Economic Research Unit

Economics Weekly

Bank of Ireland

Equity and FX markets buffeted by Trump tariff threats

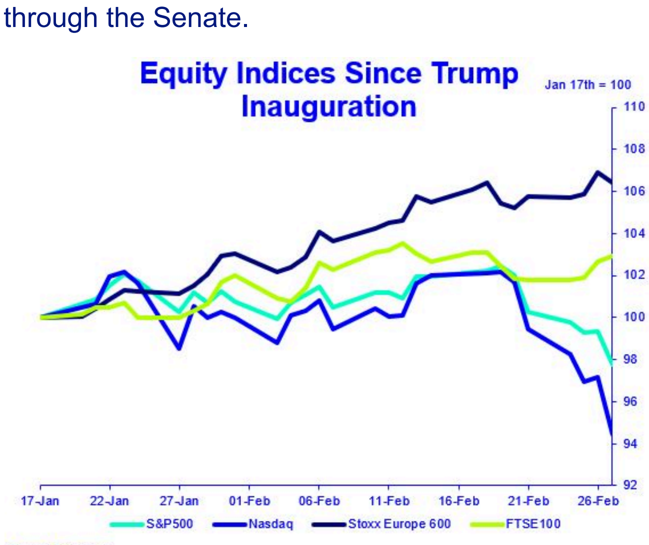
The sell-off in US equity markets, with the S&P 500 down 4.6% and Nasdaq by 7.5% over the past week, has reflected a range of factors; i) fresh tariff threats from US President Donald Trump, ii) macroeconomic data suggesting the uncertainty is starting to weigh on US business and consumer confidence iii) pressure on tech-firms following earnings from Nvidia Thursday (February 27th) poorly received by the market. The next two weeks should provide an acid-test of whether Donald Trump is merely sabre rattling, or truly intends to impose 25% tariffs on Canada and Mexico on March 4th, having already put-off doing so on two occasions. Should any clarity on trade policy be established the next stand-off will be in the US Senate where Trump's package of tax cuts will add to a Federal deficit already worth 6% of GDP, with the Federal debt/GDP ratio already set to push through 100% in 2025.

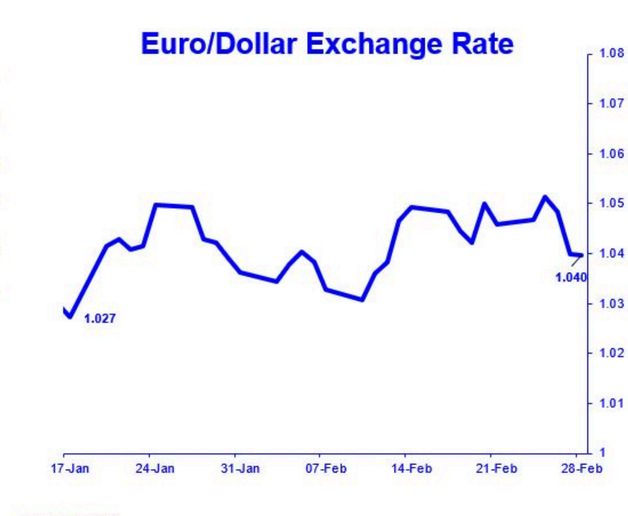
Investors benign view of Trump Presidency fraying: The S&P 500 (-4.6%) and Nasdaq (-7.5%) both suffered heavy falls over the past week, as President Donald Trump has threatened further 10% tariffs on China and 25% on imports from Canada, the European Union and Mexico. Furthermore, US macroeconomic data have started to suggest Trump's tariff threats are now starting to weigh on business and consumer confidence. However, with investors eschewing risk the dollar has benefitted, at $1.04 against the euro now at its strongest level since February 13th. Noticeably, investors have seen tariffs as ultimately deflationary, euro and dollar 3-year swap rates falling to their lowest levels this week since mid-December, 2.14% and 3.82% respectively.

Macroeconomic data show tariff threats now weighing on US economy: Through last weekend both the Michigan and Conference Board measures showed US consumer confidence declining sharply in January. The Michigan measure showed households' 5-10 year inflation expectations surging to 3.5% due to tariff fears. The downbeat message was copper-fastened by the S&P Global US PMI falling to 50.4, suggesting the US economy came close to stalling in February. The PMI survey indicated uncertainty on Federal government policy had led to a slump in business confidence, with services (49.7) contracting and a surge in manufacturing output (53.8) reflecting front-running of tariffs.

The Trump who cried wolf?: Only one of Trump's many tariff threats, 10% on goods imports from China has been enacted thus far. However, on Thursday (February 27th) Trump insisted 25% tariffs on Canada and Mexico would proceed on March 4th, having already been put off on two occasions. Aluminum and steel tariffs are also due on March 12th, and on the EU and other countries from April 2nd. However, recent combative language strikes a very different tone to comments from EU Trade Commissioner Maros Sefcovic, that the EU and US had already discussed a trade deal. Following his meeting with Keir Starmer, Trump said a UK-US trade deal without tariffs could happen very quickly.

US Federal deficit the next stand-off: The Congressional Budget Office's (CBO) current projections are that the US federal deficit will equal $1.9trn, or 6.2% of GDP in 2025, falling only marginally to 5.2% of GDP by 2027. This implies the Federal debt/GDP ratio will rise from 100% in 2025 to 107% by 2029, surpassing the previous record high of 106% set in 1946. This week House Republican's passed a bill that would extend Trump's 2017 tax cuts and implement new ones at a cost of $4.5 trillion over the next decade. However, it remains to be seen whether the $2trn of spending cuts also targeted in the package can be achieved, and without cuts in Medicaid. So Trump's plans could still face a difficult path through the Senate.





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