Perspectives

Flash Comment

8 April 2025

Market reaction to the tariff dispute

What has happened?

- US President Trump announced new, unexpectedly wide-ranging tariffs on 2 April.
- In addition to an across-the-board, non-negotiable import tariff of 10%, higher tariffs will apply to more than 50 countries. Goods from the pharmaceutical and semiconductor industries remain exempt for the time being.
- Stock markets around the world reacted with sharp price falls. On the bond markets, interest rates on long-term government bonds fell significantly and expectations of further interest rate cuts by the leading central banks increased. The Swiss Franc appreciated against the USD and EUR.

Our economic assessment

- The tariffs are thus going further than expected. Experiences from Donald Trump's first term in office are not a blueprint.
- We expect a significant economic slowdown for the US. The measures essentially have the effect of a tax amounting to 2% of GDP on the private sector in the US.
- In Europe, economic uncertainty is holding back investment and export demand. Lower inflation and expansionary monetary and fiscal policy, on the other hand, should support domestic activity.
- Two scenarios in particular are conceivable: on the one hand, financial markets' confidence in the US government could continue to weaken as a retaliatory spiral or a policy of weakening the USD sets in. This would increase the likelihood of a global recession. On the other hand, if the US government takes the concerns of financial markets and the corporate world more seriously, some confidence could return. Ideally, the US government will set out a negotiating path and indicate whether and how it intends to use the revenues generated by the tariffs to reduce corporate taxes.
- We are revising our forecasts for GDP growth and inflation. Find out more in Perspectives, which will be published on 9 May.

Our market assessment

- Investors remain nervous after the sharp correction in the past few days. In this environment, markets will remain very volatile, and the negative investor sentiment will continue until it becomes clearer how the situation is developing and how central banks are going to react.
- Markets still underestimate the risk of a recession, which is why we expect lower global interest rates in the short term. The longer-term picture, especially for the US, is less clear as the focus is now on rising public debt in the US and the government's willingness to repay this debt. Swiss-franc interest rates are likely to fall further as the impact of US tariffs and the country's safe haven status will likely force the SNB to conduct an even more expansive monetary policy.
- The significant widening of credit spreads and the risks of lower growth will have the greatest impact on heavily indebted companies with significant international trade exposure. We therefore prefer high quality issuers over high yield bonds.
- Such a large equity market correction, as we have seen in recent days, is usually only observed in the wake of a major recession. If a recession is avoided, stock markets will recover. However, the likely political tactics soon mean that we will not change our equity exposure.
- The current crisis is a crisis of credibility for the US. For the first time in recent history, investors are seriously considering the risks of holding US assets. As such, we see little chance of a recovery for the US dollar in the short term, not least because lower short-term real interest rates offer little support. This uncertainty will increase appreciation pressure on the CHF against the EUR, which can only be mitigated by measures from the Swiss National Bank.

Swiss Life Asset Managers

José Antonio Blanco
CIO Third Party Asset Management
Head Multi Asset
joseantonio.blanco@swisslife-am.com

Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
@kunzi_damian

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please send an email to: info@swisslife-am.com.
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