April Market Update: tariffs and tensions

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In a nutshell

- Trump announces Liberation Day ‘reciprocal’ tariffs
- A 90-day tariff pause due to the bond market’s reaction
- Recession probability rises

Why Liberation Day?

April started with a bang! Donald Trump’s ‘Liberation Day’ was the catalyst for a wild ride in equity markets. Why Liberation Day? Because his ‘reciprocal’ tariff regime was supposed to free the US from the shackles of global trade injustice… a bold narrative, if not exactly grounded in reality.

The image of Trump with his bizarre tariff board is one that will stick in the mind, not just for the gameshow-esque spectacle, but because the figures listed made so little sense. What was initially billed as reciprocal ended up being a worryingly simplistic calculation of each country’s trading surplus divided by two. So, an emerging, low income country like Vietnam - which unsurprisingly exports a lot more into the US than buys in from them - got hit with a very high rate.

Unsurprisingly markets didn’t like any of this. There were big drawdowns in all major equity regions, with the US leading the way. The bond market was also spooked, with Treasury yields rising on the risk of higher inflation and higher-for-longer interest rates. Perhaps it’s also because U.S. investors demand a higher risk premium when someone like Trump is leading and shaping policy.

So, why didn’t April end in disaster?

If you look at April’s market performance, you might struggle to see what all the fuss is about. In the battle between the market and Trump, Trump blinked first and a 90-day delay to proceedings gave investors something positive to cling to. After a sharply downward first week, things have steadily recovered. It was likely the bond market - not equities - that made the difference. High Treasury yields mean high debt repayments and tight financial conditions - not something Trump can stomach for too long if he wants to create the economic growth he’s talked so much about.

90 days is not that long

Big questions still remain. We still don’t know where tariff negotiations will end, but we do have a July cut off for some form of outcome (or we revert to ‘reciprocity’). Negotiations with China are key. Any progress here would be an upside surprise given the combative stance taken by Beijing against what they see as bullying from the US. The current 145% tariff on Chinese exports (and 125% in the other direction) essentially blocks trade between the two nations.

We haven't really seen the true impact of tariffs in any hard data yet, either. US GDP growth for Q1 came in negative, with many companies front loading imports to get ahead of tariffs (which brings down the net exports part of the calculation). April also saw inflation come in lower than expected and some robust employment data, which is all pointing to the US economy being in okay shape, at the moment…

Gold reached an all-time high, with investors looking for a safe place to hold their money in light of recession fears and question marks over the defensiveness of US Treasuries. The price of oil went in the opposite direction, falling 16% over the month. Slower growth means less need for oil. The Organization of the Petroleum Exporting Countries (OPEC) also upped supply plans, which is a negative for prices.

Recession risk is rising

The risk of recession has undoubtedly increased with the introduction of greater tariffs, regardless of the level they finally settle at. They're a tax on businesses and consumers, and an added friction to global trade. With this, expectations of interest rate cuts have come in a little. Sentiment is rocking back and forth at the moment, with headlines out of Washington moving markets in both directions. Until we get more clarity on proceedings this is likely to continue. But whether that comes at the end of the 90-day pause is anyone's guess.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	1.70	1.44	2.26	3.49	-13.45
ICE BofA Global Corporate	0.33	1.50	2.17	7.62	8.57
ICE BofA Global High Yield	-0.08	-0.04	1.20	8.90	18.13
FTSE All Share	-0.25	-1.21	4.25	7.53	22.59
FTSE USA	-3.82	-14.12	-10.78	5.19	31.38
FTSE World Europe ex UK	1.50	1.02	9.25	7.19	32.69
FTSE Japan	1.67	-2.88	-0.58	1.85	26.35
FTSE Asia Pacific ex Japan	-1.87	-5.74	-3.98	2.85	5.58
FTSE Emerging	-2.54	-4.91	-3.38	4.41	8.96

Source: FE Analytics, GBP total return (%) to last month end

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