

What US Tariffs mean for pension schemes



Key highlights

10% Tariffs imposed by the US on all trading countries

Additional “reciprocal tariffs” on countries linked to the size of the trade balance ranging up to more than 40%

Substantial falls in global equity markets in the first week of April

Credit spreads rise moderately

Risk of higher inflation, but long term inflation expectations fell

UK gilt yields fall slightly but not far off recent highs

On 2 April, Donald Trump announced a raft of tariffs affecting all trading partners with the US. This centred around a “universal tariff” of 10% on all countries, with further so-called “reciprocal tariffs” which ranged up to more than 40% and reflected the trade imbalance with each country.

The President’s rationale is that where imports to the US exceed exports from the US to a certain country, this reflects an imbalance that needs to be corrected through tariffs. This is unconventional economic thinking and for instance does not recognise that the US might import more than it exports because it might be cheaper for the exporting country to make those goods.

Tariffs and protectionist strategies are generally considered to reduce efficiency, and result in higher prices and lower economic output. This does not necessarily mean they shouldn’t be used. There are a wide variety of circumstances where they appropriately address policy aims. However, imposing tariffs raises costs and is consequently considered an inflationary policy.

By the end of the week China retaliated with substantial tariffs on the US and there is scope for a large number of countries to respond in a similar way. If countries choose to retaliate against the US, with their own tariffs we end up with a situation of escalating costs and reduced trade.



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So what does this mean for pension schemes and what can you do?

1

Global Equities: Down 9% between 31 March and 7 April

Equities suffered notable falls in the first week of April. These falls come off the back of more general falls that we have seen since mid-February. There is scope for this volatility to continue for some time.

Impact: In general most pension scheme’s equity levels are relatively low but if you are in a scheme that has a substantial allocation it will likely have experienced a material dent to the funding position.

Actions: With equities it is important to remember that the markets are usually quite adept at reflecting news that is already in the public domain. Trading on information that we already know will inevitably miss the boat. The priority is to ensure that you understand your funding position and that the level of risk you are taking continues to be appropriate for your circumstances. If this is the case it generally pays to persevere with your long term strategy, avoiding being caught up in any tactical selling of assets. If you are in the process of a transition of assets, it will be important to discuss your transition plan with your consultant.

2

Investment Grade Credit spreads: +0.2% to 1.4% between 31 March and 7 April

Investment grade credit markets have seen spreads rising only moderately and again this is a continuation of what we have seen since February.

Impact: This is an area that pension schemes will want to watch closely, as whilst many are de-risked, credit still forms a key part of a low risk portfolio. We may see this having some impact on funding levels if spreads widen further.

Actions: Monitor closely and seek to understand any impact this has on your funding position. Credit investments have the benefit that when they fall in value, they implicitly are expected to earn a higher yield over their remaining life, as long as they don't default.

3

Inflation and gilt yields

20 year inflation expectations: -0.1% to 3.3% between 31 March and 7 April

Counterintuitively, long-dated inflation expectations fell in the first week of April. It's not clear why this is the case given that tariffs are an inflationary stimulus but there are a number of independent factors affecting these markets at any one time, including views on the long term issuance of gilts.

20 year gilt yields: -0.2% to 5.1% between 31 March and 7 April

Nominal gilt yields have fallen a little, marginally increasing the value of unhedged liabilities, but as a result of falling inflation expectations, real yields have been largely stable and are sitting close to their highest level for 20 years.

Impact: High hedging levels mean many schemes will be insulated from yield and inflation changes. Unhedged schemes may have experienced a modest reduction in funding level.

Actions: If you aren't fully hedged or haven't refreshed your LDI benchmark in the last year or so, now would be a good time to review your LDI strategy.

4

Impact on scheme sponsor

It's also important to be aware that these tariffs will have a very significant impact on businesses that trade with the US and it will be important to understand any impact on a pension scheme's sponsor.

Actions for pension schemes:

- Review your funding level and asset allocation
- Assess the current level of risk in your arrangements
- Check your strategic asset allocation remains in keeping with your long term objectives
- Understand any impact on your sponsor
- If undertaking an asset transition, review your transition plan
- Review your hedging level and seek to reduce any undesirable risk exposure

Find out more

If you wish to discuss any of these aspects, please contact Simeon, or reach out to your regular XPS contact.



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US equities struggle to find their feet in a frantic start to 2025



Quarter in brief

US equities posted their worst performance since Q3 2022 but other regions have performed well

The BOE and ECB cut interest rates whilst the FED remains hawkish

The global economy continues to grapple with rising debt costs

UK gilt yields fall back after a surge in January

The flagship US S&P 500 index finished the first quarter of 2025 down almost 5% in a stark contrast to its strong performance in 2024. DeepSeek's emphatic entrance to the artificial intelligence (AI) market in China and fears over the long-term impact of Trump tariffs were key contributors to poor performance.

US tech stocks, which carried global stock markets through an AI surge in 2024, were the victim of fears that too much is being spent on AI and the general uncertainty brought about by President Trump's attempt to reset global trade relations with the US. In contrast, European and UK equities performed quite well in the first quarter. Europe's defence sector has benefitted from bets on increased military spending to come from European governments as the US looks to pare back its contribution to NATO spending. Chinese equities have experienced some of the best performance globally since the start of 2025 with investors seemingly unphased by the prospects of a trade war with the US. \$13bn has been piled into the Chinese stock market in 2025 – with tech stocks the main beneficiary – in a sign that September's stimulus package from Beijing has reinvigorated a dormant Chinese market.

The first quarter was also a positive one for major commodities markets deemed 'safe haven' assets. Copper reached its highest price in five years towards the end of the quarter and gold surged to a record high having risen by 14% since the start of the year. The additional uncertainty brought about by the looming threat of Trump tariffs has seen investors flock to precious metals.

The chaotic start to the Trump administration has seen investor and consumer confidence in the US economy tumble. It was against this backdrop that the Federal Reserve (FED) kept the federal funds rate unchanged at 4.25%-4.5% over the quarter, persisting with their hawkish rate cutting policy despite a modest fall in inflation to 2.8% over the 12 months to February. The Bank of England (BOE) opted for just one quarter percentage rate cut over the quarter to bring borrowing costs down to 4.5%. Governor Andrew Bailey did note that interest rates are on the way down when commenting on the decision to hold borrowing costs steady in March – a decision that increases the scope for rate reductions later on in the year. Consumer Prices Index inflation fell by more than expected to 2.8% in the 12 months to February 2025.



Sian Pringle
Investment Partner



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Meanwhile Eurozone inflation has fallen to 2.4% and the European Central Bank (ECB) cut rates by a quarter of a percent on two occasions over the quarter, down to 2.5%.

In the Chancellor's Spring Statement, the UK economic growth forecast for 2025 was slashed in half from 2% to 1%. Unemployment is expected to rise by 0.4% and inflation is predicted to rise to a peak of 3.8% in July before falling rapidly from 2026 onwards. The likelihood that the Chancellor will be able to abide by her own self-imposed fiscal rules teeters on a knife edge according to the Office for Budget Responsibility as she grapples with bringing down government debt and balancing the budget by 2030.

The rising cost of debt is a key challenge for the Chancellor but this is not a problem unique to the UK economy. The cost of financing sovereign debt amongst the 38 OECD countries has risen to from 2.4% to 3.3% of combined GDP from 2021 to 2024

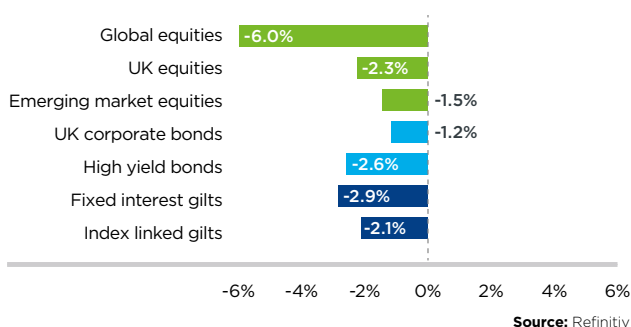
with as much as 45% of this debt due to mature by 2027. The unwinding of emergency bond-buying programmes has seen central banks shed \$3tn of sovereign bonds from their balance sheets since their 2021 peak with this expected to fall by another \$1tn in 2025.

Long dated gilt yields swelled in early January as UK government bond markets came under their biggest strain since the gilts crisis before falling back. A steadier rise over February and March saw yields finish around 0.2% higher than where they started the year. Long term inflation expectations were much more stable and finished marginally down over the quarter. UK credit spreads tightened over January before widening over February and March but still remain at exceptionally tight levels by historic comparison. Coupled with rising gilt yields, this led to dampened returns from UK corporate bonds over the quarter.

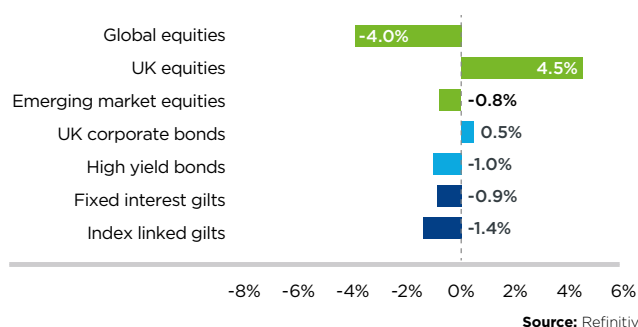
Market returns

Global equities suffered major losses over the quarter.

1 month to 31 March 2025



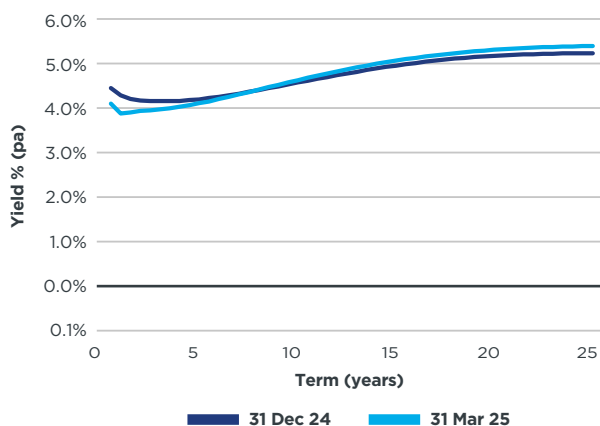
3 months to 31 March 2025



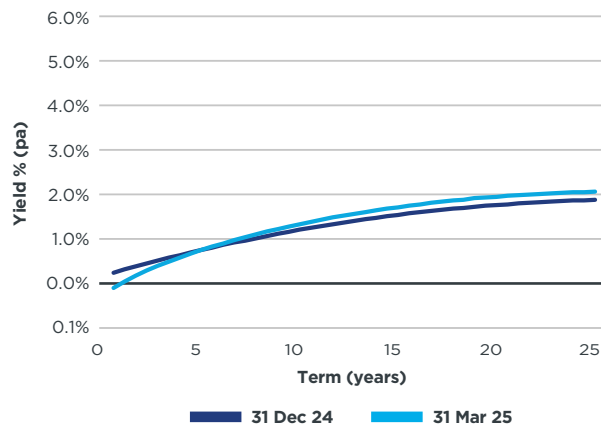
Chinese equities have experienced some of the best performance globally since the start of 2025 with investors seemingly unphased by the prospects of a trade war with the US.

Simeon Willis
Chief Investment Officer

UK nominal spot gilt yield curve



UK implied real spot gilt yield curve



Source: Bank of England

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
UK Equity		●		
Developed Market Equitiy			●	↓
Emerging Market Equitiy		●		
Investment Grade Credit			●	↓
High Yield Credit			●	
Senior Secured Direct Lending		●		
Balanced Property	●			
Long Lease Property			●	↓
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies	●			
Buy-in		●		
Cash		●		



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Our investment team advises over 350 clients with assets of over £100bn.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Simeon Willis** or **Sian Pringle**. Alternatively, please speak to your usual XPS contact.



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