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Hymans Robertson Investment Services (HRIS)

Trump Tariffs

3 February 2025

Over the weekend President Trump announced the following tariffs would come into effect on 4th February:

- 25% tariff on all imports from Mexico
- 25% tariff on all imports from Canada, except for energy, which will be at 10%
- 10% tariff on all imports from China

Some quick takes are:

- Forecasts for inflation up, growth down
- Dollar and near-term rate expectations up
- Longer-term bond yields torn between opposing inflation and growth impacts
- Equity prices hit by potential earnings impact and sentiment
- HRIS portfolio diversification by region and currency will help manage portfolio volatility during this time

Tariffs are one of the key economic policies of Trump's agenda, so the probability of tariffs was perceived to be high. That said, the breadth of the tariffs has come as a surprise and you may recall, we wrote about some of the potential impacts of tariffs in last November's Market Digest.

With regards to Mexico, Canada, and China, Trump's motivation for tariffs is in relation to issues of trade deficits, immigration and drug trafficking. The latter two issues show how tariffs are used as a political tool as well as an economic one. This also means that there's scope for negotiation. Even though implementation is only a day away, the tariffs may be withdrawn or postponed if negotiations go well. There is also the possibility of the courts blocking the tariffs. Given this, there's still uncertainty as to how long they may be in place for.

The economic impact is likely to be lower, with economic growth and higher inflation and interest rates. The impact on growth will be felt most strongly by Canada and Mexico, with many economists now pencilling in a recession. This may also be the first chapter of an ongoing trade war. Trump is likely to look at the European Union next although he has spoken about the UK more positively seeing as the US has a trade surplus with the UK.

The market impact has been felt strongest in the currency markets. Both the Mexican peso and Canadian dollar have fallen over the last 24 hours while the US dollar has strengthened. Equity markets in Europe also opened down with the UK's FTSE 100 falling just over 1% by midday on Monday. The US market opened down around 1.5%. Companies that look particularly sensitive to a trade war, such as car manufacturers, have felt more of an impact (US car manufacturers are not spared here as they tend to import a lot of car pieces from Mexico and Canada). UK bond yields have fallen (bond prices have risen) as the lower growth expectations and fading risk sentiment boosts safe-haven assets like government bonds.

The year so far has felt eventful with sharply increasing bond yields being followed by developments in the AI market and now the implementation of tariffs. Even so, asset performance has been strong, with investors in our portfolios seeing performance of 2-4% this year depending on risk level. A broadly diversified exposure to regions and asset classes has helped avoid too much downside to specific events.

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