Impact of Trump's tarriffs

What a rollercoaster.

The tariff regime Donald Trump, as announced yesterday in the White House Rose Garden, ended weeks of speculation on how the U.S. administration would attempt to address global trade imbalances. So what was the result? President Trump announced that the U.S. will apply a minimum 10% tariff on all exporters to the U.S. and slap additional duties on around 60 nations with the largest trade imbalances with the United States. That includes substantially higher rates on some of the country's biggest trading partners, such as China — which now faces a 54% total tariff rate — the European Union (which faces an additional 20%) and Vietnam. The baseline import taxes will take effect after midnight Saturday and the higher duties will kick in at 12:01 a.m. on April 9, according to senior administration officials who discussed details with Bloomberg ahead of Trump's announcement.

"For years, hard-working American citizens were forced to sit on the sidelines as other nations got rich and powerful, much of it at our expense. But now it's our turn to prosper," Trump said[1] during his announcement. It appears unclear as to what impact this may deliver, but we are watching if there will be to what degree all these countries under attack will retaliate. Or maybe they shouldn't, as Treasury Secretary Scott Bessent urged them to in an interview with Bloomberg Television: "I wouldn't try to retaliate. As long as you don't retaliate this is the high end of the number. As far as negotiations go — we'll see," adding later: "we'll let things settle for a while," as "we'll see where it goes from here."

While we monitor closely, at the outset we believe it will neither improve the sentiment of U.S. consumers and companies nor that of foreign companies or heads of states or governments. And late trading gave us an indication of where it will take markets from here: S&P 500 futures sank over 3.5% while contracts on the Nasdaq 100 slid 4.5%. Bonds climbed. Which suits Goldman's latest recommendation[2] change: "We expect growth downside to dominate, resulting in lower yields and a steeper curve this year. We have revised our YE25 UST 2-year and 10-year yield forecasts to 3.30% and 4.00%."

In normal market wisdom, we might have seen the worst now, volatility should abate and equities might recover soon, as all the bad news is out now. The only question is: is it? Does anyone know what these monster tariffs will do to global trade and corporate sales and earnings? And which processes are set in motion as a result of these tariffs? And we'll leave it there for today. More details to follow soon.

1. Source: The Financial Times, April 3, 2025.
2. Source: Goldman Sachs Research, April 2, 2025.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not a reliable indicator of future returns.

Economic developments

Trade Policy

U.S. president Donald Trump announced a sweeping tariff plan based on what he calls "reciprocal tariffs."[1] Basically, all imports into the U.S. will be charged with 10% tariffs. Major trading partners, however, will face a far higher rate: the European Union 20%, China 54%, Japan 24%, Taiwan 32%, Cambodia 49%, South Africa 30%, Vietnam 46%, Thailand 36%, among others. The tariff rates are calculated in a strange way: Roughly speaking, the announced tariffs are 50% of the alleged tariff rate of the partner country. The alleged tariff rate is calculated as deficit vis-à-vis that country divided by imports from that country. The announced tariffs shall take effect on 9 April. The already announced 25% tariffs on cars and car parts will take effect immediately. Canada and Mexico are not mentioned in these new tariff announcements.

The White House said they would deal with both countries using a framework set out in previous executive orders, which imposed tariffs on Canada and Mexico as part of the administration's efforts to address fentanyl and border issues. Trump previously set those tariffs at 25%, before announcing some delays and exceptions. Trump announces more tariffs to come on pharmaceuticals and other products.

Our most important immediate takeaways: (1) These tariffs are higher and broader than most observers (including us) and markets had expected. (2) We still do not expect that these tariffs will stay at that level for the whole year, as there will now be (bilateral) negotiations. However, these will be complicated by the fact that (a) many negotiations will have to take place at the same time and (b) that the logic behind the tariffs has little to do with actual trade. So, they cannot be dealt away by reducing the tariffs charged on U.S. goods. (3) This implies that the tariffs will probably stay longer and remain at a higher level than expected.

What if? As this is an unprecedented shock to free trade, analyses based on historical data might be of limited help. However, to share some initial thoughts, we estimate that all tariffs taken together would bring the effective tariff rate for U.S. import from roughly 2.5% to above 20%. We would estimate that U.S. GDP growth would be some 25 bps lower. Inflation could go up by up to 1 ppt. Major trading partners will suffer as well. Taken at face value, GDP growth would be some 40 bp lower for the Euro area, 60 bp for Japan and 20 bp for China. Some of this was already included in our latest forecasts and as said, these calculations* should be taken with some caution as there will many negotiations and this is unprecedented.

Monetary policy

The National Bank of Poland (NBP), Poland's central bank yesterday voted to keep its policy rate on hold at +5.75%, in line with consensus expectations.[2] The accompanying Monetary Policy Committee (MPC) statement included some new changes in the language that reflected a generally softer tone on the inflation outlook. Firstly, while it noted that inflation stayed around +4.9% Y/Y for the last three months (surprising to the downside last three months), the MPC highlighted that inflation net of food and energy prices has actually decreased. Secondly, the NBP highlighted the implications of the recent string of favorable inflation prints by stating, "incoming information [...] signal[s] that inflation in subsequent quarters may be lower than previously expected." The NBP's March forecast for annual average headline inflation in 2025 was +4.9% Y/Y, which is likely too high. The course of the inflation path in the coming months is likely contingent on the following two risks, (a) the inflationary effect of further hikes in the regulated levels of household utilities prices in 2H 2025, and (b) uncertainty stemming from global trade policy. Overall, the new changes in language of the MPC statement indicates that the NPC sounded more optimistic about the inflation outlook, but with a caveat emanating from global trade and growth uncertainty. NBP President Adam Glapinski should explain this decision in his post-MPC presser to-day.

1. Source: Bloomberg Finance L.P. and DWS Investment GmbH, April 2, 2025.
* What-if calculations are preliminary and more scrutinized one will follow in a CIO Flash.
2. Source: National Bank of Poland, April 2, 2025.

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