Maybank

Group Wealth
Management Research

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Trump tariff shock

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The much awaited "Liberation Day" did not help liberate investors with U.S. President Donald Trump's worse-than-expected reciprocal tariff announcement leading to a sell-off in equity markets. Notably, the S&P 500 suffered its biggest slump since 2020. In contrast, 10Y U.S. Treasury (UST) yield dipped lower to nearly 4%. Gold retreated likely on profit-taking but remained near record highs.

In essence, President Trump said he would impose a 10% baseline tariff on all U.S. imports effective 5th April. In addition, he will introduce higher reciprocal tariffs that will be implemented on 9th April for nearly 60 economies with larger trade imbalances with the U.S. including: China (34%), India (26%), Malaysia (24%), Indonesia (32%), Vietnam (46%) and the European Union (20%).

The intent of the higher tariffs is to reduce trade deficit, encourage re-shoring of manufacturing activities in the U.S. while generating additional revenue. Notably, the reciprocal tariffs are in addition to existing tariffs. For instance, China will face an estimated total tariff rate of 66% including the earlier tariffs (32%) imposed.

Trade war benefits no one

Trump's latest tariffs will likely curb trade, business investment and consumer sentiment further and weigh on the global economy. According to Fitch, the U.S. tariff rate on all imports is estimated to jump to 22% – a rate last seen around 1910 – from just 2.5% in 2024. In view of the above, we have lowered our FY25 GDP forecasts for the U.S. to 1.7% (from 2.0%) and China to 4.2% (from 4.5%). Our ASEAN-6 GDP growth forecasts have also been reduced to 4.2% in 2025 (from 4.7%) including downgrades for Malaysia (-0.6%), Singapore (-0.5%) and Indonesia (-0.3%). Notably, both China and the European Union have vowed to retaliate, raising the risk of a global trade war that could drive growth even lower.

Figure 1: Market performance since Trump tariff announcement

Index	Last Px	1D Chg (%)	YTD Chg (%)
S&P 500	5,397	-4.8%	-8.2%
Nasdaq	16,551	-6.0%	-14.3%
Stoxx Europe 600	523	-2.6%	3.1%
Nikkei 225	34,736	-2.8%	-12.9%
Shanghai SHCOMP	8,200	0.8%	8.0%
China H-shares	8,420	-1.3%	15.5%
Hong Kong HSI	22,850	-1.5%	13.9%
India SENSEX	76,295	-0.4%	-2.4%
Indonesia JCI	6,511	n.a.**	-8.0%
Malaysia KLCI	1,519	-0.5%	-7.5%
Singapore STI	3,942	-0.3%	4.1%
10-Yr US Treasury*	4.03	-10 bps	-54 bps
USD Index	102.07	-1.7%	-5.9%
Gold	3,115.34	-0.6%	18.7%
WTI Crude Oil	66.95	-6.6%	-6.7%

*Change in bps; **Closed for holidays

Source: Bloomberg | 3 April 2025

Figure 2: U.S. reciprocal tariffs on selected trade partners

Country	U.S. reciprocal tariffs
Cambodia	49%
China	34%
European Union	20%
India	26%
Indonesia	32%
Japan	24%
Malaysia	24%
Philippines	17%
Singapore	10%
South Korea	25%
Taiwan	32%
Thailand	36%
Vietnam	46%

Source: Bloomberg | 3 April 2025

Tariffs not cast in concrete

Despite his aggressive tone, Trump has indicated he would be open to tariff talks with other countries. Notably, he has demonstrated similar willingness to negotiate in the past. As such, there would likely be more negotiations in the coming months that could eventually lead to lower tariffs.

Meanwhile, the U.S. Federal Reserve (Fed) may be prompted into more aggressive easing to support growth. Notably, the Fed Funds Futures are now pricing in 4 rate cuts totalling 100 basis points (bps) in 2025. The Trump administration may also gradually shift its focus to more pro-growth policies including de-regulation and tax cuts though the move is likely to occur later only in 2H25.

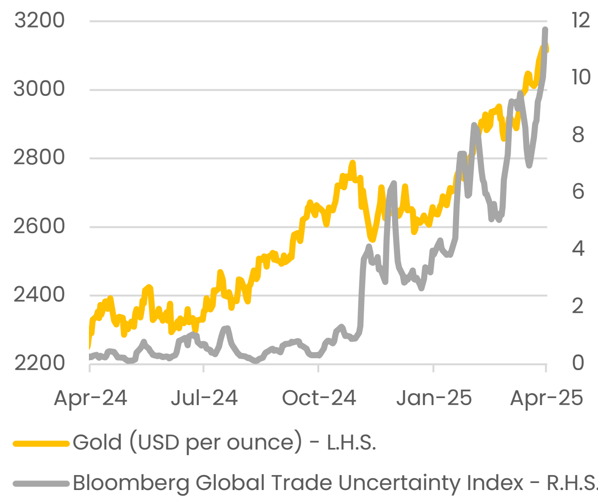
In addition, other countries are collaborating more closely to mitigate the trade uncertainties. For instance, China, Japan and South Korea have agreed to accelerate negotiations on their trilateral free trade agreement. We would also likely see more determined policy responses from the governments to buffer their own economies against the U.S. tariff threats.

Investment implication

In view of the increased downside risk to growth, we have earlier de-risked our portfolio allocation ahead of Trump's tariff announcement. Notably, we are now less sanguine on U.S. equities though the higher market volatility may lead to oversold opportunities in quality stocks including the megacaps. In comparison, we see better risk reward in China equities amid the stronger policy commitment to stabilise growth. The retreat in China stocks from their recent peak also suggests a more attractive entry level to gain exposure.

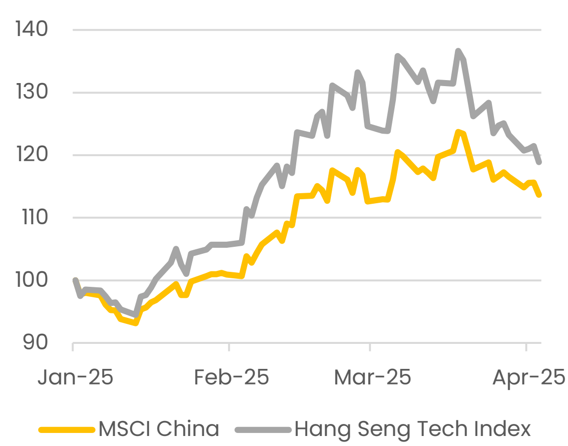
We continue to view UST as an effective hedge against recession risk but would cautious against over-extending duration exposure as interest rates will likely remain volatile amid the shifting growth expectation. Meanwhile, gold should continue to benefit from safe-haven flows with the precious metal likely to trend higher towards USD 3,300/ounce by end-2025. Overall, we reiterate the importance of maintaining well-diversified portfolio with an increased focus on margin of safety to navigate the current market challenges.

Figure 3: Gold to be supported amid the heightened trade uncertainty



Source: Bloomberg | 3 April 2025

Figure 4: China stocks have retreated from recent March peak



*Rebased to 100 as of 1 January 25

Source: Bloomberg | 3 April 2025

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