
# Liberation Day

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**On Wednesday 2 April 2025, US President Donald Trump announced new global tariffs, imposing a minimum tariff of 10% on most trade partners, with higher tariffs on about 60 countries based on their trade deficits with the US.**

While higher tariffs had been on the cards since the President took office in January, the new regime is more aggressive than expected and has shaken the global economy. Here, we explore the impact of the tariffs on markets, as well as what this means for portfolios.

## What are the impacts of the tariffs?

There are two important economic effects of the tariffs:

- **Prices and inflation**: Higher tariffs can lead to higher prices. The President's new plan might raise overall US prices by 2%, resulting in higher inflation.
- **Economic growth**: The tariffs could slow down economic growth, potentially reducing GDP by 1 to 2%, which might push the US economy towards a recession. However, if the $0.6 trillion generated by tariffs is used for tax cuts instead of reducing the deficit, it could help mitigate some negative impacts.

## How have markets reacted?

Global markets have seen a sell-off due to concerns around lower growth, lower earnings, and increased uncertainty, which has impacted investor confidence.

Government bonds have rallied as investors expect central banks to cut rates more quickly and significantly to support economic growth. The market now anticipates four rate cuts in the US by the end of the year, compared to two at the start of 2025. Similarly, three further cuts are expected in Europe and the UK this year.

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## What does this mean for portfolios?

Our MPS solutions are highly diversified and are designed to provide strong risk adjusted returns over the medium to long term. This hasn't changed. We entered the first quarter of 2025 well-positioned and are not making any immediate changes to our portfolios.

- **Equities**: We need more signals to reduce equity exposure at these levels. Potential tax cuts in the US, interest rate cuts and a softening of the tariff regime could help boost markets.
- **Fixed income**: We already have an overweight to government bonds. If the US Federal Reserve and other central banks cut rates aggressively to counteract the slowdown, this should positively impact the portfolios.

## Looking ahead

We hope that, in time, the tariffs will get negotiated down, however, President Trump has indicated that they could increase if trading partners retaliate. As the situation evolves, we believe the key areas to watch include:

1. The impact on corporate earnings and profitability, which had been very healthy, particularly in the US.
2. The shift from a 'soft landing' to 'stagflation', whereby we see low growth and high inflation or even outright recession in the US.

In periods of heightened media attention, it is easy to get swayed by the noise. However, it is times like this which serve as a reminder of the importance of maintaining a long-term perspective, staying focused on the fundamentals and remaining well-diversified to navigate the market fluctuations.

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