CIO PERSPECTIVES

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Liberation Day: liquidation or stabilisation?

Trump has finally "liberated" us from many months of suspense. Below is our in a nutshell approach to the latest news, knowing very well that it is not the last chapter.

WHO has been targeted?

Basically, everyone. But especially the countries considered by the American administration as the "worst offenders" that charge higher tariffs on US imports than those charged by the US on foreign imports (hence the term reciprocal tariffs) even though the tariffs imposed have actually turned out to be a function of these countries' trade surpluses with the United States.

WHAT with?

In a one-hour long presentation in the White House's Rose Gardens surrounded notably by US autoworkers, President Trump announced the following:

- First, Trump reiterated the already announced 25% tariff on ALL foreign-made autos and auto parts.
- Second, Trump announced a 10% base tariffs on all imports coming into the US.
- Third, Trump came equipped with a BIG chart detailing reciprocal tariffs ("what you charge us, we will charge you"), on the left-hand column is a list of countries, next to a column titled "Tariffs Charged to the USA Including Currency Manipulation and Trade Barriers". On the far right is another column titled "USA Discounted Reciprocal Tariffs", which shows a list of the new tariffs announced. The formula for the latter is to divide the US trade deficit with each country by that country's exports to the US. The final reciprocal tariff was then divided by two, with a minimum of 10% (which applies even to those countries with which the US has a trade surplus). The Dirty 15 countries highlighted as harbouring the main US trade deficits, where indeed dealt a bad hand (Table 1).
- Fourth, Canada and Mexico, previously were applied 25% tariffs on all imports before announcing some exemptions and delays, were omitted from his presentation.
- In other key elements of this speech Trump also highlighted the US foreign dependence to pharmaceutical products, but did not announce any additional tariffs on this (Ireland can breathe a little). He claimed an apparent 6 trillion USD (approximately 20% of GDP) in investment coming in the US (citing mostly US tech companies and foreign semi-conductor and auto companies).

WHEN will tariffs start? WHEN will it end?

Auto tariffs went into effect immediately at midnight. The baseline 10% tariff is to be introduced on all imports from 5 April and reciprocal rates on specific countries will take effect 9 April. This latter deadline for "kind reciprocal" tariffs could leave the door open to backtracking and further delays.

Interestingly, Scott Bessent later mentioned "I wouldn't try to retaliate. As long as you don't retaliate this is the high end of the number." "We'll see where it goes from here."

Many countries have announced counter-tariffs, but none have thus far fully delivered on their threats. The story is – as you all know – NOT over and a new period of trade deals could now come into play.

Table 1: New reciprocal US tariff rate (%)

Country	New US tariff, %	Country	New US tariff, %
China	34(+20)	South Africa	30
EU	20	Brazil	10
Vietnam	46	Bangladesh	37
Taiwan	32	Singapore	10
Japan	24	Israel	17
India	26	Philippines	17
South Korea	25	Chile	10
Thailand	36	Australia	10
Switzerland	31	Pakistan	29
Indonesia	32	Turkey	10
Malaysia	24	Sri Lanka	44
Cambodia	49	Colombia	10
UK	10	....	

Source: White House, Indosuez Wealth Management.

WHERE is it going to hurt?

China

We have long argued that China has been preparing for these tariffs for years and their technological advancements, stimulus plans should, to some extent, compensate the pain of this new tariff rate (34% reciprocal tariff + 20% tariff previously announced a month ago, bringing the total US tariff to 54%). However, **the tariffs on China exceeded our expectations, negatively impacting our China GDP growth outlook for 2025 by 20 basis points (bps), to 4.5%, while reduced export demand and excess capacity in the goods sector will also pull down our inflation forecast by 40 bps to 1.4% in 2025**. 2026 forecasts are unchanged (4.5% GDP growth, 1.5% inflation). For ASEAN[1] countries, notably Vietnam and Cambodia, the re-routing of exports of Chinese goods to the US is no longer a valid model given that in the case of Vietnam the new tariff rate is superior or close to the Chinese rate (47% vs. 54%). Finally, Trump's actions also have inadvertently benefited Chinese President Xi Jinping, positioning China as a "champion of free trade" and a supporter of multilateral institutions, contrasting sharply with the US recently.

Europe

The blow will be hard to digest in 2025, with US tariffs now at 20% (vs. 10% for the United Kingdom in line with the baseline). **As a result, we are revising the Euro Area GDP growth down to 0.5% in 2025, but unchanged at 1.6% in 2026. Our inflation forecast remains stable in 2025 and in 2026 at 2%.** Risks to inflation will depend on how (and if) the European Commission significantly retaliates. With excess capacity being so large in Germany, we do not see any inflationary risks from this package during our forecast horizon. In this context, the European Central Bank (ECB) policy is still (too) restrictive, tariffs impact on growth should push the ECB to cut three times to 1.75% end 2025.

Thus far the EUR 26 billion retaliatory tariffs announced on previous steel tariffs have been postponed. Interestingly, it is rumoured the new Canada/Mexico "end-tariff" for both could be approximately +12%. Could this be a template for negotiations with Europe? The problem is that European Union (EU) goods are less integrated than Mexico/Canada, and therefore less indispensable. Brussels will focus on behind-the-scenes talks with Washington with possible negotiations on military equipment imports on the side. They could potentially offer tariff reductions and joint investments while considering counter-tariffs on easily substitutable US goods and a tax on US-based media and software companies if no concessions are reached.

[1] The Association of Southeast Asian Nations.

USA

We are also revising our US GDP growth forecasts lower for 2025 (1.5% -40 bps) and 2026 (1.6% -30 bps) and inflation up in 2025 (3.4% +50 bps) and 2026 (2.9% +20 bps). We believe the US consumer will be the first to face higher prices due to tariffs, affecting our US GDP growth forecasts. While surveys show increasing uncertainty, hard data remains stable, with no immediate signs of recessionary dynamics. Consumers and corporations have solid balance sheets, growing real incomes, and a healthy labour market. We think the Federal Reserve (Fed) will remain in a "wait-and-see" mode for the coming months but that the fact that we assume that tariffs-linked inflation is temporary, and that growth should slow in 2025 (without falling into recession) should still lead the Fed to lower rates twice in 2025 and twice in 2026 for a terminal rate of 3.5%. Risks to US growth include trading partner retaliations, impacts of uncertainty on spending and business decisions, tightening financial conditions, and inflation expectations potentially challenging Fed rate cuts.

HOW are markets reacting?

The increase in the average tariff level (around 20%) resulting from the latest communications from the White House is higher than most investors had anticipated, leading to a sharp decline in the stock markets. Considering the increased risks on US growth, unsurprisingly, bonds are on the rise with US Treasury yields falling. The dollar is under pressure and has returned to 1.10 against the euro. Crude oil, base metals and gold are declining at the time of writing. The portfolios we manage are impacted, but we note that the shock is partially absorbed by diversifying assets, particularly bonds.

A period of negotiation is beginning between the affected countries and the United States, and **we believe it is likely that the final tariff increase will be less severe than this 20% rate**. In our recently revised growth estimates, we account for an effective average tariff increase of around 15%. In this regard, the fact that Mexico and Canada are less impacted by the Liberation Day communication is revealing. These countries were targeted as early as January by the Republican Administration, and negotiations are already well underway.

How are we adapting the portfolios? We had rebalanced mid-March our asset allocation moving to neutral on developed markets equities, while reducing our slight overweight on US markets to neutral, and upgrading European equities from slightly underweight to neutral (read our CIO Perspectives - Turbulence zones: What to expect? 25 March). We continue to hold more Emerging Markets in the equity pocket than traditional equity indices (the MSCI All Country World), making it very diversified. On bonds, we have benefitted from the recent fall in government bond yields, although we have a slight underweight exposure to duration. Our positive stance on gold has worked well this year, although technically it could be vulnerable to profit taking as investors rebalance their portfolios. We revise our slightly positive US dollar view to neutral, as the greenback does not fulfil its role as a diversifier in this context.

Will this period of volatility last? It is, of course, difficult to say, but our intuition is that it will last a few months; after all, negotiations with Europe and China are just beginning. The stock markets are currently experiencing a second shock, following the one between mid-February and mid-March. We are not selling equities at these levels, but this volatility encourages us to remain cautious before buying back to take advantage of the opportunities that are starting to emerge.

Our economic scenario does not foresee a recession in the United States at this stage, even though the impact of tariffs increases the risks to US growth. Profits should still increase this year, while monetary policy should continue to ease. The Fed will likely wait to ensure that inflation expectations are well anchored before proceeding, but we believe it will cut rates two more times this year and twice next year. This is a generally constructive scenario for the stock markets medium term, which encourages us to remain invested.

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