“Trump has targeted America’s biggest trading partners, imposing tariffs of 25% on Canada and Mexico plus 20% on China (on top of the average tariff of over 10% that already applied to most Chinese goods). Levied tariffs of 25% on imports of aluminium and steel.

April 2nd (potentially more to come), when America will create a wall of tariffs, taxes and non-monetary barriers to match whatever countries levy on American goods.”

– written in February 2025, updated March 2025

Fixed income: not necessarily a one-off shock

We are expecting a generally flat yield curve: short-term rates rise while long-term rates are weighted down by weakened growth expectation.

In the short term, the interest rate keeps at a high level due to the increasing price (as reflected by CPI). Over time, the market will shift from inflation risk to growth risk. Expected lower growth in the future leads to lowered long-term yield.

Equity: will the sell-off last?

Value wise, corporate earnings will likely be down particularly those involving supplies from China Mexico and Canada, thereby we expect a lower equity performance.

Market confidence wise, Trump’s avoiding questions about whether America faced a recession and warned of a “period of transition” posed question marks on how the market will perform.

Foreign currency: weaker or stronger dollar?

Theoretically analyzing, we expect a stronger dollar - higher tariffs lead to more expensive imported goods, pushing people to consume domestic goods more often. Therefore, less foreign currency is needed. Meanwhile, tariffs are inflationary, elevated inflation leads to increased short-term yields. People buy dollars to receive those yields, further increasing the value of dollars. The US is a relatively closed economy and a small share of exports contributed to the GDP. Therefore, less impact on the overall economic growth; Since the US is importing a lot, the price level effect is stronger than the growth effect. Under Taylor rule, USD could appreciate over time by 8-10%.

However, on the market, the dollar has fallen to a five-month low against the Japanese yen. Meanwhile, the Euro is seeing its stronger days.

The reason behind is how fast the economy is weakening vs how fast the dollar is strengthening. Due to the trading restriction and the uncertainty attached, the American economy is knocked, which might lead to lower interest rates, therefore, leads to weaker USD given people have less urge to buy them. Meanwhile, the frenzy of companies buying foreign goods is happening, and likely to continue for the time before the border levies are introduced. America’s trade deficit in goods surged more than 50% compared to last year, further putting pressure on the dollar in the short term.

References: WSJ; the Economist; the Squawk Box