MARKET UPDATE

DONALD TRUMP: THE NEXT ACT IN THE TRADE WAR

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- **US President Donald Trump announces a comprehensive system of new tariffs**
- **The tariffs are likely to be modified and weakened following negotiations**
- **Tariffs and the erratic nature of the Trump administration are weighing on global growth**

US President Donald Trump had declared April 2 “Liberation Day” in advance. With new import tariffs, he intends to put an end to the supposedly unfair treatment of the United States of America. Trump has announced the new tariffs in a speech at the White House yesterday. In addition to a basic tariff of ten percent, there are to be reciprocal tariffs, with which higher import tariffs of trading partner countries will from now on be offset by higher American tariffs on goods delivered to the USA. This system is to apply to countries all over the world.

Trump had already caused massive uncertainty in recent weeks with various tariff measures and shook up the financial markets. Numerous tariff threats were issued - some were withdrawn, some were amended. Tariffs on products from China were increased by 20 percentage points. Tariffs of 25% will be imposed on all goods from Canada and Mexico that do not meet the requirements of the North American trade agreement USMCA (exception: only 10% on Canadian energy supplies), and a 25% tariff will also be imposed on steel and aluminum. In addition, Trump announced in March that he would impose a 25% tariff on cars and certain car parts. According to the American Tax Foundation, the average tariff rate has risen from 2.5% to 8.4% this year. This is the highest figure since 1946.

American trade policy is more unpredictable than ever in recent weeks. Nevertheless, it is likely that the tariffs that have now been announced will also be modified and weakened following negotiations. If the tariffs remain at this level and America's trading partners respond with retaliatory tariffs, the risk of the US economy – which is actually resilient – slipping into recession would increase considerably. The European Union has already drawn up an extensive list of goods on which the EU can respond with retaliatory tariffs. In the services sector, the EU could hit the technology sector in particular with stricter regulation. The new round in the trade war will also put pressure on growth in the eurozone and the rest of the world. The exact extent will depend on the negotiations in the coming weeks. We will then revise our forecasts for growth and inflation.

In an initial market reaction, global equity futures are declining noticeably. US bonds and gold still appear to be cushioning the negative effects somewhat in the multi-asset context. We are holding on to our house view (neutral on equities overall, overweight on bonds overall and also overweight on gold). The decisions made last week on the currency side also remain unchanged. The US dollar is expected to weaken against the euro, the Swiss franc and the pound sterling in the short term.

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