Liberation Day 2025: why is Trump putting tariffs on world trade?

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- Tariffs marks a reset in US trade policy
- Tariffs are an instrument of negotiation but raise uncertainty
- Markets respond to reprice risk to growth, inflation and rates

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Key points

1. Trump uses reciprocal tariffs to reset US trade policy, raise revenue, and deliver to his political support base.

2. Tariffs alone will not make America great again, but they force a renegotiation of global trade as the US tries to reduce its structural trade deficit and re-shore manufacturing.

3. With elevated uncertainty on growth (risk to Equities), and inflation (risk to Bonds), this puts pressure on the Fed to reppraise rates. As in 2018, Gold has proved to be the safe-haven for now.

Trump's Presidential campaign was to put America First. This includes aiming to revive US manufacturing industry and its blue-collar workers which had suffered from decline and closures in face of cheaper imported alternatives made possible from globalisation.

The erratic on-off tariff announcements and speculation that the tariff bark might be louder than the actual bite unleashed a wave of volatility as markets tried to gauge the impact of Trump's tariff policies on US and global growth, inflation and policy rates – the three major macro factors that drive equity and bond markets alike.

Why is Trump putting tariffs on world trade?

Trump is putting reciprocal tariffs on its global trading partners. We see three reasons why Trump uses tariffs as an instrument of policy.

1. **Tariffs-as-negotiation**: tariffs are a starting point in negotiations on securing revised trade terms that are more favourable to US manufacturing base, or to encouraging global companies to "re-shore" production into the US.
2. **Tariffs-as-revenue**: White House trade adviser estimates that the US would raise $600-700bn a year from tariffs (as instated at headline rates) paid by exporters, not consumers. Economists have disputed this claim and also note that consumers suffer the indirect pass-through of tariff costs.
3. **Tariffs-as-populism**: Trump's core constituency of supporters are blue collar workers in "left behind" America who subscribe to Trump's narrative that globalism and foreign countries have taken advantage of the US, and that Trump will Make America Great Again by penalising other countries.

What are reciprocal tariffs?

Reciprocal tariffs means putting tariffs on imports from those countries which put tariffs on US imports.

For example, within the EU it is a single trading bloc so there are no tariffs on imports or exports between France and Germany.
For countries exporting into the EU with no trade agreement, tariffs apply.

Trump reiterates that the tariffs he has unveiled are "reciprocal tariffs." This means that because US exports into trade blocs like the EU incur tariffs, the US will apply tariffs back.

Trump has imposed a baseline tariff of 10% on all countries from 5th April. It has also applied a higher tariff on selected countries where Trump sees trade injustice at its highest.

How much Trump wants to restrict a countries' exports to the US to protect American industries, and who is targeted most is therefore visible from how high above a "baseline tariff of 10% have been applied.

The higher the level, the higher the prioritisation of US protectionism and the level of negotiation required to find a resolution.

For example, Trump has imposed a 46% tariff on Vietnamese goods, a 34% tariff on Chinese goods, a 20% tariff on EU goods, but "only" a 10% tariff on UK goods – consistent with the baseline. In this respect, the UK has come off relatively lightly.

"Don't retaliate"

In the biggest hint that Tariffs really are a starting point for negotiations, US Treasury Secretary Scott Bessent advised countries not to retaliate. "As long as you don't retaliate, this is the high end of the number".

Will tariffs make America great again?

Tariffs will not make America great again on their own. What they do is force a reset in negotiations on global trade as the US tries to address its structural deficit with global trading partners (a deficit means it imports more than it exports) and Trump attempts to boost manufacturing located in the US. This is reversing the trend of globalisation and free trade that has prevailed since the 1980s, and Trump seems to be relishing it.

What does it mean for the global economy?

Tariffs are a barrier to trade, so will slow trade, hurting global growth and impact the corporate earnings of affected exporters.

This is why equity markets have approached the tariff topic with such nervousness.

What does it mean for markets?

Trump's tariff policy is seen as a step that increases uncertainty around the key macro factors of growth, inflation and interest rates.

- Tariff impact on Growth: Tariffs create a risk to growth as trade friction slows the economy.
- Tariff impact on Inflation: Tariffs create inflation risk as they can raise end costs to consumers.
- Tariff impact on Rates: Tariff uncertainty creates rate policy uncertainty. Central Banks have to balance between the pressure on growth and the pressure from inflation.

This is why equity markets have come under pressure (on growth fears), bond markets have also come under pressure (on inflation fears), and gold has proven to be a safe haven (on inflation fears and risk aversion).

Summary

Whilst Trump's policies primarily affect the US, they indirectly affect the rest of the world. Trump is playing a dangerous game by putting US trade, growth and inflation at risk for the short-run, in an effort to address the structural trade deficit in the long-run. Indirectly, his steps are putting pressure on the Fed to reconsider the path for interest rates.

Whilst this is political and economic brinkmanship, the risk of an abrupt change - for better or for worse - means accepting the need to live with equity market volatility, whilst maintaining a broadly diversified approach. The biggest swing factor remains Trump's proposed tariffs, which could shape the global trajectory of both inflation and growth. In this environment, staying diversified within and across asset classes is key.

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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