UOB Investment Insights

Thinking Ahead

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Key takeaways

- United States (US) President Trump announced a 90-day pause on reciprocal tariffs.
- China is the sole exception, as the Trump administration raised the tariff rate on Chinese goods to 145% and imposed a 120% tariff on small parcels shipped from China.
- Investors should adopt a cautious and defensive investment approach, as tariff negotiations may be long-drawn and challenging while more policy shifts may still be seen from the US.

The unpredictability of US trade policy: What you need to know

Merely 13 hours after higher reciprocal tariffs went into effect on around 60 countries, US President Trump announced a 90-day pause on reciprocal tariffs, with China being the sole exception. The tariff pause offers countries time to negotiate with the US, leading to a brief surge in global stock markets although the move quickly dissipated.

Key takeaways from the sudden reversal in policy

- **Short-term respite for most countries, China is the exception**
  - Tariff rates for all countries have been reduced to 10% for 90 days, except for China.
  - Tariffs on Chinese imports increased to 145%, while a 120% tariff was levied on small parcels shipped from China, effective immediately.
  - This exception was a result of China's initial retaliation of imposing 84% tariff on all US imports, along with additional trade restrictions.
    - China's retaliatory tariffs have now been raised to 125%, effective from 12 April.
  - In response to President Trump's increased tariffs, China's top leaders convened an ad-hoc meeting to discuss additional economic stimulus to cushion the impact.
  - The discussion is expected to focus on domestic support measures for housing, consumer spending and technological innovation.
- **Brief improvement in sentiment, but the path ahead remains uncertain**
  - Global stock markets briefly rallied following the 90-day tariff pause.
    - The pause provides countries more time to negotiate, although the process is likely to be long-drawn and challenging.
  - The pause does not apply to sector-specific tariffs, such as those on automobiles, steel, and aluminium.
    - The Trump administration is also expected to announce a "major tariff" on pharmaceutical imports in the coming days.

- Despite this latest development, the baseline 10% levy on all US imports remains the biggest hike in decades.
    - Companies will remain cautious in their business plans while consumer sentiment may stay weak, causing the US economy to slow.
- Market volatility may remain elevated until there is clarity on the outcome of negotiations and until US-China trade tensions ease.
- Nonetheless, conditions are expected to improve in the second half of the year as President Trump's pro-growth policies, such as tax cuts and deregulations, are likely to take effect during that period.

What you can do

- It is prudent to adopt a cautious and defensive investment approach, as reciprocal tariffs have only been paused, not removed entirely.
- Prioritise Core investments amid the uncertainties ahead.
- Avoid concentration risks by building a resilient and diversified portfolio across different asset classes, regions, and sectors.
- Defensive assets such as Gold can also be an important portfolio diversifier during volatile markets.
- Consider income-generating assets like investment grade bonds and quality dividend stocks.
    - These can help preserve capital, beat inflation, and provide stability through uncertain times.
- Speak to a UOB Advisor to find out how the latest developments may impact your portfolio.

Right By You

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