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US tariffs – a first de-escalation

US President de-escalates tariffs

On 9 April, Donald Trump ordered that the higher 'reciprocal' tariffs would be paused for 90 days, and a 10% minimum blanket tariff would be applied instead. There is an exception for China that now has an even higher 125% tariff, while Canada and Mexico still face 25% tariffs on goods that are not covered by the existing USMCA. The 25% tariffs on autos, steel, and aluminium are also left in place.

It is key that US Treasury Secretary Scott Bessent is now intimately involved with tariff negotiations – it has been stated that Bessent will lead trade negotiations with Japan. This has served to reassure financial markets, implying that some of the most experienced members of the Trump administration are now closely involved in driving trade policy.

But economic damage is already done

The announcements provide some temporary relief. They suggest that the tariffs announced on 2 April "Liberation Day" (approx. 24%) could be seen as an upper limit for the future (except for China). The 10% mentioned previously by Trump could then be the lower limit. This still represents a huge increase compared with an average import tariff rate close to 2.5% before Liberation Day.

Keep in mind that Donald Trump still sees the tariffs as a recurrent source of income which will allow him to finance a tax cut that would limit the negative effects on the purchasing power on low- to medium-income households.

All in all, the impact thus remains negative on US and global growth, even though the probability of a full-blown recession has fallen somewhat. A self-inflicted recession is probably an outcome that the US administration still wants to avoid. That should be a key indicator for the pain threshold and future measures. Damage on the economy is already done, and policy uncertainty will remain a lot higher than prior to January. Even if economic policy uncertainty declines from peak, job losses and thus initial jobless claims, should rise sharply in the coming weeks. Medium term, we expect to see measures announced by the European Union aimed at both diversifying trade away from the US and making the region less reliant on external demand.

Market reactions – focus on the US bond market

What has triggered this change of stance on tariffs has been notably the rising recession and inflation risks as well as the reaction of financial markets, particularly the US Treasury bond market. The 10-year bond yield had risen sharply in the last few days to as high as 4.5% from a low of under 4% immediately following so-called Liberation Day.

Given the need for the US Treasury to refinance up to USD 9 trillion of Federal debt by 2026, the Trump administration is extremely sensitive to any rise in long- and short-term interest rates.

Edmund Shing, PhD
Global CIO
BNP Paribas Wealth Management

Guy Ertz, PhD
Chief Investment Advisor - Deputy Global CIO
BNP Paribas Wealth Management

Too early to pronounce the end of the current stock market correction

Recall that three of the main economic objectives outlined by Treasury Secretary Bessent to boost US long-term growth were:

a) lower oil prices to reduce costs to households and companies,

b) a lower US dollar to encourage reshoring of manufacturing, and

c) lower US interest rates to stimulate housing demand and corporate investment.

While lower oil prices (WTI crude oil close to USD 60/barrel) and a lower US dollar (the EUR/USD exchange rate now exceeds USD 1.10 per euro) have been achieved, lower US interest rates remain key to lowering borrowing costs for the US government as well as for companies and households.

The immediate response of stock markets has been one of relief: the S&P 500 rose 9.5% and the Japanese Nikkei 225 index gained 8.2% between 9-10 April following this tariff suspension announcement. This represents the third-largest daily rise in the S&P 500 index since 1990.

Note, however, that the best two days for the S&P 500 since 1990 occurred during the 2008 Financial Crisis, so this is not a conclusive sign that the current stock market fall has run its course.

The S&P 500 remains over 11% below its mid-February high at the close of 9 April, and we expect US companies to revise their earnings guidance lower in the upcoming quarterly earnings season to reflect the impact of tariffs on end-demand and on profit margins.

Conclusion: too early to change asset allocation views at this stage

Geopolitical uncertainty will remain elevated despite this temporary suspension of certain tariffs. The ongoing climate of policy instability will put a brake on US and global growth, as companies will remain hesitant to invest and consumers will likely be more reluctant to spend, choosing instead to save.

We expect the US Federal Reserve will likely react to a worsening job market outlook in the coming months by lowering the Fed funds rate twice to 4.0% by year-end. Other central banks including the ECB and PBOC in China should follow suit.

Against this backdrop, we do not change our key asset market views. **We remain Positive on sovereign bonds, Neutral on equities and Positive on precious metals including gold (retaining our USD 3200/ounce year-end target).**

We retain a 4.0% 3-month target on 10-year US Treasury bond yields. Within equities, we remain Neutral on Europe, Negative on the US and Positive on the UK Japan and China.

The key indicators we monitor that will allow us to potentially change our asset allocation views are:

a) the US economic policy uncertainty index (published by Baker, Bloom & Davis), and

b) the US high yield corporate bond spread (which has widened sharply from under 3% in mid-February to 4.7% as of 9 April).

It is important that those indicators decline steadily from their current elevated levels and that we have more evidence that job losses remain moderate. If these conditions are satisfied, we may then have greater confidence that risk assets like stocks can rebound further on a medium-term basis.

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