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Market View
Deal or no deal: an update on tariffs

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At a glance

- Trump unveils an updated list of tariffs
- Market impact likely to be less than Liberation Day volatility
- Some deal frameworks announced while others scramble ahead of deadline

In early 2025, the Trump administration, continuing its "America First" agenda, sought to upend the decades-old global trade order by introducing sweeping tariffs on the US's largest trading partners. These measures, which targeted key allies and rivals, were framed as necessary to protect domestic industries and rectify longstanding trade imbalances. But they sparked concern about global political instability and raised fears countries would retaliate with their own tariffs.

The Trump administration's tariffs – introduced on so-called Liberation Day in April –included a universal "reciprocal" 10% tariff on all countries, along with sector-specific tariffs, such as 20% fentanyl-related levies and heavy duties on steel, aluminum, automotives, and pharmaceuticals.[1] These tariffs were paused after legal challenges, with a US trade court ruling in May that the president exceeded authority under the International Emergency Economic Powers Act, although appeals temporarily reinstated the tariffs.[2]

But the Trump administration, recognizing more time was needed to secure deals, extended the original deadline by 90 days to 1 August. We do not believe this deadline is significant, however, as most major countries, excluding China and India, have reached a deal with the US, although these deals are very light in detail. It is possible we could see further extensions for countries currently in negotiations with the US. Apart from this, the new reciprocal tariffs– ranging from 25% to 50% for select countries, and a baseline rate of around 15% – were initially set to be implemented from 1 August but will now largely take effect on 7 August.[3]

Which deals have been secured?

The US reached a deal with Japan earlier in July, setting a 15% tariff on Japanese goods – lower than the 25% levies Trump had initially threatened. As part of this deal, Japan will invest $550 billion in projects in the US and open its markets to US automobiles, rice and other agricultural products.[4]

On 27 July, the European Union (EU) and the US announced a deal framework including a 15% tariff cap, plus commitments from the EU to boost US investment and energy purchases totalling around $600 billion. Similar agreements have been struck with the UK, Vietnam, the Philippines, and Indonesia, including modest country-specific reductions, though formal documentation is pending. All the above deals are light on detail, and ultimately, further clarity is needed to ascertain the impact on businesses, inflation and the end consumer.

North American partners

Negotiations between Canada and the US stalled following months of phone calls and on-again, off-again talks in Washington. On 31 July, Trump announced Canada would face tariffs of 35%, up from 25%, beginning on 1 August.[5] Mexico, meanwhile, is exempt from another tariff increase for another 90 days, as the two sides continue to negotiate. In both cases, the Trump administration said it would exempt some goods that were already covered by a trade deal brokered by the three countries during Trump's first term. Nevertheless, these tariffs have the potential to have significant impact on the North American economy. Two-way trade between the US and Mexico totalled $840 billion last year, making Mexico the US's largest trading partner.[6]

What about China?

Negotiations between the US and China in Stockholm are ongoing. Both sides agreed to explore extending the 90-day tariff truce, which is due to expire on 12 August, subject to Trump's approval after receiving a briefing from US Treasury Secretary Scott Bessent. Tariffs on Chinese imports remain at 30% for now, although US officials warned that failure to reach a deal could see tariffs on Chinese goods surge back to triple-digit levels.[7]

What this means for investors

As major economies sign agreements that include the highest tariffs in modern history, it seems the Trump administration's vision for global trade is falling into place, with some declaring it a political victory for the US president. But what will the impact on the global economy be?

It will provide some short-term relief. Recent trade deals offer some tariff mitigation and have bolstered market confidence, lifting equities in the US, Europe and Asia. Risk remains, however. Despite these deals trickling through, most countries will face higher tariffs after 1 August. This will likely put upward pressure on consumer prices, corporate cost structures and specific sectors like metals, pharmaceuticals and semiconductors. Policy uncertainty remains elevated due to a combination of unresolved legal challenges, Trump's own statements signalling potential modification and pending deals around sector-specific tariffs.

The International Monetary Fund (IMF) has lifted its emerging market growth forecast to 4.1%, citing reduced US tariffs among reasons, but warns that trade-policy disruptions still pose downside risks.[8] Central bank activity may be affected as well, with the Bank of England (BoE), along with other central banks, possibly looking to lower rates to ease monetary policy due to reduced trade risk.

Recent news about Palestine has implications as well. France promised it would recognise Palestine as a state in coming weeks, and the UK announced it will follow suit in September unless Israel meets certain conditions. Assuming this recognition goes ahead, Palestine will have the support of four of the UN Security Council's five permanent members (the other two being China and Russia.) That will leave the US in a minority.[9] We have already seen Trump take a harsh stance towards Canada on this matter, suggesting that Canada could jeopardise any trade deal if it backs Palestine.[10]

It will be months before we know the full impact of the tariffs on businesses and the end-consumer. Ultimately, our focus on investing in high-quality businesses with strong fundamentals helps protect our clients' capital during periods of market weakness. Companies with stable earnings, healthy balance sheets and competitive moats – unique advantages or barriers a company has that protect it from competition – provides stability during economic downturns and limits downside risks during short-term volatility.

[1] NYTimes: A Timeline of Trump's Tariff Fight With Canada, Mexico, China and the E.U.

[2] Library of Congress: Court Decisions Regarding Tariffs Imposed Under the International Emergency Economic Powers Act (IEEPA) | Congress.gov | Library of Congress

[3] NYTimes: Maps: Tracking Trump's New Tariffs on Every Country

[4] The Hill: Here are the foreign trade deals Donald Trump has secured as his tariffs loom

[5] NYTimes: Maps: Tracking Trump's New Tariffs on Every Country

[6] The Texas Tribune: August increase in Mexico tariffs could strain Texas economy

[7] DW: What next for US, China after talks end with no trade deal?

[8] IMF: World Economic Outlook Update July 2025

[9] BBC: What does recognising a Palestinian state mean?

[10] The Guardian: Trump threatens Canada on trade deal after Carney moves to recognise Palestine | Palestinian territories

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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.