, "in many cases the friend is worse than the foe."

China's tariff rate rises to 54% (adding 34% to the prior 20% already imposed), while the EU faces 20%, and Vietnam 46%. Canada and Mexico remain under negotiation—for now.

According to a US Federal Reserve model published in 2018, Bloomberg estimates that tariffs could reduce GDP growth by more than 2% for both China and the US, and also lead to elevated inflation lasting up to three years.

The immediate market reaction suggests that growth concerns are outweighing inflation fears. European equity futures are down 2%, with Japanese and US shares off by 3% in pre-market trading at the time of writing. Meanwhile, bond prices are up as investors seek safe-haven assets.

While this level of tariffs may mark a ceiling—with a new floor yet to be found—the EU has already threatened countermeasures if negotiations fail. Fears of retaliation are now mounting.

The rationale behind these actions is to fund income tax cuts and incentivise manufacturing reshoring. But the transition will be far from easy. Anyone who has ever run a business knows that multi-decade investment decisions can't be implemented overnight—so investors are likely to focus more on the short-term implications.

In our view, the real battle won't be between countries—but between companies and consumers. Supply chains are deep and complex, and they can't be restructured overnight. As a result, companies will need to gauge how much of the increased cost they can absorb, and how much they will pass on to consumers. In turn, consumers will decide how much of a price increase they're willing to tolerate.

As we learnt during the post-Covid inflation surge, frustration over higher prices doesn't always translate into reduced spending. In other words, when it comes to purchasing decisions, affordability often outweighs the feeling of being "ripped off."

But this time, the consumer won't have the benefit of extraordinary fiscal support—no more cheques arriving in the post. Excess savings have largely been depleted, and hiring decisions may be put on hold. Most importantly, one of the biggest contributors to household wealth and sentiment—the stock market—is now working in reverse.

While we continue to assess the impact of tariffs in more detail, we see attractive opportunities for long-term investors who can stay the course. At the same time, we recognise the importance of protecting capital—considering alternative investments and maintaining a cautious stance on bonds, given the ongoing risks of inflation.

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