# Tit for tat on tariffs

*Saving you time*

BONHÔTE
*Bankers since 1815*

*N°792*
*14 April 2025*

The trade skirmish between the US and China has turned into a full-blown tariff war. Financial markets reacted to the tariff announcements, coming from both sides, with historic daily fluctuations.

## China wants to avoid isolation

The US and China have been engaged in a tit-for-tat tariff exchange since 2 April. Last Wednesday evening, Trump announced a 90-day pause in the application of extra charges, applying a flat 10% tariff all on countries that had not retaliated. That excluded China, on which the tariffs were increased from 54% to 104%. China immediately retaliated by raising tariffs on US goods to 84%. On Thursday, the US increased its tariff on Chinese goods to 145%. China raised its own to 125%.

In America, the aim is to clip the wings of the second-largest economy, then isolate it. The fact that no attempt was made to negotiate in the first place shows that Beijing has a plan and is prepared to support its export industry, whatever it takes. Compared to 2018 ("Trump 1.0"), China's trade flows are much more diversified these days. The scale of the counter-attack indicates that China does not wish to escalate but simply to defend itself and at the same time win some sympathy to avoid being isolated.

Europe took note of the pause and has suspended its own countermeasures to give negotiations a chance. Investors are hoping that other countries will do likewise in the hope of staving off a major slowdown in the global economy.

Switzerland has suffered from the hot-and-cold messages about customs duties despite the defensive credentials of its equity market. Expectations about the fate of the pharmaceutical companies which are now in Trump's crosshairs are dampening the share prices of the groups concerned.

The shockwave has spread to the bond markets, where volatility has also risen. Long-term yields rose last week, with the US 10-year ending the week at 4.60%, up from 3.90% at the start of the week. In Europe, the Bund was relatively stable, fluctuating between 2.60% and 2.50% during the week.

## USD at 10-year low

The US dollar fell sharply last week, setting a new 10-year low against the Swiss franc and signalling a loss of confidence in the US economy. Meanwhile gold rose to a new all-time high of USD 3,237.61 the troy ounce.

The US consumer price index slowed to 2.4% year-on-year, compared with 2.8% in February and versus a forecast of 2.6%. This was mainly due to the fallback in oil prices. Importantly, these figures do not yet include the higher tariffs. Consequently, consumer and business inflation expectations are rising, while investor sentiment has deteriorated even further.

According to the latest FOMC minutes, several members expressed concern about the tariff shockwave and how it will affect inflation. The market is now anticipating four rate cuts as the risk of recession rises. Concerning the ECB, analysts have reduced their expectations to two rate cuts – at its meeting ending this Thursday and at the June meeting.

Last week was unprecedented to say the least, and the S&P 500 finally gained 5.70% while the Nasdaq rose by 7.43%. In Europe, the Stoxx 600 ended the week down 1.40% and the SMI was off by 3.51%.

### Swiss Market Index (SMI)

The index bounced off 10674 and this week has scope to move between 11600 and the support line at 11000.

## Key data

| | USD/CHF | EUR/CHF | SMI | EURO STOXX 50 | DAX 30 | CAC 40 | FTSE 100 | S&P 500 | NASDAQ | NIKKEI | MSCI Emerging Markets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Latest | 0.81 | 0.93 | 11'239.83 | 4'787.23 | 20'374.10 | 7'104.80 | 7'964.18 | 5'363.36 | 16'724.46 | 33'585.58 | 1'045.20 |
| Trend | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ |
| YTD | -10.21% | -1.49% | -3.11% | -2.22% | 2.35% | -3.74% | -2.56% | -8.81% | -13.39% | -15.81% | -2.82% |

(values from the Friday preceding publication)