Asset Management

Market Update

Market Update | US Tariffs: We are not out of the woods yet

11 April 2025

- Despite the improved market sentiment, we expect economic uncertainty is set to linger.
- The latest market rebound is a good opportunity for investors to lower the risk in their portfolios.
- However, we do not think that economic and market conditions have stabilised enough to add to equity positions.

A week of extremes

According to **Anthony Raza**, Head of Multi-Asset Strategy, they say that a week is a long time in politics. The same seems to be increasingly true of economics.

Just a week ago, President Trump managed to stoke recession fears and destabilise global markets by imposing swingeing trade tariffs. This week, he prompted a historic one-day market gain and rolled back recession fears by pausing his tariff plans.

That said, we do not think that investors can assume a US and global recession is off the table. There is cause for relief, but many economic uncertainties remain.

Why investors should not be too negative

Over the past few days, faced with highly depressed investor sentiment, we thought it useful to list the reasons not to be overly bearish:

- The US market is expecting between 3 – 5 rate cuts, depending on the severity of the economic slowdown and the potential for higher inflation. These cuts could help mitigate some of the tariff effects.
- Europe and Asia are rebounding from weak economic growth last year. These parts of the world could stimulate global growth more than expected. In any case, global economies have demonstrated resilience to COVID, inflation and the fiercest monetary policy tightening cycle in 50 years.
- Most corrections are a buying opportunity. In 1987, after a 34 percent correction, the markets ended the year up.

Why investors should remain cautious

Faced with the overwhelming backlash from markets, businesses, consumers and Trump supporters, it seems that Trump is rethinking his tariff policies. Markets around the world have rallied in response.

In our view, this rebound presents a good opportunity for investors to lighten their equity positions. However, we do not yet think that the time has come to normalise portfolios, given the following:

- At the start of the year, we believed that while Trump was focused on deglobalisation, he would only do as much as possible without upsetting growth. However, we are seeing evidence that deglobalisation is a higher priority, and he is willing to risk a fair amount of weakness in growth to achieve this.
- As such, while recession odds have declined since earlier this week, we believe they remain significant at around 40 percent. We remain watchful of growth indicators, but we think the time to buy is still some distance away.
- US equities were previously priced for exceptionalism. However, we believe that this has to be permanently unwound, given the US economic and market vulnerabilities.
- Despite the recent sell-off, US valuations had only declined to 19 times earnings. We think that this is unsustainable and that US market valuations will settle at a lower valuation level.
- Earnings growth is at grave risk, and without clearer sights that earnings can grow at healthy levels, there is no case to return to start of the year valuations.

We remain underweight equities

- Here is a summary of our latest house views:
- We are cutting our US GDP growth forecast from 1.8 percent to 1.0 percent.
- We have raised our US inflation expectations from 2.5 percent to 4 percent.
- We have shifted our rate cut expectations for 2025 from one cut to three cuts.

- Given the above, we are downgrading equities from neutral to underweight. We are overweight cash and government bonds.
- We remain underweight the US and we are downgrading our view of Europe and China from overweight to neutral.
- We expect yields to fall but inflation will put a floor to the decline, and credit spreads are expected to widen.

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