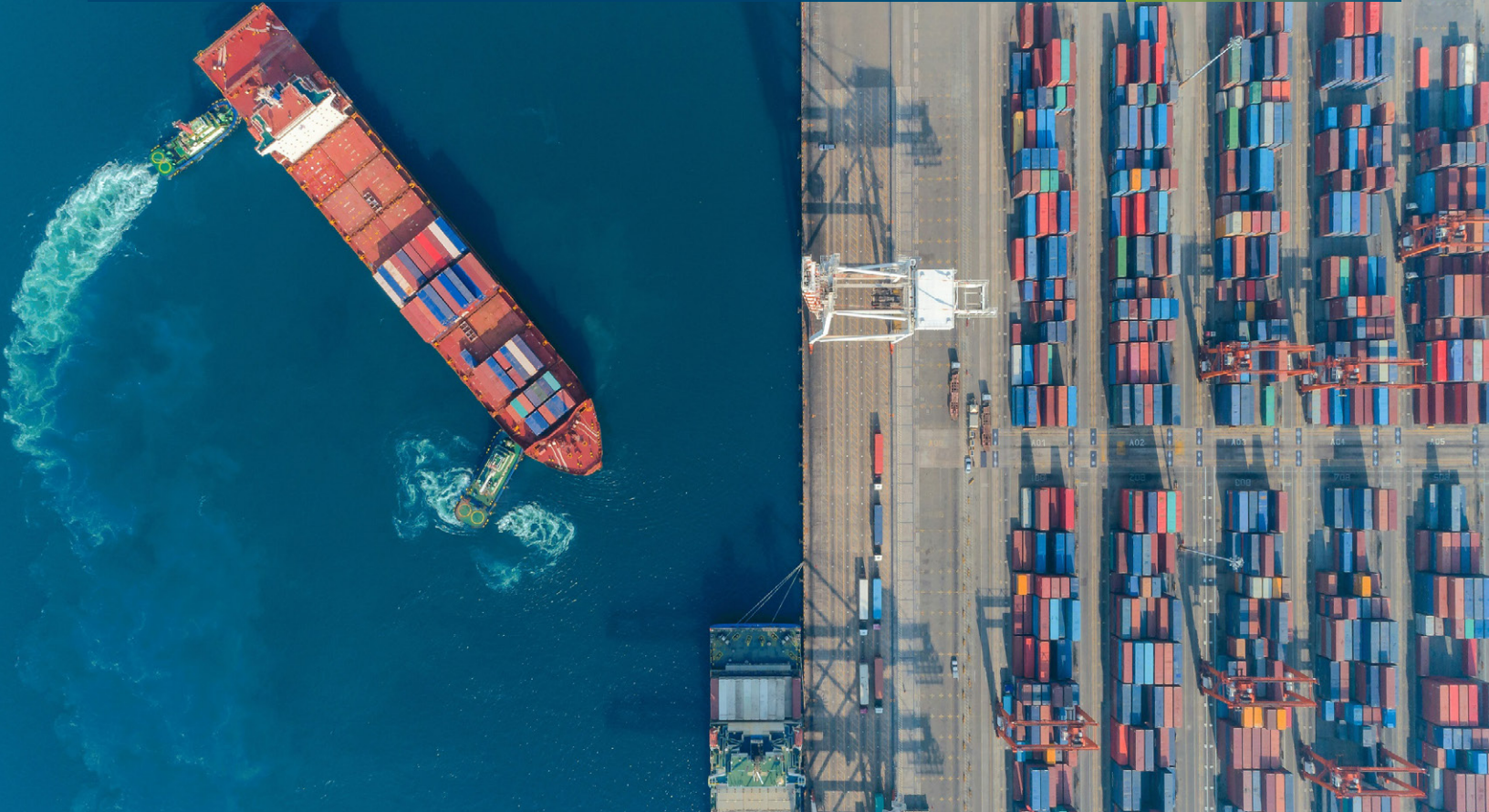


## Trading Blows: The Trade Wars Have Arrived

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**On April 2nd, the Trump administration announced a new tariff regime. While President Trump ran for re-election promising protectionist trade measures, the scope and scale of the announced tariffs shocked economists, investors, and trade experts. Far from ending the months-long uncertainty surrounding Trump’s promised tariffs, the announcement on “Liberation Day” prompted further questions about their potential impact: whether there is room for negotiation, how other countries will respond, etc.**

In the week following the tariff announcement, global markets fell sharply, with volatility hitting a level not seen since the COVID shock in 2020.<sup>1</sup> One week later, President Trump announced a pause on reciprocal tariffs for 90 days, igniting a massive rally in the US stock market that added approximately \$4.3 trillion dollars back to the S&P 500 index in one day.<sup>2</sup> However, at the same time, Trump hiked the import tariff on China to 145%.<sup>3</sup> China retaliated in kind, raising its tariff on US imports to 125%.<sup>4</sup> In a social media post, President Trump wrote, “Nothing is over yet.”<sup>5</sup>

<sup>1</sup> Source: TS Lombard, “The \$30 T Crash,” April 4, 2025.

<sup>2</sup> Source: Financial Times, J. Politi et al, “US Stocks Soar as Donald Trump Backs Down on Global Trade Way,” April 9 2025.

<sup>3</sup> Source: Wall Street Journal, “Trump Pauses Reciprocal Tariffs, But Hits China Harder,” April 9, 2025.

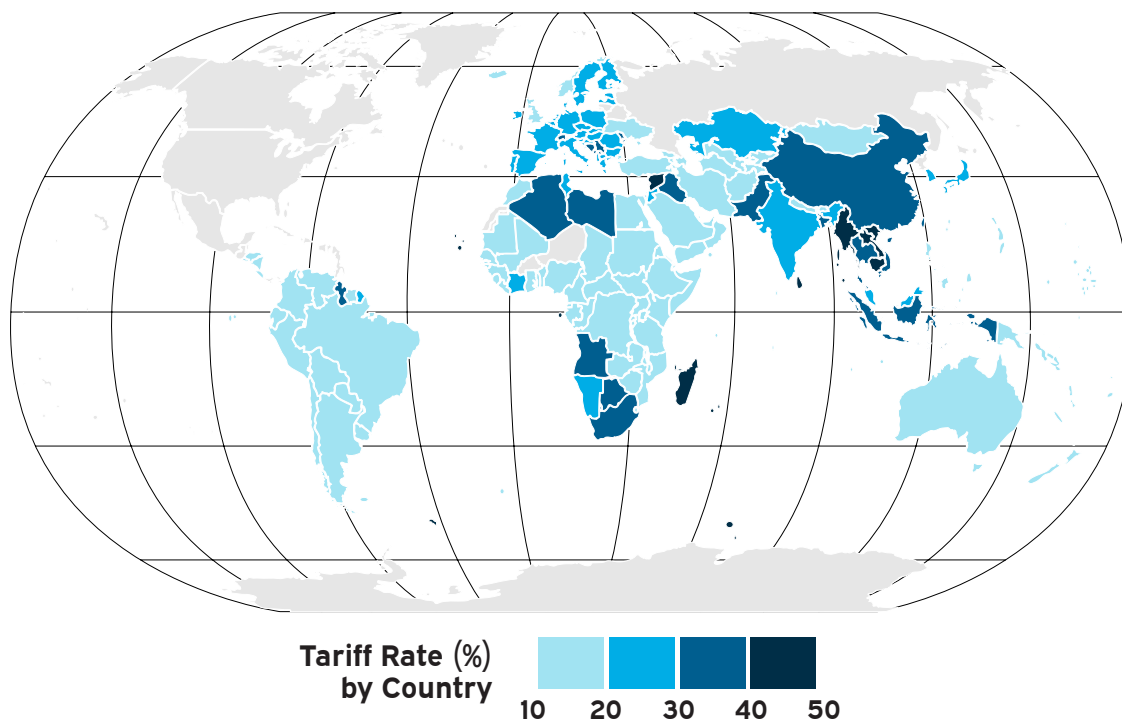
<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

Trump's Liberation Day's reciprocal tariff calculations differed significantly from the nuanced technical import tariff calculations generated by specialist trade economists.<sup>6</sup> The formulation of reciprocal tariff estimates, which consider long-term trade imbalances between the United States and individual countries, seems to be driven by both political and economic factors. Additionally, the sweeping global scope and unilateral implementation of these tariffs differ substantially from standard trade negotiation practices. (see Figure 1).<sup>7</sup>

<sup>6</sup> Source: CSIS, B. Harithas et al., "Liberation Day' Tariffs Explained," April 3, 2025.

<sup>7</sup> Source: Financial Times, G. Tett, "How To Make Sense of Donald Trump's Tariffs," April 2, 2025.



**FIGURE 1**  
**Original Liberation Day**  
**Global Map of New US**  
**Tariffs**

Source: Financial Times, April 3, 2024.

China – currently the US's second largest trading partner – received the largest and most impactful reciprocal tariff levy.<sup>8</sup> China quickly retaliated announcing its own import tariff on US goods. Both the US and China further escalated, such that the duty on Chinese imports to the US reached 145% and the tariff on US imports to China reached 125%. Should these tariff levels persist, some economists estimate that the decline in US consumption could be a significant drag on US growth.<sup>9</sup> With China accounting for the largest portion of the current US trade deficit, a trade war with China would pose a potent threat to nearly 40 years of expanding US corporate profits.<sup>10</sup> The macroeconomic implications for the trade shock could fundamentally change global capital flows and investor returns.<sup>11</sup>

<sup>8</sup> Source: Wall Street Journal, "Trump Pauses Reciprocal Tariffs, But Hits China Harder," April 9, 2025.

<sup>9</sup> Source: TS Lombard, F. Bremish, "Big Bear, Little Bear," April 2, 2025.

<sup>10</sup> Source: TS Lombard, S. Blitz, "Markets Spooked by More than Market Risk," April 3, 2024

<sup>11</sup> Ibid.

Deglobalization – the reversal of the free flow of capital and trade – could indeed threaten global growth.<sup>12</sup> The last time the global economy suffered from a systemic trade war was in the 1930s. Historically, trade wars have not been contained to just tariffs, but to even more extreme policies such as technical barriers to trade, blacklists, and competitive devaluations as governments attempted to shield their domestic industries. The economic consequences from extended trade wars have been economic stagflation where growth stalls and prices and unemployment soar.<sup>13</sup>

<sup>12</sup> Source: Reuters, A. Shalal, "IMF's Georgieva Says US Tariffs Represent a Significant Risk for Global Outlook," April 3, 2025.

<sup>13</sup> Source: TS Lombard, F. Bremish, "Big Bear, Little Bear," April 2, 2025.

Chair Powell has warned that the effect of the tariffs will be larger than expected with higher prices and lower growth should the trade war persist.<sup>14</sup>

<sup>14</sup> Source: Wall Street Journal, N. Timiraos, "Powell Warns of Higher Prices, Weaker Growth," April 4, 2025.

It may take an extended period of time to fully understand the financial and economic repercussions of the new tariff regime announced by the Administration. While the pause on reciprocal tariffs has likely lessened tensions with most of the world, the trade war between the US and China appears set to intensify.<sup>15</sup> Financial markets may find their footing more quickly than policymakers, businesses, and consumers. Importantly, the newly announced tariffs, if fully enacted, could increase the risk of a recession or potentially even stagflation here in the US.

<sup>15</sup> Source: Wall Street Journal, "Trump Pauses 'Reciprocal Tariffs, But Hits China Harder," April 9, 2025

Meketa has long studied the impacts of globalization and, in 2023, published a paper on the impact of [deglobalization](#) and the risks it posed to investment portfolios. In addition to producing thought leadership on the long-run impacts of deglobalization, we have also developed a proprietary big data model to analyze severe deglobalization, stagflation, and trade war scenarios.

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