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The implications of 'Liberation Day

President Trump’s self-proclaimed ‘Liberation Day’ resulted in higher-than-expected tariffs on imports into the US. This resulted in lower equities and a rally in safe-havens. From here, the extent of trade partner retaliation and willingness to engage in negotiated settlements will be key to sentiment. Markets are also likely to be sensitive to how Trump’s proposed tax cuts and deregulation help offset the recessionary impact of tariffs. Equity volatility likely has a little further to run in the coming days. However, it is expected to create attractive opportunities to add to preferred US equity sectors – technology software, communication services, major banks and healthcare – and high yield bonds. The Hang Seng technology index, European financial and industrial equity sectors and gold are also likely to offer opportunities after a further pullback helps balance stretched investor positioning.

Equities: Are there opportunities in global equities following US tariff announcements?

Global equities are likely to stay volatile in the near-term, with tariffs themselves and any retaliation and/or negotiation by US trade partners likely resulting in whipsaw movements. If fully implemented, there is a risk US tariffs could push the economy into recession. However, expect negotiations to limit the damage. For US equities, it can be considered adding around the current support level of 5,400 for the S&P 500 as well as the next key support of 5,120. Chinese equities would likely also see a healthy correction. Any pullback is an opportunity to add to the Hang Seng Technology Index.

Bonds: Is spread widening in Developed Market High Yield (DM HY) bonds a concern?

The magnitude of spread widening has been relatively small in a historical context. One factor behind the resilience in DM HY spreads is their short maturity profile. This helps reduce sensitivity to changes in interest rate expectations amid an uncertain inflation outlook. A second factor is the growth outlook. A soft landing for the US economy remains the base-case scenario. This should help limit default risks in HY corporates. Overweight view on DM HY bonds and see recent spread widening as an opportunity to add exposure.

FX: Is the USD likely to fall after the US tariff announcement?

The USD will be subject to the vagaries of potential retaliatory steps from US trading partners, which could offer support to the currency if it leads to a tit-for-tat escalation and heightened risk aversion. However, by employing different levels of tariffs for different countries, a piecemeal retaliation is more likely as most countries try to negotiate. As such, this week’s move may prove to be the peak of tariff concerns while US growth expectations remain soft, putting further downward pressure on the USD.

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