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Market Update
Trump's tariffs

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Market Update

What's been happening – the introduction of Trump's tariffs

Last week, United States (U.S.) President Donald Trump announced the implementation of significant new tariffs aimed at addressing what he describes as "unfair" trade practices and reducing the U.S.' national trade deficit. The key components of this tariff policy include:

- **Baseline tariffs:** A universal 10% tariff to be imposed on all imports into the U.S., effective from 5th April;

- **Individualised reciprocal higher tariffs:** Higher tariffs targeting specific countries or trading blocs deemed to have particularly unfair trade practices, or those with which the U.S. has the largest trade deficits. For instance, imports from China will face a 34% tariff (bringing total levies on Chinese exports to the U.S. to over 60%), the European Union 20%, Japan 24%, and South Korea 25%. These country-specific tariffs are set to take effect on 9th April;

- **25% tariff on all imported automobiles**, previously announced, effective from 2nd April.

The tariffs have been justified by the Trump administration by claiming they are a direct response to unfairness in global trading partnerships, with the individualised reciprocal higher tariffs calculated using a formula factoring in both the U.S.' trade deficit with a country or trading bloc, and the amount it imports from that country or trading bloc.

Unsurprisingly, the announcements elicited strong reactions globally. Major U.S. trading partners, including the world's second largest economy China, have condemned the tariffs and are preparing retaliatory measures, with China announcing retaliatory tariffs of 34% on US imports effective from 10th April. A range of market participants are concerned this signifies the start of a new global trade war, potentially leading to increased consumer prices and market volatility. There are also concerns that the tariffs could lead to stagflation (the symptoms of which include high inflation, slow or negative economic growth and rising unemployment), while making it increasingly difficult to make longer term forecasts, given the possibility for the tariff backdrop to change quickly in response to the President's assessment of foreign retaliatory measures.

What the impact of this has been on global markets

As markets digested Trump's tariff announcement, there has been heightened volatility globally, with major stock indices notching significant falls the day following the announcement, Thursday 3rd April. This was most clear in the U.S., with the S&P 500 falling almost 5%. The technology sector was notably affected, with major companies such as Apple and Amazon experiencing substantial stock declines (Apple's market capitalisation alone fell over $300 billion in the wake of the announcements). International markets reflected some of these losses, with European equity indices such as Germany's DAX, France's CAC, and UK's FTSE 100 falling between 1.5% and 3%.

These falls continued through Friday (with a combined $5 trillion wiped off U.S. stock market valuations by the end of the day), and despite market participants hoping for some respite following the weekend, comments from U.S. Treasury Secretary Scott Bessent added further fuel to the fire (with Mr Bessent pushing back on the short-term market reaction to the tariffs, noting that the White House would “hold the course”– source: NBC). As major indices started trading following the weekend on Monday 7th April, the S&P opened down 4%, with leading UK and European indices falling a further 4-5% (at the time of writing on the afternoon of 7th April).

Holding the course

Despite this tariff-fuelled short-term volatility, it is important to note that we have observed numerous market shocks over the last few decades, with markets historically robustly recovering from them over a sufficient timeframe. For example, this week’s disruption is comparable to, but currently smaller in magnitude than, the volatility experienced during the early stages of the Covid-19 pandemic in 2020, which saw equity market falls of over 10% in a single day, as the market digested the impact of a global pandemic in the 21st century.

Volatility is an unavoidable part of investing in global markets such as equities, and while there are steps that can be taken to reduce its magnitude (see next section), avoiding it entirely is near impossible. However, what is controllable is the actions (or more importantly, inaction) taken in response to this volatility. In moments such as this, when a market has experienced a swift downward move, end-investor unease, uncertainty, and a desire to take action when they see their portfolio falling in value (driven by well-studied behavioural biases) can lead to investors seeking to sell assets at what may be one of the worst times in which to do so. In light of this, we encourage investors to focus on their long-term plan, the investment philosophy behind the portfolios (including belief that markets are relatively efficient over the long-run), and sit through the volatility experienced, rather than taking action which may end up having a negative impact on their long-term portfolio value.

Additionally, while market corrections such as the one we are currently experiencing are a somewhat inevitable part of the investment journey, they also can lead to a wider range of factors that may have a counteracting impact. Most notably, a shift to falling equity markets and concerns about the health of the global economy will have an impact on the thought processes and decision making of leading central banks such as the U.S. Federal Reserve, potentially moving them to a more accommodative stance, and increasing the likelihood of future interest rate cuts and injections of liquidity. While at this point it is too early to tell what the Federal Reserve’s actions will be, over the weekend traders in futures markets have begun to “price-in” a greater number of interest rate cuts from the Federal Reserve by December, with five 0.25% interest rate cuts now expected (up from the four rate cuts expected as recently as Friday). All else equal, such accommodative monetary actions have typically been supportive for equity market valuations.

ebi’s portfolios are well-positioned to weather volatile markets

We construct our portfolios to be broadly globally diversified – seeking global exposure in line with the wider market in regional terms, and investing in a wide range of underlying securities, countries, and sectors. Such diversification leads to portfolios being well positioned to handle global events and disruption, such as this week’s developments. This is notable particularly in contrast to more concentrated portfolios which might actively seek to trade or time investments in small subsectors of the market, which can then more easily get caught short as the global situation develops and events transpire in ways different to that expected.

In addition, ebi’s factor portfolios (such as our flagship ESG-screened Earth portfolio suite) utilise investment factors as part of their wider investment approach. One of these factors is the ‘Minimum Volatility’ factor, which focuses on investing in companies with lower volatility than the wider market. Utilising this factor can provide protection in volatile markets such as those experienced over last few days, as typically we see higher volatility stocks sell-off to a greater extent than their lower volatility counterparts, and as such a degree of 'protection' provided by the Minimum Volatility factor tilt within the factor portfolios.

Alongside this, it is important to zoom out and put the short-term market volatility we're witnessing in the context of longer-term investment performance, including the rally that we had previously seen in equities following the election of President Trump less than six months ago. More specifically, over the 12 months to close-of-business on 4th April 2025 (the latest available data-point), we have seen the following returns from some of our main portfolios (all in GBP terms):

- Core 100 (100% equity, market-tracking portfolio): -2.1%
- Core 60: (60% equity: 40% fixed income, market-tracking portfolio) portfolio: +0.7%

- Earth 100 (100% equity, ESG-screened and factor-tilted portfolio): -1.3%
- Earth 60 (60% equity: 40% fixed income, ESG-screened and factor-tilted portfolio): +1.5%

Importantly, fixed income is serving its role of providing protection in our portfolios, precisely for events such as these, as indicated by the higher returns from the 60% equity: 40% fixed income variants of the portfolios above compared to the 100% equity variants over the 12-month time frame above. While we don't have a crystal ball, we would expect this trend to continue for as long as market volatility remains heightened, while noting that the market can also turn quite rapidly back to a growth-mindset once confidence is regained.

While there is no doubt that this week's events are of significance, they do not result in any fundamental changes to the way in which we invest. Namely, we create globally diversified portfolios, using a buy-and-hold approach focused on setting strategic asset allocations and maintaining these over the long-run, rather than a short-term tactical approach seeking to outperform markets over the short-run. While the current events may not be the end of Trump-led volatility, our long-term investment approach means that no major changes are either needed or desired during these times, particularly given the risks that such short-term actions could lead to (for example our active peers may be tempted to make reactionary changes to their portfolios during these times, but with time and market pressure risking leading to poor investment decisions, and sub-optimal market timing). Instead, we maintain a close eye on global developments, observing announcements, reactions, and investment markets as they play out, specifically with a view to the long-term. For investors seeking further information we have a range of blog posts on our website focused on Trump and the potential impacts of his second term, which may provide useful additional context to our thoughts above. Nonetheless, if you have any specific follow-up questions then please don't hesitate to reach out to your usual ebi representative.

Source for index performance data: Morningstar Direct, shown in local currency terms, extracted 07/04/25

Source for ebi portfolio data: ebi, shown in GBP terms, extracted 07/04/25

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