April 15, 2025

Dust yet to settle

Trump tariff pause

In a sudden change of course, U.S. President Donald Trump announced a 90-day pause on reciprocal tariffs, just 13 hours after they officially took effect on 9th April. A strong relief rally ensued as investors cheered the decision. Notably, the S&P 500 surged 9.5% on the same day of the tariff pause announcement, posting its best day since 2008.

In essence, the 90-day pause applies immediately to reciprocal tariffs on imports from more than 75 nations excluding China. During the pause, these imports will be subject to the baseline 10% tariff which went into effect on April 5.

In contrast, President Trump raised tariffs further on Chinese imports from 104% to 125% to penalise China for its continued retaliatory actions. However, the U.S. administration subsequently on 11th April announced the exemption of 20 technology product categories (e.g. chips, smartphones and computers) from all new tariffs including the additional 125% tariffs on China imports.

A Trump "put" may be in place

The policy shift likely occurred after Trump witnessed unusual volatility in the bond market. Notably, the 10-year U.S. Treasury (UST) yield jumped from below 3.9% to 4.5% in just three days, with reports pointing to foreign selling, flight to liquidity and hedge funds de-leveraging as likely contributors.

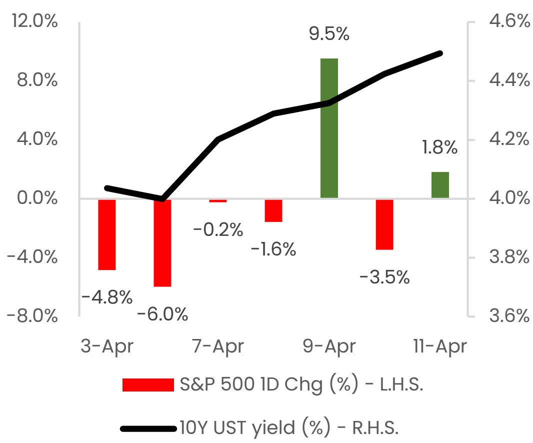
Given his persistent hardline approach, Trump's seemingly softer stance with the tariff pause suggests he does have a pain threshold. Notably, he said people were getting "a little bit iffy, a little bit afraid". National Economic Council Director Kevin Hassett also said the bond markets played a role in Trump's tariff pause. It brought some relief to investors who were worried about Trump's persistent hardline trade stance.

Figure 1: S&P 500 on a roller-coast ride since Liberation day on 2 April

Date	Highlights
2-Apr	President Trump **announced baseline tariffs of 10%** on all U.S. imports; **Higher reciprocal tariffs** on ~60 economies include China (34%)
4-Apr	China announced retaliatory tariff of 34% on U.S. goods; It subsequently **raised tariffs to 84%** after U.S. raised tariffs by extra 50%
9-Apr	President Trump **paused higher reciprocal tariffs for 90 days** but kept the baseline 10% tariffs for nearly all countries; However, he raised effective tariff rate to **145% for China goods** for retaliating
11-Apr	China retaliated with **125% tariffs on U.S. goods**; Trump later **exempted 20 tech product categories (e.g. chips, smartphones and computers)** from the new tariffs including the additional 125% tariffs on China imports

Source: Bloomberg | 11 April 2025

Figure 2: S&P 500 went on a roller-coaster ride



Source: Bloomberg | 11 April 2025

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Despite the pause in tariffs, the saga is likely far from over. Trump denied that the tariffs are being rolled-back and said "No one is getting off the hook….especially not China". Commerce secretary Howard Lutnick also said the exemption of technology products from the tariffs is only temporary with "semiconductor tariffs" likely to come in "a month or two."

With the administration seemingly determined to achieve trade balance with its partners, the negotiations will likely remain challenging. The trade uncertainty would likely continue to weigh on business and consumer sentiment and raise the likelihood of a stagflation in the U.S.

Investment implication

Given the trade uncertainty, the S&P 500 could re-test the recent low of 4,837 which is ~20% off the February peak levels. Notably, the S&P 500 has witnessed an average peak-to-trough decline of 26% in the past downturns. However, we note that the index has delivered an average return of 45% a year after the market has troughed. The current market doldrums thus suggest an opportunity for investors to gain exposure to quality businesses at less expensive valuations to reap longer-term returns.

Hence, while the markets may remain volatile, we would caution against over-reacting to every piece of news. Instead, investors should do well to anchor their portfolios with an increased focus on quality and margin of safety. Markets wise, while there may be selected opportunities in fundamentally strong U.S. companies, we also see attractive risk reward in China stocks particularly those with significant domestic exposure. At the same time, we would seek resilience income through quality bonds while maintaining a strategic exposure through gold. Overall, we would reiterate the importance of maintaining a well-diversified portfolio to navigate the uncertainty.

Figure 3: U.S. trade and macro scenarios

Scenarios/ Probability	Trade outcomes
Soft landing (30%)	**Early truce**: Successful negotiations with trade partners (including China) within 3-6 months; **Effective U.S. tariff rates back to <10%**
Stagflation (45%)	**Partial roll-back**: Trade deals reached by year-end though baseline tariff of 10% remains for most partners. **Effective U.S. tariff rates at 10-20%**
Recession (25%)	**Protracted tariffs:** Stalled negotiations with the situation potentially getting out of control; **Effective U.S. tariff rate at >20%**

Source: Maybank GWM | 11 April 2025

Figure 4: S&P 500 performance in past downturns

S&P 500 performance	Peak to trough	1Y return after trough
2018 Trade War	-20%	37%
2020 Covid recession	-34%	75%
2022 Inflation surge	-25%	22%
Average	**-26%**	**45%**

Source: Bloomberg | 11 April 2025

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