Trump tariffs

Donald Trump has finally revealed the full details of his trade strategy – and markets have reacted negatively. The president has raised import duties on most goods shipped into the US, with the specific rate depending on a country's own tariff schedule and non-tariff barriers to US businesses.

Concerns over the impact of these policies on growth and inflation have already resulted in significant moves in equity and bond markets – and there was a further negative reaction following the announcement in Washington as the level of the tariffs is higher than markets had previously expected. However, despite this action by the Trump administration – and a likely negative impact on global growth and inflation this year – we do not think these tariffs are likely to tip the US, or the wider world, into recession. The US economy is still driven by the consumer and while they still have jobs, they will continue to spend.

The new tariffs are likely to increase the probability that countries will negotiate with Washington over the issues that have caused the trade friction and find compromise. Such announcements are likely to ease market fears as they materialise over the next few months.

Despite concerns in the market, the statement has brought a degree of clarity into the situation. The administration has said that these tariffs can be regarded as the likely maximum level that will be imposed, unless any nation retaliates with measures against the US. There will then be further tariffs introduced by Washington that match the actions of the trading partner. An escalation that leads to a full-blown trade war is one of the major risks we face in the coming months. However, we think a degree of compromise remains the most likely outcome.

Another risk to markets comes with the start of first-quarter earnings reporting, which kicks off in the next few weeks. Investors will be scrutinising the outlook statements and financial guidance to determine any points of weakness in supply chains or demand. Investors will be looking to be reassured – and, if this does not materialise, there could be further market volatility.

Positively, the UK has got off comparatively lightly with the baseline tariffs of 10% applied to all US imports, but the government had expected a level of 20%. Nevertheless, this barrier to trade could impact growth and the government finances, giving Chancellor Rachel Reeves an additional challenge as she tries to balance the UK books while sticking to her self-imposed fiscal rules.

The UK is criticised for imposing non-science-based standards on imports of chicken and beef to keep out US product. The government is currently in negotiation with the US over its digital services tax, which is aimed at US companies, over food products and other issues with a view to reaching an agreement.

So, although financial markets are likely to see a period of turbulence and elevated uncertainty, the new US tariff policy is unlikely to result in damage to the global economy that will cause a major retreat in financial markets. The fog of uncertainty makes forecasting difficult, something that is likely to result in a rise in volatility, but we believe the probability of a significant and prolonged retreat in global markets remains low.

If you have any questions about how Trump's tariffs might impact you, please contact your wealth manager or financial planner. They can provide personalised advice and guidance tailored to your financial situation.