UOB Investment Insights

Thinking Ahead

4 April 2025

Key takeaways

- United States (US) President Trump announced the steepest tariffs in a century on 2 April, triggering concerns that trade disruptions could lead to weaker economic growth and higher inflation.
- More volatility is likely in the short term due to the possibility of retaliation and negotiations.
- Investors should adopt a cautious and defensive investment approach for now.

"Liberation Day" brings higher tariffs than anticipated

US President Trump announced new sweeping and high tariffs on 2 April 2025 that he dubbed "Liberation Day". Global financial markets reacted negatively, as the wide-ranging measures that affect all exporters to the US could affect economic growth and inflation.

Key takeaways from "Liberation Day"

1. **President Trump announced the steepest tariffs in a century.**
    - A minimum 10% tariff on all countries that export to the US starting on 5 April.
    - Higher reciprocal tariffs on around 60 countries that run large trade surpluses against the US, effective 9 April **(Refer to Table 1)**. These tariffs cover only goods imports and not services.
    - Product-specific tariffs on pharmaceuticals, semiconductors, lumber, and copper have not yet been announced yet.
    - Some countries (like Canada and Mexico) and products (like steel, aluminium, automobile, and auto parts) that have already incurred 25% tariffs recently will not be subjected to new levies.
2. **Uncertain whether other countries will retaliate or engage in negotiations.**
    - China has vowed to retaliate as the latest announcement brings average US tariffs on Chinese products to as high as 65% (including existing tariffs from Trump's first term), but no specific measures have been announced yet.
    - The European Union (EU) is preparing further countermeasures if negotiations fail.
3. **Wide-ranging tariffs will likely lead to weaker economic growth and higher inflation.**
    - Beyond the hit to trade, there may be secondary impact such as weaker consumer spending and lower business investments. A full-blown global trade war could even result in a recession.
        - Our US 2025 GDP forecast has been revised down to 1.0% from 1.8%.
        - Economic growth for other countries will also be negatively affected.
    - Higher inflation is expected in the short term, but this is likely to be a one-time increase in prices that subsequently eases.
        - We expect US headline inflation will rise to 4.0% this year, versus 2.5% previously.

4. **More interest rate cuts now expected to cushion the tariff impact on economic growth.**
    - We now expect the US Federal Reserve (Fed) to deliver three 25 basis points (bps) interest rate cuts this year, revised from the prior outlook of just one 25bps reduction.
5. **Art of the deal? Near the peak of trade uncertainty?**
    - "Liberation Day" tariffs could represent the bulk of US trade policy changes, and subsequent developments may be driven by individual countries negotiating with the US to lower tariffs.
    - President Trump indicated he would consider lowering tariff rates if countries undertook measures to help US exports. US Treasury Secretary Bessent also said the tariffs announced are at "the high end of the number" if countries do not retaliate.
    - This suggests that by starting with the highest tariff number, there is scope for downward adjustments ahead if other countries offer concessions.

Table 1 (Note this is not the full tariff list)

Country	Reciprocal Tariff Rate (%)
China	34% (Total 54% when earlier tariffs are included)
European Union	20%
Vietnam	46%
Taiwan	32%
Japan	24%
India	26%
South Korea	25%

Country	Reciprocal Tariff Rate (%)
Thailand	36%
Switzerland	31%
Indonesia	32%
Malaysia	24%
Cambodia	49%
South Africa	30%
Philippines	17%

What you can do

- Adopt a cautious and defensive investment approach for now. Avoid concentration risks and build a resilient and diversified portfolio across different asset classes, regions, and sectors.
- Prioritise Core investments, and investors can consider dollar-cost averaging for core allocation.
- Investment grade bonds are an attractive source of stable income, while quality dividend stocks may offset the risk of higher inflation and compound wealth when dividends are reinvested.
- Defensive assets like Gold can also be an important portfolio diversifier during volatile markets.
- Investors can also consider our Tactical calls like:
    - **China:** Potential stimulus measures can help cushion the tariff impact, while Chinese stock valuations remain attractive.
    - **Singapore**: While Singapore's economy is highly reliant on global demand, it may benefit from underlying strength of banking stocks and attractive dividend payouts from real estate investment trusts (REITs).
    - **Developed Market Financials:** Attractive dividends, while return on equity (ROE, a measure of profitability) has risen significantly since 2020.
    - **Market neutral strategy for Asia:** Designed to potentially generate returns regardless of market direction, but only suitable for investors with higher risk appetite.
- Speak to a UOB Advisor to find out how the latest developments may impact your portfolio.

Right By You

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