Portfolio update

7 April 2025

Global Share Markets React to Trump's Tariffs: What You Need to Know

Global share markets have dropped significantly due to President Trump's unexpectedly high tariffs. China's retaliation has added to fears of a trade war, recession, and profit losses. So far, shares have fallen 17% in the US, 16% globally, and 10% in Australia. This decline is mild compared to past downturns but may continue as weaker economic data emerges from Trump's trade war.

Impact of Trump's Tariffs

Trump's tariffs have raised the US average tariff to about 25%, the highest since the 1930s. This is a US$600 billion or 2% of GDP tax hike, the largest since 1968. Key points include:

- A base 10% tariff on imports from all countries, including those with which the US has a trade surplus like Australia, the UK, and Brazil.
- Higher "reciprocal tariff" rates for countries with which the US has a trade deficit, such as China, Europe, Japan, and South Korea.
- Additional tariffs are expected for sectors like pharmaceuticals and copper, while steel, aluminium, and car tariffs remain at 25%.

Economic Impact

The reciprocal tariffs are meant to compensate for both tariff and non-tariff barriers, making it hard for countries to negotiate them down. The estimated impact on US growth is a 1% reduction, with a similar increase in inflation. Global growth could slow to around 2% from the current 3%, depending on the extent of retaliation and how countries like China respond with policy stimulus. The US will be harder hit as the tariffs apply to nearly all its imports, with retaliation threatening its exports. Other countries will only see their trade with the US affected by tariffs.

For China, the 54% tariff rate could reduce growth by 2 percentage points, with fiscal stimulus potentially offsetting half of this. However, growth could still slow to 4%, from around 5% last year. This will likely result in less demand for Australian exports, posing a threat to the expected pick-up in Australian economic growth.

In Australia, the 10% US tariff on exports is bad news for affected industries, with more tariffs likely for pharmaceuticals. However, only 5% of Australian exports go to the US, totalling 0.9% of GDP, so the direct hit to GDP growth is estimated at around 0.1-0.2%. If Australia does not impose retaliatory tariffs on US imports and the Australian dollar does not fall too far, Trump's tariffs are more likely to hinder growth than boost inflation, supporting further rate cuts by the Reserve Bank of Australia.

Market Outlook

Share markets have fallen sharply due to the US's aggressive trade policy and China's retaliatory tariffs. It remains uncertain whether Europe will also retaliate, but no other countries have a large enough trade relationship with the US to have a significant additional negative effect. Around 50 countries have expressed a desire to negotiate, and we expect brinkmanship from the US team leading up to the tariff deadline on April 9th.

Recent market turmoil has shown signs of emotional, indiscriminate selling:

- Gold declined by as much as 6%, contrary to expectations.

- Copper shed up to 25% in just over a week.
- 72% of S&P-500 stocks recorded a decline of more than 2 standard deviations on Friday, a quantity last seen during the COVID-19 sell-off.
- US-listed inverse ETFs, which rise in price when shares fall, recorded their highest trading volume in several years.
- US shares have erased a year of gains, while Australian shares have declined to levels not seen since late 2023.

Given the first-order effect on Australia's trade is around 0.1-0.2% of GDP, this market reaction seems overdone unless a recession is confirmed, which is not our base case. We expect a peak in hostilities and an initial low in share markets before the tariff deadline at 2 pm Sydney time on Wednesday, April 9th.

Portfolio Management

We are managing portfolios prudently, staying close to our strategic targets while minimizing transaction costs where possible. Importantly, we are paying close attention to signs of a sufficient margin of safety to raise our share exposure in the portfolios. While current and future market declines may feel risky, every past decline has been an opportunity when viewed in hindsight.

The portfolio management team closed our long-standing equity overweights in early February. The question now is when to re-enter and we remain alert to all possibilities. Typically, there is a relief rally following a capitulation event such as has been seen in the last few days, after which comes a test of the lows on lower conviction and volume. We will look for a setup of this kind to indicate a sufficient margin of safety for equity overweights or any other signals that the worst is over. A détente between the US and either China or Europe is another possibility. Various factors, such as a revolt against Trump by Republicans or a Fed interest rate cut, could also come into play. While it is difficult to predict the exact event that will mark the low, we will remain vigilant for signs that the greatest risks may be behind us.

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AMP Investments

Information is current as of 7 April 2025.