Liberation Day tariffs: an initial assessment

MONICA DEFEND
Head of Amundi Investment Institute

VINCENT MORTIER
Group Chief Investment Officer

ALESSIA BERARDI
Head of Emerging Macro and Strategy Research – AII*

AIDAN YAO
Senior Investment Strategist, Asia, AII*

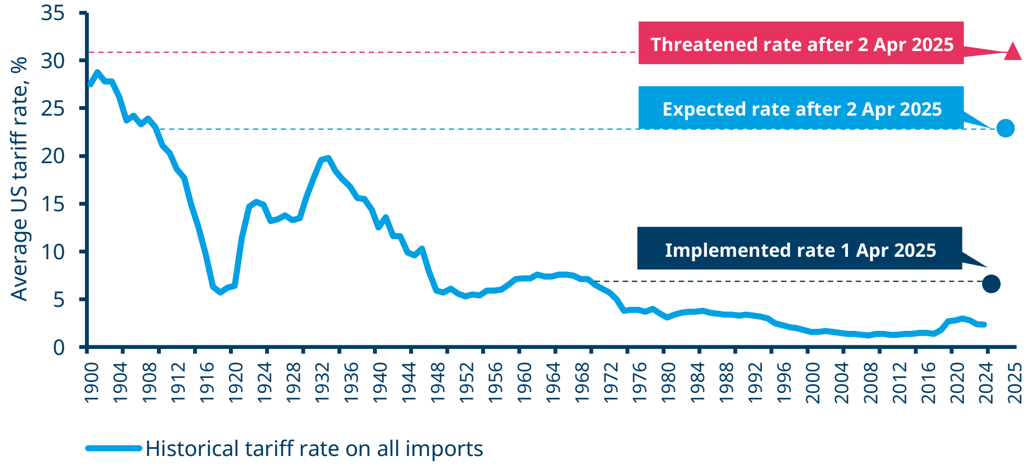
"If fully implemented, the new tariffs announced will raise the average US tariff rate to above 20%, its highest level in a century."

- ***Trump has delivered above expectations on tariffs, taking a major step towards 'detoxifying' the existing trade regime.*** *A 10% base levy with reciprocal tariffs up to 49% against major trading partners, plus a confirmed 25% tariff on car imports. The effective US tariff rate is expected to rise to over 20%, its highest level in a century. We expect negotiations to intensify and uncertainty to remain high, in particular until April 9th, when customised tariffs are due to be implemented.*
- ***Main countries affected:*** *Asia faces the highest tariffs, impacting not only China but also South Korea and most Southeast Asian nations, while Latam is relatively less affected. Longer term, the slowdown in globalisation will continue, with further re-rerouting of supply chains and new regional alliances emerging.*
- ***US economic slowdown.*** *While tariffs may spike inflation in the short term, their real impact will be on growth, especially as the US economy already faces a significant slowdown amidst rising policy uncertainty. Therefore, the risk of a US downturn is growing, but at this stage it is still premature to call for an economic recession.*
- ***Investment convictions:*** *Since such a large increase in tariffs had not been previously priced in by the market, the reaction has been with heightened volatility – a trend likely to persist in the coming weeks unless meaningful progress is made in negotiations, and a new trade framework begins to take shape. Market volatility is set to remain high in the next weeks. A marked slowdown in earnings growth is now likely, as costs could increase (higher labour and production costs). As the probability to move towards downside financial regimes increases, we have reduced the equity stance. We continue to believe it's key to maintain equity hedges and gold. On US equities, we believe the impact will be more pronounced on US mega caps, while small and mid caps could benefit. On equity allocation, we continue to favour a diversified stance including selective emerging markets. On duration, we remain active with a positive stance in Europe and a close to neutral stance in the US. In currencies, as we already anticipated, the US dollar is likely to remain under pressure, while the Yen is acting more as a safe haven in the case of a sharp deterioration of the economic environment.*

What has been announced?

Trump has initiated the most significant challenge to the global trading system in nearly a century. With a blanket base levy of 10%, plus reciprocal tariffs – ranging from 10% to 49% – against some of the US's largest trading partners (see table on the next page), Trump has exceeded market expectations and even the commitments he made during his campaign prior to taking office. A 25% tariff on car imports was also confirmed.

Figure 1 | Average US tariff rate, %



Source: Amundi Investment Institute, Bloomberg data as of 3 April 2025.Esitmated tariff rates by Bloomberg Economics.

With the contribution of

MAHMOOD PRADHAN,
Head of Global Macroeconomics, AII*

LAURA FIOROT
Head of Investment Insights and Client Division, AII*

*Amundi Investment Institute

Table: Main reciprocal tariffs announced on 2 April 2025

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%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

Source: CNBC, the White House. 2 April 2025.

With almost immediate effect (5th April for the base levy and 9th for reciprocal tariffs), these measures are estimated to send the effective tariff rate of the US from the current 6.6% to above 20%, its highest level in a century (Figure 1).

If the pending measures against Canada and Mexico and specific sectors were to be implemented, it could reach 30% (threatened rate in Figure 1).

"Asia faces the highest tariffs, impacting not only China but also South Korea and most Southeast Asian nations, while Latam is relatively less affected."

Who is impacted the most?

Tariffs are hitting particularly hard the 'Asian Factory' (not only China, but also ASEAN[1] and South Korea), given Trump's aim of rebalancing the global trade system. Latam and Europe were relatively less impacted, while Canada and Mexico have not been addressed since the USMCA[2] discussion is likely progressing in tandem.

Latam is emerging as a relative winner with 'only' a 10% import tax. Mexico so far has been let off the reciprocal tariff hook: although all foreign cars are subject to a 25% tax, auto parts coming from Mexico appear to be exempt. Additionally, Chile's copper, a critical material for the US, seems to be excluded from these tariffs as well.

With regards to Asia several questions remain: What will happen to the current and also the upcoming Free Trade Agreements (FTAs)? What implications are there for Taiwan and its chip exports to the US? A major Taiwan semiconductor company is already expanding its capacity in Arizona, and in this context, exemptions appear to be under consideration for companies relocating to the US.

[1] ASEAN is the Association of Southeast Asian Nations which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

[2] USMCA: United States-Mexico-Canada agreement.

Additionally, some figures remain unclear. For instance, the so-called 'China discount' does not truly reflect a discount. The Trump administration is now considering a total of 54% in tariffs (34% + 20%). Furthermore, in a separate executive order, Trump is eliminating the *de minimis* exemption for small shipments from China, which would affect direct sales to US customers from Chinese sellers done through online platforms (64% of *de minimis* imports between FY2018-21 were from China, accounting for $149bn).

What can we expect now?

"Trump has attempted to mitigate potential retaliation and opened the door for possible negotiations."

The announcement helped to end some of the tariff uncertainty, but it has not fully clarified the situation, as we will also need to see how other countries will react in terms of **negotiations and how Trump will respond in case of retaliations**.

Trump has attempted to mitigate potential retaliation by stating, '*we are only taxing half the amount you are taxing us.*' However, it is unlikely that China and the EU will concur with the US assessment of the tariffs charged to the US, which claims that US products face tariffs of 67% from China and 39% by the EU. This assessment is not really an effective tariff rate, as it is instead based on the external balance position of each country, and likely non-trade barriers, currency manipulation, and other discriminatory measures were part of the investigation. This assessment leaves a marginal room for negotiation.

Trump has also suggested that tariffs will remain in place '*until he determines that the threat posed by the trade deficit…is satisfied, resolved, or mitigated.*' **We are starting to see negotiation proposals, such as those from the UK and Singapore**, and we expect the news flow to remain very fluid in the next days.

The 10% universal tariff set for April 5 is likely to be implemented due to the tight deadline and the difficulty of global renegotiations, while the customised tariffs announced for April 9 may see changes and are the most open to negotiations.

We believe that what is currently unfolding represents just the first wave of Trump's efforts to reorganise the existing trade and financial regimes. In the spirit of 'short -term pain for long – term gain', some degree of correction in the economy and financial markets may be acceptable as an initial step. In time, we expect a renewed fiscal impulse and potential tax cuts to trigger a new wave of momentum in both the economy and financial markets

How will tariffs affect the economy?

"Tariffs will lead to a less favourable growth/inflation mix."

The US economy is slowing faster than markets had anticipated just three months ago, primarily due to extreme policy uncertainty. The higher-than-expected impending tariffs will further impact **business and consumer sentiment**, which already appears to have taken a nosedive, alongside heightened fears of rising unemployment. While tariffs will undoubtedly increase inflation in the short term, we believe their medium-term impact will be more detrimental to growth. **In fact, tariffs pose a greater concern for growth than for inflation.**

Although US recession risks are growing, at this stage it is premature to call for an economic recession. Fiscal policy remains strongly accommodative, **the Fed is expected to continue cutting rates later this year,** and oil prices remain subdued. Additionally, household and corporate balance sheets are not overly stretched. In short, the typical triggers of a recession are absent. However, we do expect to see a significant slowdown this year, with growth falling below potential and inflation pressure to rise. **The main risk to our forecasts stems from ongoing policy uncertainty.**

Globally, yesterday's move and its magnitude have established the starting point for negotiations. The potential outcomes (retaliations, other commercial alliances, e.g., China-Korea-Japan, concessions…) and their timing are difficult to forecast. These factors will influence both linear and non-linear impacts on various growth and inflation trajectories.

What has been the market reaction?

Market reaction has been particularly negative across equity markets, with US equity indexes plunging 4-5% at the time of writing, and Stoxx Europe 600 down -2.6%, while the NIKKEI has closed at -2.8%. The yield on the 10-year Treasury fell below the year-to-date low, reaching 4.05%, while the 2-year yield, at 3.73%, reflects the market's pricing in of three anticipated rate cuts. Concerns about growth have continued to overshadow inflation fears for bond investors. Safe-haven assets such as gold, the yen, and Treasury duration are the main beneficiaries. Meanwhile, the dollar has shifted its role, behaving more like a 'US risk proxy' rather than a safe haven in times of uncertainty, a trend we have been anticipating.

What are the investment implications?

"The pandora box has been opened. Investors should now expect more volatility and dispersion in both equities and rates."

The pandora box has been opened. **Investors should now expect more volatility and dispersion in both equities and rates.**

Pressure on the USD is likely to continue, while markets assess the downward impact on the US economy, new alliances budding in Asia, and the reaction of Europe to the Trump wake-up call. Against this backdrop, we reiterate our main convictions already asserted in our 2025 outlook and at the beginning of the year:

- While it is premature to have strong conviction about the course of economic growth, we continue to believe that an economic recession in the US is unlikely. However, tariffs are expected to impact corporate earnings, primarily through pressure on profit margins due to rising costs – particularly producer prices and labour costs. Moreover, sectors that are the most exposed to tariffs could suffer additional setbacks: big corporations could be the hardest hit while small and mid-cap could be more resilient.
- *As the probability to move towards downside financial regimes increases, we have reduced the equity stance.* In equities, we favour a diversified exposure towards selective EM (for example in China which is programming to increase fiscal spending to protect the economy and India) and Europe.
- With increasing risks to growth, but also inflation pressure, an active duration stance is key. We currently favour European duration while we keep a neutral stance on US duration.
- We continue to focus on enhancing diversification with gold, and keep hedges on US equities against a possible further deterioration of the earnings outlook, while the yen remains the optimal hedge in case the economic backdrop deteriorates faster than expected.

Amundi Investment Institute

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Definitions

- **Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

Important information

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CHIEF EDITORS	EDITORS
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