# Trump’s Tariff Tuesday: what does it mean for markets

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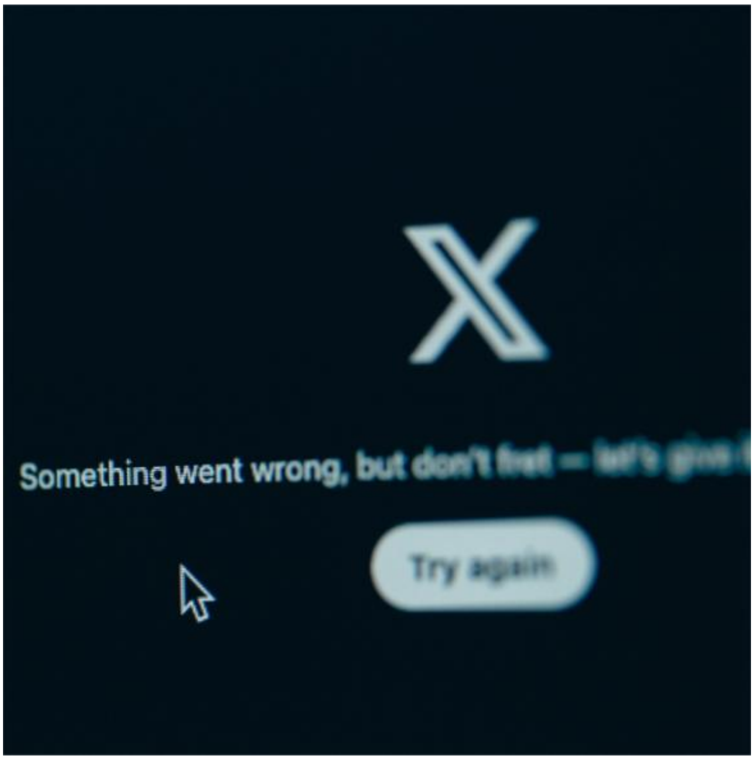
Campbell Alexander Financial Management Ltd
Personal and Corporate Financial Planning

- Tariff policy is chaotic
- Destabilising market outlook
- Increases volatility




Key points

1. Trump’s tariff policy is chaotic with changes announced in real time via social media.

2. This is raising concerns around the outlook for US economic growth and inflation.

3. Combined with geopolitical risk, this is raising volatility levels.

Trump's "tariff Tuesday" on 4th March 2025 has kicked off tit-for-tat measures between the US and its key trading partners. Rather than unveiling a clear, consistent policy on tariffs, Trump's tariff measures have been put forward, then retracted, then implemented, then delayed, then escalated, then modified, then delayed.

In short, Trump's policy seems chaotic and conducted on social media with positions changing even within a stock market trading day. It's hard to keep up and is destabilising.

### Why tariff policy is impacting equities

The growing risk of a trade war has had a knock on effect on equities. Markets hate uncertainty and in Trump 2.0 Presidency, he seems to be relishing in creating uncertainty. Higher tariffs have a direct effect on some businesses (manufacturers) as input costs jump overnight which impacts their profitability. But they also have an indirect effect on all businesses, because tariffs are inflationary in nature, they can reduce consumer confidence and consumer spending. This raises fears of a US recession which in turn negatively impacts equities. Stickier inflation may pressure the Fed to keep monetary policy more restrictive than previously assumed which keeps corporate borrowing costs higher for longer.

### How inflation risk is impacting bonds

Whilst bonds act as a relative safe-haven asset when equities decline, the risk of stickier inflation negatively impacts the "real" (inflation-adjusted) yield on government bonds. Indeed, "zombie inflation" was one of our key concerns at the start of the year, hence the allocation to alternatives which combine low-risk assets with inflation-hedging assets (such as gold and precious metals) and diversifiers (such as absolute return funds).

## What about the Trump trade

Trump had been good for markets following the election. A decisive, uncontested win was positive and the prospect of a pro-business government. Even original "Trump trade" – strong performance of energy, financials and industrial sectors – as markets expected more drilling, deregulation and reshoring – has started to reverse as broader market risk took over and the VIX index (a measure of implied market volatility) or Wall Street's "fear gauge" spiked.

### Concentration risk is playing out

The bulk of MSCI World is US equities, and the bulk of US equities (S&P 500) are technology stocks where valuations were highest. As overall risk increases, these stocks have sold off as valuations contracted which therefore has a knock on effect to the S&P 500 and MSCI World.

This is one of the key reasons that we have sought to balance this out with US Equal Weight index exposure – which has proved much more defensive in recent market volatility.

Other defensive allocations include UK equities, which we have argued are useful for diversification purposes – particularly UK equity income where returns are underpinned by dividend yield.

*Impact on our outlook*

### What does this mean for our outlook?

Compared to our 2025 Outlook, what does all of this change?

In summary: for equities, volatility could create a buying opportunity as valuations retrace to more sensible levels. The US economic and earnings growth story is in place and more attractive than other regions. For bonds, we see greater risks to UK/Europe as they crank up defence spending than US where budget focus and debt restructuring potential could suppress yields. For inflation – we see the market coming round to our view of persistent "zombie inflation" risk. We explore each of these in more detail, with respect to our key themes:

**America First:** the US will continue to set the direction for global equity markets. We see US economic and corporate earnings growth still in better shape than Europe/UK. We see market weakness as a potential buying opportunity. It's not just Trump's aggressive trade posture (that part was expected), but it's the flip-flopping uncertainty around it that makes it even harder for markets to estimate future earnings (leading to equity market volatility) and even harder to estimate future inflation expectation (leading to bond market volatility). We were all too aware of concentration risk in the US, and this has helped deliver returns in the last few years. However, we have been balancing this with Equal Weight exposure exactly for this reason, and retain a UK allocation far in excess of its global equity index weight also for this reason and it's doing its intended job as a diversifier. We see equity market declines as selective buying opportunities in sectors such as financials and technology which remain unaffected by tariffs at more sensible valuation levels. The growth case for the US economy and US corporate earnings remains robust. If only someone could delete Trump's social media accounts! (Musk won't). Whilst European and UK equities have recovered from highly depressed valuations, we don't see their growth or earnings prospects accelerating ahead of the US. We see Europe waking up (finally) to its defence needs and this should continue to benefit global (predominantly US, but also European and UK) defence stocks. We think Trump will put significant pressure on US allies to continue to buy predominantly American defence equipment (America First, again) as it will take a while to expand European/UK defence manufacturing capabilities.

**Debt (in)digestion:** as a result of the transatlantic rift, we are now more worried about UK/European debt than US debt. We saw concerns around US borrowing levels send tremors through global debt markets in January. There is rumoured potential for the US to explore some debt restructuring options in exchange for security provision to its key allies in Europe and Japan in what has been dubbed the "Mar-a-Lago" accords. Whilst there is no detail and this is currently speculation, it is a priority of the Treasury Secretary Scott Bessent to manage yields down (make interest costs lower) using all existing and new levers available to him. Ironically, we are now more worried about UK and European debt indigestion following the need to massively increase defence spending as the US pressures NATO allies to shift from a 2% of GDP defence target (which not all countries met) to a 3.5% or even 5.0% target (5.0% was the Cold War average). UK and European economies are not in great shape: where will this extra money come from to prepare for an existential threat. Fiscal headroom is going to get challenged if UK/Europe is serious about defence spending. In the UK, the slashing of overseas aid should be seen in this context as a way to increase defence spending whilst trying to balance the books.

**Zombie inflation:** we see inflation as down but not dead and were already concerned about inflation being "stickier." The rising inflation fears resulting from the tariff wars brings more investors into line with our views and positioning on this. For inflation protection, we have suggested retaining exposure to inflation-hedging asset classes (alternatives such as gold and precious metals, liquid real assets), as well as absolute return funds, alongside traditional Bonds.

## Bottom line

As usual, during periods of increased volatility and short-run market declines, it is prudent to stay calm, stay invested, and stay diversified.

## Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.



## Contact us

For more information, please contact your financial adviser.

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Source: Prepared using research from Elston Consulting, Charts: Elston research and Bloomberg.com