MARKETS AND ECONOMY

Tariffs and trade wars: What do they mean for investors?

April 3, 2025

Key takeaways

New tariffs

US President Donald Trump unveiled sweeping new tariffs in his “Liberation Day” announcement on April 2.

Near-term pressures

We anticipate significant volatility and downward pressure on risk assets in the near term.

Global responses

Canada and Europe look to increase spending, which would be expected to benefit their economy and industries.

US President Donald Trump unveiled sweeping new tariffs in his “Liberation Day” announcement on April 2, adding to the list of tariffs that were already announced in the first several weeks of his second term. The April 2 tariffs came in two parts[1]:

- A 10% baseline tariff applied across the board on all imports, effective April 5. Canada and Mexico, which were subject to earlier tariff announcements, are exempt from this.
- “Discounted reciprocal tariffs” on a long list of nations, including 34% on China, 24% on Japan, and 20% on the European Union. These are effective April 9 and are in lieu of the 10% baseline duty. “We will charge them approximately half of what they are and have been charging us,” Trump said in a press conference announcing his plan. “So, the tariffs will be not a full reciprocal.”[2]

Responses started shortly after Trump's announcement. European Commission President Ursula von der Leyen said "We are already finalizing the first package of countermeasures in response to tariffs on steel, and we are now preparing for further countermeasures to protect our interests and our businesses if negotiations fail."[3]

To help put the escalating trade wars into perspective, we asked a variety of Invesco's global experts for their views. This is an evolving story, and we will continue to update with more perspectives.

Global markets

Kristina Hooper, Chief Global Market Strategist

The risk of recession increases every day that these high tariffs are in force. We anticipate significant volatility and downward pressure on risk assets in the near term. The risk of stagflation in the US has also increased.

The good news is that there are staggered implementation dates, which supports the theory that these tariffs are being used as a bargaining tool and are not expected to be long term in nature. And some countries have indicated they will reduce the tariffs they apply to US imports.

In the short term, there will likely be significant downward pressure on US stocks and stocks of countries with high tariffs. We expect the US dollar to weaken as growth slows and demand for dollar-denominated assets declines with an anticipated reduction in the trade deficit. We anticipate gold will continue to rise on geopolitical and economic policy uncertainty. We think European equities and Chinese equities could perform well, assuming fiscal stimulus will help support economic growth.

For those with a short time horizon, we believe it would be prudent to be risk off. Those with a longer time horizon may consider taking advantage of sell-offs in order to increase their exposure to risk assets, taking cash off the sidelines, and remaining well diversified.

US markets

Brian Levitt, Global Market Strategist

The hopes heading into "Liberation Day" were twofold: first, that the tariffs wouldn't be as high as feared, and second, that clarity would be restored to markets. Unfortunately, neither hope came true. The uncertainty for markets persists as we await to learn which countries will pursue retaliatory tariffs on the US and which will seek to make concessions to the Trump administration in exchange for lower tariffs.

Tariffs lead to less optimal economic outcomes, plain and simple. While we can debate whether they are worth the hit to corporate profitability and the increase in prices of consumer goods, someone ultimately pays for them. I anticipate the US economy to further slow, and the longer the tariffs are in place, the greater the risk to the US business cycle. Compounding the problem, rising prices may prevent the US Federal Reserve from responding aggressively to counteract the economic weakness. It's difficult to make a compelling case for US equities here unless a meaningful shift in trade and monetary policy emerges.

Canadian equities

Brian Tidd, Senior Portfolio Manager, Canadian Equity Income

US tariffs on Canadian exports (autos, steel, lumber, etc.) will have a profound impact on the Canadian economy. It will take time to establish new trading partners, and for many goods (such as oil), the US is destined to remain Canada's primary export market. Some industries will be hit harder than others, and we anticipate the pain will reverberate through many communities. For example, the city of Windsor (which sits across the river from Detroit) could be devasted by tariffs and/or any wind-down in Canadian auto production. Canada will need to focus on encouraging new business investment, improving productivity, fostering innovation, and broadening trade and security alliances. There is now a newfound sense of urgency in Canada to develop its vast natural resources, invest in infrastructure, and increase domestic military spending in order support the economy for years to come. I expect these expenditures to be positive for the Canadian industry and may present interesting long-term growth opportunities for select Canadian businesses.

Equity factors

Nick Kalivas, Head of Factor and Core Product Strategies, Invesco ETFs

In the wake of Trump's tariff announcement and the global response, policy uncertainty is likely to remain present, and volatility is expected to be elevated. The aggressive implementation of tariffs also puts expectations for accelerating profit growth in 2025 at risk and could push out a profit recovery.

In my view, all this reinforces the case for owning defensive factors such as low volatility, quality, and yield. Furthermore, the tariff picture could change quickly, so the potential to participate in market strength while mitigating or dampening downside risk should be attractive, in my opinion. The tariff saga is a reminder that factors can be used both tactically and strategically to help create a more durable portfolio.

European equities

Oliver Collin, Co-Head of UK and European Equities

What do Trump's tariff announcements mean for Europe? In terms of gross domestic product (GDP), could the 20% tariff increases for Europe largely offset the positive impact expected from Germany's recent spending announcements in 2025? To us, that appears a bit on the aggressive side, but clearly there will be a sizeable impact this year if there's no renegotiation. That said, it was partially because of the US becoming more adversarial in the first place that Europe started to put in place additional spending plans — the ReArm defence plan and German Infrastructure/Defence plan.

Also, don't forget that this is a step change in tariff levels, meaning that it is largely a one-year effect. Hence, we expect a short-term headwind, but as demand/supply adjust to higher prices, then it should have a muted impact thereafter. A speedy resolution is therefore key.

For Europe, this only highlights the importance of becoming more self-sufficient. The severity of the tariff increases is only likely to reinforce this message. Thankfully Europe is rising to the challenge. This means we're confident that the medium to long-term outlook for GDP is a good deal better than it's been since the Global Financial Crisis. One of the key problems in the last decade or so has been the lack of government investment, particularly in Germany. But we expect decent growth to continue in Southern Europe, and — putting the tariff impact to one side — we expect Germany's fiscal plans could add 1%-2% to the rate of GDP growth in due course. So, to us it looks like at least two-thirds of Europe is well placed to grow in the medium term.

Footnotes

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  Source: Wall Street Journal, "Tariff News, April 2, 2025: Trump Unveils Sweeping Levies in Stark Shift in Trade Policy," April 2, 2025

- 2

  Source: CNBC, "Trump's tariffs risk a global trade war, as leaders plan next steps," April 3, 2025

- 3
  Source: Politico, "EU 'prepared' to retaliate against Trump's 20 percent tariffs," April 3, 2025