

Hymans Robertson Investment Services (HRIS)

Liberation Day

3 April 2025

Yesterday's 'Liberation Day' tariff announcements were on the higher end of analysts' range of estimates for tariff rates. There will be a minimum 10% tariff for all countries (including the UK), but many countries will see far higher rates. The EU faces 20%, while China's cumulative tariff rate is 54%, including the 20% announced earlier this year. The average rate is estimated to be 20-25% and is far broader in terms of country and sector than envisaged.

As a reminder, the main impacts of tariffs are:

- **Economic growth is expected to be lower.** The US will feel it most acutely, but the rest of the world, including the UK, will also feel the impact. Concerns over a slowdown will be amplified, although a full recession is still not the base case
- **Higher inflation** in the US (estimated to be 1-2% higher), although this is likely to be a short-term, one-off, adjustment to prices. This does, however, draw the US economy closer to the dreaded stagflation environment. Inflation impact on the UK is uncertain, but is not expected to be significant.
- **Challenging for equities in short-term**, as economic growth slows. Export-heavy businesses will be affected more, as will US small caps, which are more sensitive to the US economy.
- **Supportive (ish) for government bonds.** The lower growth environment pushes down bond yields, raising bond prices. Some investors will also rotate into less risky assets like government bonds, pushing up prices further. That said, inflation pressures will add some concern to bond investors.

The initial reaction in the stock market reflects investors' concerns. The futures market for the S&P was down around 3% this morning (the announcements were made after the US market closed last night). Asian and European markets were also down this morning, but to a lesser extent - the FTSE opened around 1% down. Gilts were up, as gilt yields fell 5-10bps.

Short-term market movements will reflect negotiations

There is a general view that the tariff announcements may be a starting point for negotiations. We have already seen Trump roll back tariffs on Mexico and Canada through negotiations - both countries were conspicuous by their absence from Trump's list last night. There is still time for some concessions to be made, but the scale of the tariffs means it is unlikely they will be completely rolled back. There is also a risk that other countries retaliate or that certain sectors are targeted more, ratcheting up the trade war once again.

Impact on asset classes and portfolios

The short-term impact on asset classes will be volatile. At a portfolio level, volatility can be dampened by taking a well-diversified approach. Within our portfolios, bond holdings have helped dampen losses from equities; also, our diversified approach to accessing equity markets, for example, by holding less in US and more in UK and other regions (when compared to the market), has added value, as equity regions outside the US have held up considerably better over this recent period.

On a long-term basis, we continue to believe investors will be rewarded for investing in the market. While periods of short-term volatility, such as we see now, are challenging, our investment philosophy is to:

- avoid decisions based on short-term news; and
- stay invested through market volatility.



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Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.