Market View
Latest tariffs and their market impact

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This week, President Donald Trump announced sweeping tariffs that will reshape trade relationships with the United States. The new tariff regime is more severe than expected, and extraordinary, both in terms of scale and how they were calculated.

Trump announced a baseline 10% tariff on all countries and higher rates for certain regions. These higher rates exceeded expectations. Asia, particularly China and Vietnam, face the largest increases. European tariffs were broadly in line with expectations, with 20% on the EU and 10% on the UK. The table below shows what the latest announcement means for various countries, but this is not the full list.

Trading partner	Tariff rate
China	54%
Vietnam	46%
Thailand	36%
Taiwan	32%
Switzerland	31%
India	25%
Korea	25%
Japan	24%
European Union	20%
United Kingdom	10%
Canada	8%
Mexico	8%

Source: BBC, JPMorgan, LGT

The announcement has elicited strong reactions both domestically and internationally. So far, China is the only country to announce retaliatory moves of 34% tariffs on US goods from next week. In theory, the baseline tariffs do not come into effect until 5 April, with any additional reciprocal tariffs due to come in on 9 April. This allows for negotiations, and hopefully, the US will accept concessions before, or soon after, these tariffs come into effect. We have seen Treasury Secretary Scott Bessent urge countries to not retaliate, even suggesting these countries come to the negotiating table. No one wants a full-blown trade war, which would send trade volumes down, strain global growth further, increase inflation and could ultimately lead to a recession. This would complicate the task for central banks further with future rate cuts in the balance.

The extent of the impact will depend on how the world reacts in coming weeks. Economists estimate US GDP could reduce by 1-to 1.5% over the next 12 months and expect inflation could rise by 1-2%. This could result in a global growth shock, adversely impacting risk assets across the world.

Equities

Equity markets have seen a risk-off reaction to Trump's tariff announcement, with major US indices declining by around 5-6% by the close of the day on 3 April, and are indicating a further 3% drop at the time of writing. Since Trump's announcement on 2 April, Asian markets have seen quite diverse moves. Vietnam lost over 8%, Japan around 6% and China under 1% in local terms through 4 April. We do expect heightened volatility in coming weeks, especially as news evolves on how other countries retaliate. Currency markets are also showing significant moves, where we have seen the US dollar sell off versus the pound, euro and yen by around 1-to-2%. Uncertainty over tariffs, along with concerns about the impact on US growth, mean the dollar has lost its safe-haven status for now. This is unusual, as historically, when we go through periods of heightened market volatility, the dollar usually rallies, which offsets some of the dollar-denominated equity drawdowns. So far this year, the dollar index is off around 6%.

Defensive sectors are outperforming, with utilities and consumer staples holding up, along with real assets. Energy faces large drawdowns as oil prices are down by over 10% on concerns global growth will take a hit.

Fixed income

Bond yields have fallen as the market digests the impact of tariffs. Short-dated bonds are outperforming, with growth risks driving investors to increase the odds of rate cuts. Ten-year Treasury yields have fallen by more than 0.2% to levels below 4% with similar moves seen in bunds, gilts and Japanese government bonds. Yield curves have steepened a touch as longer maturity bonds underperform on a yield basis, given concerns about longer-term inflation.

The long-term impact of these tariffs could be significant, especially as the market has taken Trump's message to be a withdrawl from global trade. As a result, we expect markets to continue experiencing volatility. Trump's tariffs have raised concerns about a trade war, inflation and a global slowdown, and markets will move on headlines. However, we are hopeful these tariffs are more of a tool to get countries to the negotiating table. Our investment committee has been monitoring the developments around tariffs closely and stands ready to act. The Trump administration has been a source of market noise, but this volatility could result in longer-term investment opportunities.

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Sanjay is a founding Partner of LGT and is Chief Investment Officer. With over 30 years' of investment experience, he is responsible for the implementation of the firm's investment process through oversight of the investment research and asset allocation positioning decisions. Sanjay chairs the Investment Committee and is a leading spokesperson for LGT Wealth Management.