

Topical Commentary

Markets bounce back after tariff-ying start to April



The 2nd of April was dubbed “Liberation Day” by US President Donald Trump and marked the announcement of reciprocal tariffs on 57 countries.

The tariffs were significantly higher than most expected, strongly targeting those running the largest trade deficits with the US.

Markets reacted badly to this, with the S&P 500 falling over 6% on the day of the announcement.

The term ‘stagflation’ has been banded around, with concerns over the inflationary impacts of tariffs, coinciding with weaker consumer confidence readings, further muddying the water for the Federal Reserve, who are in the middle of their interest rate cutting cycle.

Stocks continued to sell-off in the week following “Liberation Day”, but it was the move in US Treasuries that was probably most significant for the US administration, with the US 10 Year Treasury yield rising by more than half a percent over the course of a week.

Rising Treasury yields result in a higher cost of financing for the US government, which given the administration’s desire to reduce the country’s deficit (think DOGE), would not have been welcome news.

On 8th April, President Trump announced he would pause reciprocal tariffs for 90 days, with tariffs reduced to 10% for all countries apart from China. The hope here is that this would give enough time for trade negotiations to take place. On the day of this announcement the S&P 500 rose over 9.5%.

Some market speculators have suggested that the “Liberation Day” tariffs were a tactic to bring countries to the negotiation table. Whether this is true or not we cannot be sure, but the market is now aware of the US policy mindset and seems to be taking it in their stride.

Indeed, since the 8th of April announcement, markets have rallied strongly, with the focus now on trade deal negotiations, as well as new economic data and central bank interest rate policy.

At the time of writing, it looks like the UK is the first to agree a new trade deal with the US, although Japan and India are thought to be close behind. It is pleasing to see that countries do seem keen to negotiate, and, in fact, there are even hopes of a deal with China.

Although we have the pause on tariffs and negotiations underway, there is still a lot of uncertainty, and we don't know what will happen at the end of the 90 days.

However, we are happy to ride through the inevitable ups and downs associated with this short-term uncertainty and continue to look at the medium to long term investment opportunities, which we see as positive against a backdrop of falling interest rates.

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