

Market &amp; Economic Update | April 8, 2025

# Tariff Uncertainty Continues to Drive Volatility

## Latest Developments

- The second tranche of “reciprocal tariffs” on nearly all US trading partners will go into effect overnight. In addition, the White House today announced it is moving forward with a 104% counter-retaliatory tariff on imports from China, up from the 11% import tax levied in 2024.<sup>1</sup>
- All in, these policies will take the US average effective tariff rate to about 27%, up from 2.5% last year and making the US the highest tariff developed-market country in the world.<sup>2</sup>
- The White House stated that dozens of countries are open to negotiations to lower their “reciprocal” rate. But the largest exporters to the US such as Canada, China, and the European Union are retaining a defensive posture. Additional escalation cannot be ruled out.

## Market Reaction<sup>3</sup>

- Equity markets declined a further 1.6%, the fourth consecutive daily decline and down 12% since new tariffs were announced on April 2. The S&P 500 is now down 19% from its Feb. 19 all-time high. Over the last few days, intraday market volatility has been extreme, reflecting continued trade and geopolitical uncertainty.
- The 10-year Treasury yield rose 9 basis points to 4.28%. Credit spreads have widened sharply as investors price higher risk for non-government borrowers.
- Oil prices fell another 4% to the lowest level since 2021 on fears of lower global demand growth. Since the April 2 announcement, oil is down 19% to \$58 per barrel.

## Questions Still Unanswered

- How, or when, will the trade war de-escalate?
  - We are closely following the status of foreign countries’ tendency to negotiate or retaliate. Although the White House states that dozens of countries are open to negotiation, several large countries are acting defensively, which could exacerbate rather than defuse the conflict.
- Do legal challenges present an off-ramp?
  - New tariffs have been challenged in federal court. As we [wrote last week](#), the legal terrain is extremely uncertain, and analysts are not counting on an injunction.<sup>4</sup>
- Will the Fed intervene?
  - Some are arguing the Fed is likely off the table unless or until there is real economic damage or financial market instability. This seems reasonable especially while the inflation picture is entirely unknown and virtually unpredictable.

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<sup>1</sup> Source: Strategas Research Partners

<sup>2</sup> Source: World Bank, Financial Times

<sup>3</sup> Market data sourced from Bloomberg as of 4/8/2025 at 4:00pm. US equities is the S&P 500 index. Oil prices refers to West Texas Intermediate crude oil futures.

<sup>4</sup> Strategas Research Partners, “Tariffs Likely to Be Challenged in Federal Court.” Bloomberg, “‘Liberation Day’ Tariffs on Uncertain Ground as Challenge Comes.”



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