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WEEKLY BULLETIN

Liberation Day sparks market turmoil

Special edition

President Trump's 'Liberation Day' trade tariffs have prompted one of the largest policy-induced shake-ups of the global trading system in over 50 years. Unsurprisingly, financial markets have reacted negatively with investors fearing a global trade war and a global recession. In this special edition of our Weekly Bulletin, we examine the possible path from here and how our multi asset funds are positioned.

The tariffs

Trump announced universal tariffs of a minimum of 10%, with effect from 5 April. This included the UK. Much higher additional 'reciprocal' tariffs were introduced on 57 countries based on the size of their trade deficit with the US, and will come into effect on 9 April. These build on already announced 25% tariffs on steel and aluminium (effective from 12 March) and 25% tariffs on autos (effective from 3 April, and expanding to auto parts on 3 May). Sensitive sectors including pharmaceuticals and semiconductors have so far been excluded. China and Canada have announced retaliatory tariff measures, while the European Union, the US's largest trading partner, is still considering a response.

What happens next?

The scale of the tariffs exceeded expectations; they were bigger and broader than anticipated, surprising financial markets and causing the sharp falls and heightened volatility that we are currently experiencing. How the situation plays out from here is unknown – do other countries retaliate in full, do they negotiate with the US, or does the US decide that turbulence in the markets is going to hit the US economy too much and dial down their approach – all of these options are on the table, and perhaps will become clearer over next few days. While completely reversing the tariff policy looks unlikely, there may be an elegant way to soften the policy through negotiation. Currently though, markets are focused on how other countries may retaliate and whether such retaliation could spark further tariffs from the US.

There are also expectations that the tariffs pose a greater threat to US growth than non-US growth, with the US losing trust on the global stage given Trump's erratic policy making, and investors diversifying away from US assets in response. Put simply 'US Exceptionalism' is being questioned. Concerns over US growth have triggered a resetting of interest rate expectations, indicating four or five rate cuts in 2025 from the previous three. Investors believe that the negative growth effects from the tariff policies will force the US central bank – the Federal Reserve - to ease monetary policy to support the labour market and spur economic growth.

Meanwhile, other economic news from the US continues to point to a robust economy, including last Friday's non-farm payrolls data which showed a higher-than-expected increase, driven by a boost in private payrolls. The unemployment rate remained relatively static. However, markets ignored the data as it is backwards-looking, with the tariff policy holding centre stage. Economic data released during April and May will be far more indicative of sentiment and the impact of the tariffs.

Positioning in our multi asset funds

Trump's tariff policy is unprecedented, the situation is fluid, and the future path uncertain. We have spent the past 18 months simplifying our portfolios, enabling us to be extremely nimble and able to change our asset allocation very quickly if we see the need. Diversification is key for these more challenging times in markets, and it helps us to manage the volatility and to cushion our portfolios against the worst market falls.

Our government bond and gold positions are working well for us, as is a 'put option' on the S&P 500 stock market index which we introduced at the end of last year. In its purest definition, a put option gives its holder the right to sell assets at a specific, pre-agreed price, on or before a specific date. This is helping during the current period of market volatility. We also have a position in a specialist hedge fund designed to protect against dramatic market falls. More broadly, we have reduced our exposure to stock markets, and in particular to the Asia Pacific region which is a big target of the US tariffs.

Our investment funds are long term and inevitably experience speed bumps along the way. Market dislocations like the one we're seeing today are a 'normal' part of investing and can offer opportunities in both an absolute and relative sense. Our investment funds did well in both an absolute and relative sense in 2009 and 2020 when markets hit a low and then recovered.

It's important to keep a cool head during these times, while being alert to opportunities and ready to adjust our portfolios accordingly.

Market moves

- The US tariff announcement led to the largest one-day decline for some stock market indices since the pandemic in 2020 on Thursday last week, and shares continued to slide on Friday and into this week. The sell-off now leaves the S&P500 down -17.4% relative to its peak on 19 February. Cyclical and internationally-exposed stocks saw the worst decline.
- Elsewhere, bonds had a good week with positive returns as longer-dated bond yields moved down (prices, which move in the opposite direction to yields, moved up) and investors reset their interest rate expectations.

What to look out for this week

- On Wednesday the US reciprocal tariffs come into force, followed by those from China on Thursday.
- Also, on Thursday will be an indication of inflation in the US with the March CPI number.
- On Friday, the US quarterly earnings season kicks off with statements from the financial sector - JPMorgan, Morgan Stanley, Wells Fargo, and BlackRock.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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Important Information