8 April 2025

Markets in a Minute

Key highlights

- **'Obliteration Day':** U.S. tariff measures were at the more severe end of expectations. U.S. equities have noticeably underperformed European stocks, with individual companies reflecting the folly of protectionism.
- **U.S. employment data comes in strong:** March saw surprisingly strong jobs data and a rise in the unemployment rate, which could help make the case for interest rate cuts.
- **(Almost) all that glimmers is gold:** Gold sold off on 'Liberation Day' as investors took profits, reflecting the fact that bullion is one of a handful of goods that are exempted from tariffs (the others are critical minerals).

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~~Liberation~~ 'Obliteration Day'

'Liberation Day' arrived on Wednesday, and the measures announced were at the more severe end of expectations. We understand from leaks that the Trump administration was still debating at what level to set tariffs until the eleventh hour, but they seemed pretty set by the time President Donald Trump spoke in the White House Rose Garden.

Although the president ordered a review of all unfair trade restrictions, the actual tariffs were set at half the level of each country's trade surplus against the U.S. If that seems arbitrary, what was even more so was the fact that countries in deficit to the U.S. were still hit with a tariff, undermining any credibility to the spurious claim that surpluses are evidence of protectionism.

It's an outrageous opening offer from a president who prefers making deals to policies. As he says in his book 'The Art of the Deal', "I always go in with a very low offer, and I always assume that the other side will negotiate." But has he overplayed his hand?

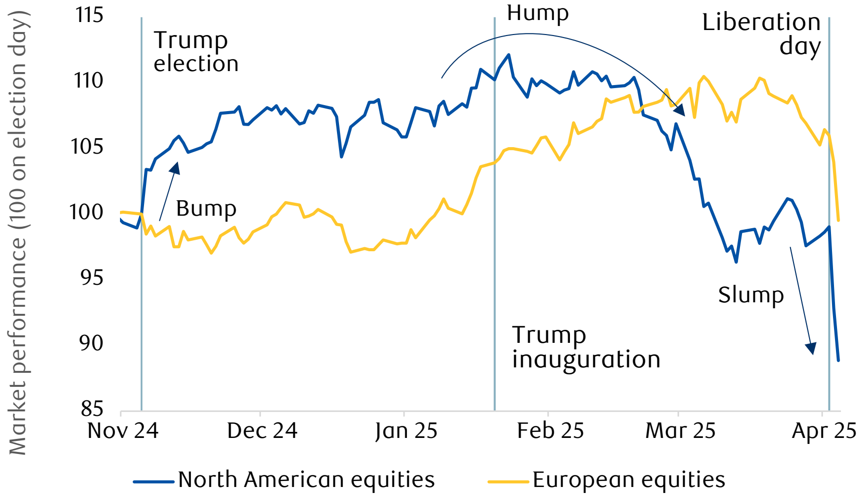
Continued overleaf

Figure of the week

4.2%

The U.S. unemployment rate rose marginally in March

After the Trump bump, the Trump hump and into the Trump slump



Source: LSEG Datastream

U.S. equities have noticeably underperformed European stocks, with individual companies reflecting the folly of protectionism. Apple has a business model in which its manufacturing is done in China and Vietnam – two countries at the more severe end of U.S. tariff announcements. Maybe this is activity the U.S. would like to be conducted at home, but it doesn't have the capacity to do so. Nike is a great example of an iconic American brand whose high value-added activities take place in the U.S., while the manual and laborious manufacturing activity takes place where labour is cheaper. Bringing those jobs to the U.S. relies upon American workers being willing to do the work.

President Trump is ready to make deals, but whether there's any scope to reduce the baseline 10% tariff seems highly questionable, and some potential growth has been diminished. For decades, he has lauded the tariff and bemoaned America's trade deficit, so he sees tariffs as here to stay, and they'll be oppressive until the U.S. trade deficit comes into balance. However, tariffs won't achieve that objective, and so will remain in place. The scope of them is likely to be reduced somewhat, though, due to the president's fondness for making deals.

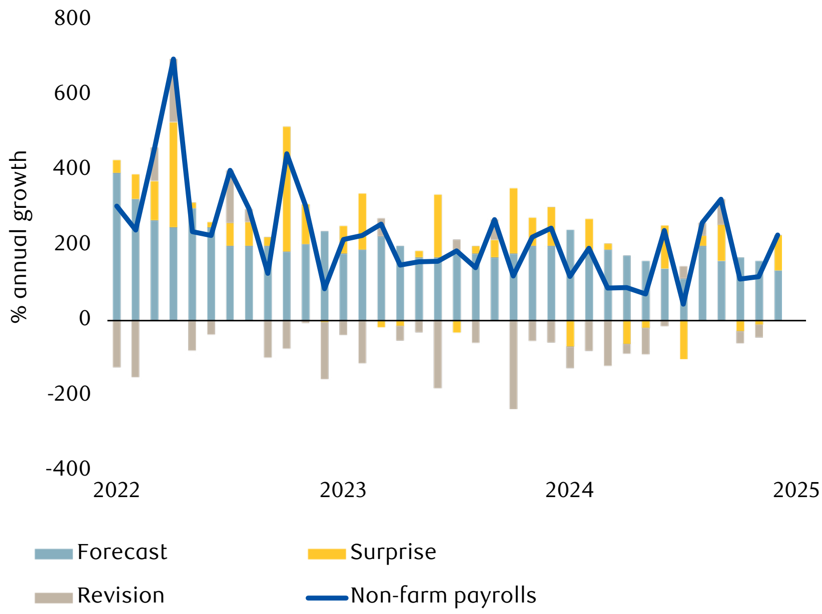
Coupled with his clampdown on immigration, some of the key tenets of U.S. exceptionalism are being undermined, and it definitely makes sense to look more widely for investment opportunities.

U.S. added 209,000 jobs in March

The backdrop for last week's tariff announcements was pretty supportive of a tough Trump bargaining position.

The most obvious data point was Friday's non-farm payroll report, which showed that a consensus-beating 209,000 new jobs were created in March. This was a surprisingly strong figure, which suggests an acceleration of hiring relative to previous months – quite at odds with the depressed business surveys that have been prevailing recently. In terms of caveats, the last two months did see downward revisions, but they weren't huge.

U.S. jobs growth was surprisingly strong in March



Source: LSEG Datastream

The unemployment rate rose slightly more than expected, which always seems unintuitive when jobs growth has been strong. This can sometimes be reflective of immigration, although that seems less likely at the moment. Instead, more Americans are entering the job search, which is reflected in a slight recovery in the labour force participation rate.

It's a little surprising to see these data strengthen. Whilst surveys can be unreliable, particularly at emotional times when there's a lot of partisanship, there are some distinct reasons for employment to weaken this month that seem incontrovertible; the Department of Government Efficiency (DOGE)'s federal spending cuts, for example.

Whilst it's difficult to trust the accuracy of the cost-cutting achievements DOGE has published, executive outplacement firm Challenger, Grey and Christmas estimated this week that over 200,000 federal workers had been laid off during March alone. The official data only showed a few thousand job losses, so it may be that the bulk of them appear in next month's revisions.

Whether accurate or not, President Trump will be emboldened by the apparent strength of the labour market, which will make him a tougher negotiator for trade partners. The good news is that the rise in the unemployment rate, relatively subdued wage growth, and increased labour participation will help make the case that the Federal Reserve should cut interest rates.

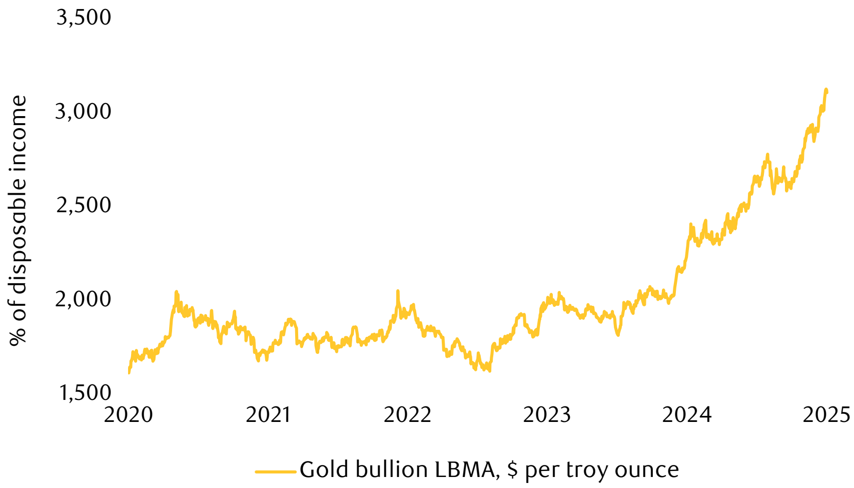
(Almost) all that glimmers is gold

Gold sold off on 'Liberation Day' as investors took profits, reflecting the fact that bullion is one of a handful of goods that are exempted from tariffs (the others are critical minerals).

The new government is thinking strategically about access to natural resources, and they won't be the only ones. Central banks have been building up their non-dollar reserve assets in anticipation of a time when requiring a lot of dollars may be less of a priority.

That has been the trend that has pushed gold higher and, aside from the exemption, 'Liberation Day' should encourage reserve managers that their diversification strategy is appropriate.

Gold has performed strongly as trade uncertainty has built



Source: LSEG Datastream

Coming up this week

- **Tariffs (again):** The common 10% tariff rate began over the weekend, but the individual tariff rates will take effect from Wednesday (unless they're changed).
- **U.S. earnings season:** The results of Q2 will be released at the end of the week.
- **Inflation data:** U.S. inflation data released on Thursday should show the annual rate slowing, although this will likely be the calm before the storm.