15 April 2025

# Markets in a Minute

## Key highlights

- **Tariffs deferred:** President Trump made a U-turn on tariffs, with individual tariff rates deferred for 90 days to allow time for negotiation.
- **Is inflation set to rise?** U.S. gasoline and core services prices were weak in March. However, prices are likely to rise to a pace of 4% this year.
- **China exempt from tariff relief:** Tariffs on Chinese imports were raised to 145% – however, some categories of consumer electronics were exempted from the measures.

Watch the latest Markets in a Minute video

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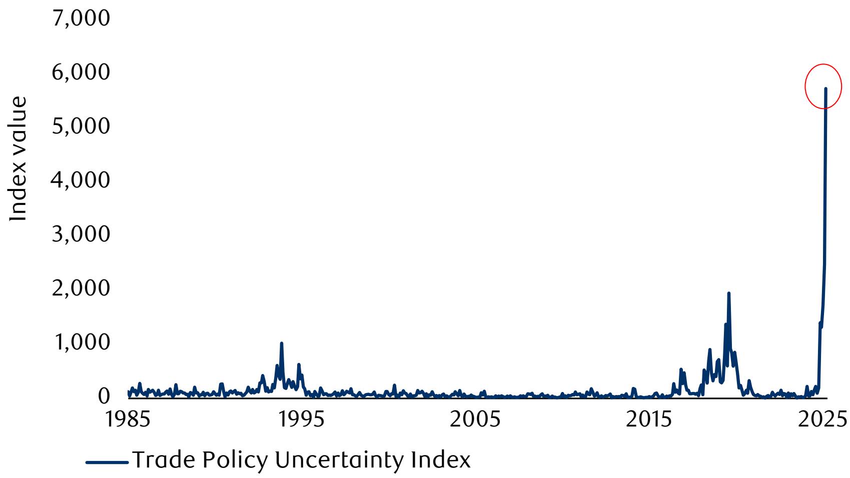
"The odds of a U.S. interest rate cut in May have dropped sharply since President Trump's tariff U-turn."

## Trade wars are good and easy to win

**Trade policy has been incredibly uncertain, making it difficult for businesses to plan and invest**




Source: LSEG Datastream

The infamous quote from U.S. President Donald Trump, made during his first term, maintained that trade wars are "good and easy to win". But last week, the opposite looked true for the trade war.

Continued overleaf

## Figure of the week

# 145%

U.S. tariff rate on Chinese goods. China is reciprocating with a 125% tariff rate.

The announcement made a couple of weeks ago of a 10% universal tariff, and individual tariff rates of up to 50%, put America's weighted average import tariff on a path towards 28% and hit the stock market hard. It raised concerns for U.S. growth, questions over the judgement of the Trump administration, and indicated prices for goods in the U.S. would rise.

Last week, these concerns moved from the equity market to the bond market. Bond markets have a history of ending misguided policies. In September 2021, a riot in the bond market brought down Liz Truss' doomed UK premiership, as she unveiled an expansionary budget at a time when UK spare economic capacity was very low. Going back even further, it was the currency market that caused the UK to leave the European Exchange Rate Mechanism at the behest of market vigilantes, led by American billionaire George Soros.

U.S. Secretary of the Treasury Scott Bessent cut his teeth working for Soros. He's on record as deriding tariffs as being inflationary and causing dollar appreciation. However, towards the end of 2024, while in contention for his current role, he acknowledged their worth as a negotiation tool.

Bessent spoke to President Trump a couple of weekends ago, urging him to take a more measured approach that would give him more leverage. Finally, the respected head of J.P. Morgan, Jamie Dimon, expressed his concerns about the measures on Fox News.

We may never know which of these factors led President Trump to change course on tariffs, but that's what he did.

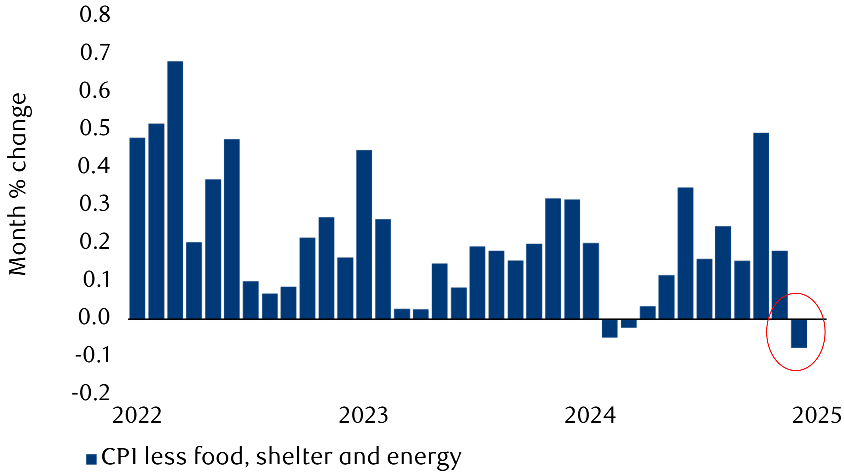
Individual tariff rates will be deferred for 90 days to allow time for negotiation, according to the administration. The logistics of negotiating more than 60 trade deals seem incredibly challenging, and so most investors expect that these 90 days will inevitably be extended.

The market reaction was violent, with stocks rising nearly 10% in the following session – the NASDAQ actually rose more than 12%. However, investors are under no illusion about an enduring universal 10% tariff still being a headwind – and not all countries were spared.

China saw wild fluctuations in the anticipated tariff rates last week. At the end of the week, some categories of consumer electronics were exempted from the measures. Over the weekend, President Trump confirmed that this exemption was related to the fact that the entire semiconductor value chain would be subject to additional measures, which are scheduled to be announced this week and come into force over the next month or so. Plus ça change...

## Inflation is not this month's problem

**U.S. consumer prices data adds to evidence of a weakening consumer**




Source: LSEG Datastream

> "The persistence of inflation is hindering hopes that the Federal Reserve might provide some relief for the embattled U.S. consumers and markets."

Tariffs raise prices for consumers, and although it may seem like we've been talking about nothing else for months, we're still at least a month away from seeing the first impact in official inflation data. Taming inflation is consumers' top economic priority, a point that the president's advisers will surely have made in arguing for a more measured range of import taxes.

Meanwhile, inflation data for March was a little weaker than expected.

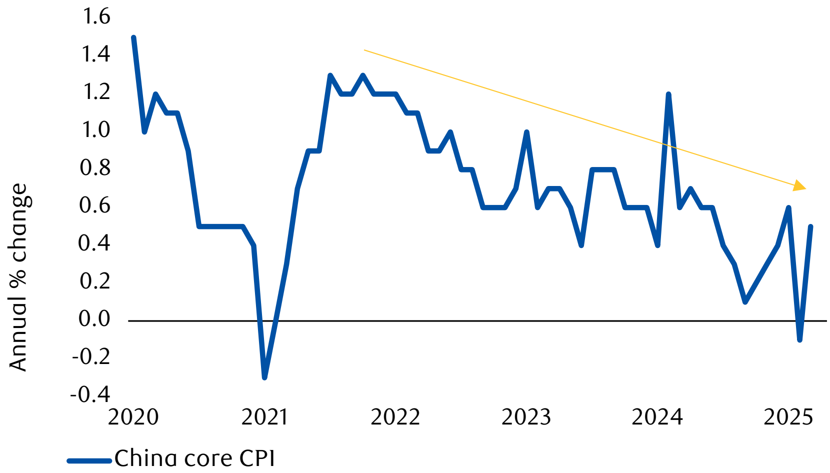
This was partly due to gasoline prices, but there was also a weakness in used cars and core services (with airfares and hotel rooms being the key categories). This suggests that consumers may be cutting back in anticipation of a weaker economy.

It won't last, of course. From next month, prices should start to reflect tariffs and are likely to rise to a pace of 4% this year.

The persistence of inflation is hindering hopes that the Federal Reserve might provide some relief for the embattled U.S. consumers and markets. However, the odds of a rate cut in the early May meeting have dropped sharply since the tariff U-turn.

## Not all countries saw relief

**Chinese core inflation remains very weak**




Source: LSEG Datastream

Away from the U.S., news that some tariffs will be deferred reduces the headwinds for growth.

It's true that many non-U.S. countries are far more open than the U.S., meaning that trade – both imports and exports – forms a large share of gross domestic product (GDP). But these countries are only suffering a big increase in tariffs on the U.S. portion of their trade, unlike the U.S. itself, which is suffering tariffs on all its trade. So, lower tariffs affecting a share of their growth is incrementally good news, which means the headwind to growth is lower. Meanwhile, any weakness in demand from the taxed U.S. import market seems likely to weigh on prices in other international markets.

China is the exception; its individual tariff rates weren't reduced. In fact, they were raised further to 145%, making China more of an isolated target than had been the case at the beginning of the week. However, as mentioned above, following this latest increase, there was some considerable relief given in the form of exemptions for some consumer electronics.

This will likely weigh heavily on Chinese growth but could present an investment opportunity. The Chinese authorities are not fighting inflation like other central banks, meaning that they can deliver stimulus to their consumers without risking high prices.

Furthermore, President Trump has signalled a willingness to negotiate with China. So, low expectations, the likelihood of stimulus measures, and the possibility of trade deals in the future that could see a sharp cut to tariffs could combine quite powerfully to revive flagging Chinese stocks.

## Coming up this week

- **Earnings season:** Although the first companies reported on Friday, earnings season really steps up this week.
- **UK inflation:** Inflation on Wednesday should show price growth slowing in the UK. Together with Tuesday's employment data, this could help solidify the basis for a May interest rate cut.
- **U.S. retail spending:** The last U.S. retail spending data hinted at lower consumer spending in February. Last week's consumer price index (CPI) report suggested something similar in March. Will the latest consumer spending figures continue the theme?