

Is Trump's tariff policy a sign of more unpredictability to come?



Month in brief

President Trump sparked a trade war with China but paused reciprocal tariffs on other countries

Global equities sold off sharply as investors fled risk assets amid uncertainty

UK inflation fell by more than expected in the 12-months to March

UK gilts and corporate bonds enjoyed a positive month as gilt yields fell

The Bank of England reduced the Bank rate to 4.25% at the start of May

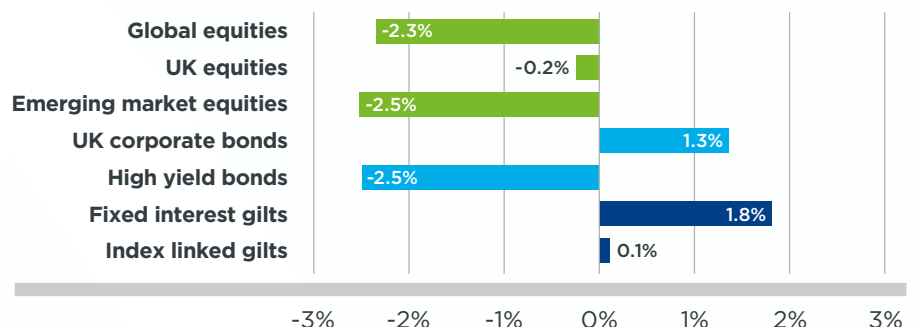
President Trump's 'Liberation Day' tariffs sent shockwaves around global financial markets in early April following the introduction of a 10% universal tariff plus additional 'reciprocal tariffs' on countries with which the US has a trade deficit. A huge sell off in equity and US bond markets prompted the President to subsequently announce a 90-day suspension of reciprocal tariffs for most countries, but retaliatory tariffs from China triggered a spiral of rising import taxes between the world's two biggest economies.

If the first 100 days are anything to go by, then unpredictability is likely to be a key theme of President Trump's second term. Global equities were significantly down for the third consecutive month over April with the gains made in the second half of 2024 now wiped out. Emerging markets have followed a similar path to global markets on the whole and posted a third consecutive month of negative growth. The US typically have larger trade deficits with emerging market economies and have therefore targeted these economies with higher tariff rates. Having sold off sharply in March, UK equities were more stable in April but were still unable to post positive performance as risk assets sold off. The sell-off was good news for precious metal holders as gold continued its surge since the beginning of 2024, rising by 26% in the past four months alone.

The fallout from Trump's Liberation Day poses a conundrum for the Federal Reserve (Fed) as it looks to bring down borrowing costs. On the one hand, a trade war with China is likely to contribute to rising prices in the US which may prompt the Fed to leave borrowing

Fixed interest gilts were the strongest performer over the month

One Month to 30 April 2025



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costs higher for longer. On the other hand, stagnation in US economic growth could be boosted by the Fed reducing interest rates more rapidly. The US economy contracted by 0.3% during the first quarter of 2025 as President Trump again lashed out at Fed Chair Jerome Powell for not having cut interest rates sooner.

UK inflation fell by more than expected during March as the annual increase in consumer prices dropped by 0.2% to 2.6%. A key contributor to falling inflation in the UK over April was petrol prices as the price of Brent Crude oil hit a 4-year low during the month. Longer term inflation expectations reduced over the month potentially due, in part, to the anticipation of cheaper international goods being redirected from the US to UK markets. The Bank of England reduced the Bank rate by 0.25% to 4.25% in early May. Markets are predicting two more quarter percentage rate cuts this year which would see the Bank rate fall below 4% for the first time since February 2023.

Despite some volatility during the month, fixed interest gilt yields fell modestly over April which resulted in positive performance for the asset class. They also significantly outperformed their index-linked counterparts. UK Corporate Bond performance benefitted from falling gilt yields although credit spreads increased moderately. Global high yield bonds had been one of the strongest performing asset classes since the beginning of 2024 but have experienced a difficult three months since their high of January 2025. Record outflows were seen from high yield bond funds in the aftermath of Liberation Day which saw the asset class post significant negative returns.

The combination of falling gilt yields increasing the value of liabilities and a sell-off in growth assets is expected to have been detrimental to UK defined benefit pension scheme funding on the whole during April.



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Find out more

To discuss any of the issues covered in this edition, please get in touch with **James Zhang**. Alternatively, please speak to your usual XPS contact.



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