

Markets Trumped

With the severe falls in markets of the past few days and moves in US futures investors need to ask from where we are now are falls overdone? US futures markets were perturbed by the comments of Treasury Secretary Scott Bessent in media interviews yesterday (Sunday) where his expressed indifference to market falls furthered fears the US administration did not recognise the impact on the real economy from the Trump tariff measures. Trump at present is pursuing an ideology with a yearning for what he feels were the 'good old days' when the global and US economies operated in a vastly different manner. Policies announced to date have increased the average US tariff rate from 2-3% to circa 22%. There are many contradictions in the stated aims and whilst Trump harks back to periods when US tariffs raised significant revenues, this is at odds with replacing imports with home grown production. Revenue raising and US import substitution are directly at odds with each other.

There are now increasing numbers of Trump supporters- Republican politicians, business leaders and hedge fund proprietors criticising the measures and many of these were big campaign donors. A delegation of tech and industry leaders are said to have visited Mar a Lago at the weekend.

What will make Trump change course. **The measures have been driven by ego and resulted in overreach and Trump will need to declare victory to change course.** This could be through countries offering concessions, with for example Vietnam offering to reduce tariffs on US goods to zero. Trump needs to declare what he has done has produced results. The further question is at what market level and what is the likely timing for a change in policy. There is still a short window before tariffs are introduced. Markets did start out at relatively high valuations on inauguration day although with strong economic fundamentals in the US at that time as the recent labour market data have shown. On technical, the RSI is trading around 27 which is a seriously oversold level. Mechanistic/Algorithmic trading is likely to be exaggerating market falls.

So far Trumps policies have not delivered. There are no signs of an end to the war in Ukraine and the Middle East has blown up again. Japan and South Korea have engaged with China, on new trade agreements. Trump's policies to date have been a huge own goal. Retaliatory tariffs are likely to be targeted with, for example, China's tariffs aimed at US farmers who are Trump supporters and a similar strategy promised by Canada's Mark Carney.

A theme which is likely to evolve when the chaos ends is localisation favouring domestic orientated companies. This includes infrastructure stocks and reits which have yield.

Markets are now driven by policy which has previously been used to solve rather than create problems. A severe downturn is now priced in so any hint of a change of course would see a sharp relief rally. Trump will come under increasing pressure in the days ahead from influential supporters to re-evaluate policy.

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