Ostrum ASSET MANAGEMENT

MyStratWeekly
Market views and strategy

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Axel Botte
Head of Market Strategy
axel.botte@ostrum.com

Zouhoure Bousbih
Emerging countries strategist
zouhoure.bousbih@ostrum.com

Aline Goupil-Raguénès
Developed countries strategist
aline.goupil-raguenes@ostrum.com

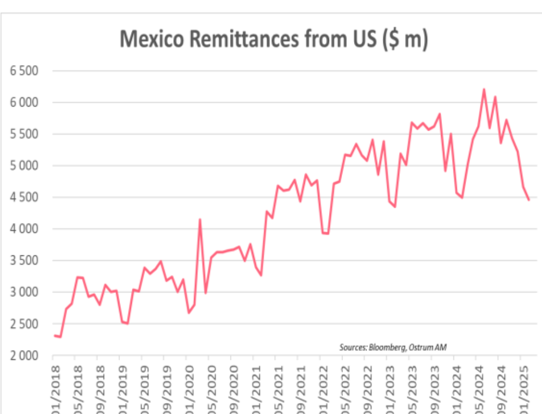
Topic of the week: Trump triggers a global trade war
by Aline Goupil-Raguénès

- The United States has triggered an unprecedented global trade war in just over 100 years to end the trade imbalance, reindustrialize America, and finance the maintenance of the tax cuts enacted by Trump during his first term;
- The United States has announced universal tariffs of 10% on imports of goods, supplemented by reciprocal tariffs for 56 countries and the EU (which can reach up to 50%), and has instituted tariffs of 25% on automobiles;
- China responded firmly. The EU initially wishes to negotiate while preparing retaliatory measures if necessary. It has a new tool since the end of 2023: the anti-coercion instrument;
- Donald Trump is not willing to negotiate at the moment. Additional tariffs are expected to be announced on semiconductors, pharmaceuticals, wood, automotive parts, and critical metals;
- These tariffs represent a significant shock to international trade that is likely to weigh strongly on global growth. All countries will emerge as losers, with the United States being the first, where the risk of recession has significantly increased.

Market review: The Misunderstood Genius Syndrome
by Axel Botte

- U.S. tariff hikes sent markets into a tailspin;
- U.S. job creation at 228k in sharp contrast to ISM employment readings;
- T-note yields plunge below 4%;
- Stock markets down around 7 to 10% last week.

Chart of the week



In addition to its tariff policy, the Trump administration aims to reduce immigration from Latin America, particularly Mexico. As of 2023, the number of Mexican immigrants in the United States stood at 10.9 million, with illegal immigration likely adding several million to this figure.

The jobs held by Mexicans in the U.S. generate significant income for the Mexican economy. Annual remittances to Mexico are projected to reach approximately $64 billion for 2024, accounting for about 3.5% of Mexico's GDP. A slowdown in remittances, which have decreased by 0.8% year-on-year, is expected to weigh on Mexico's economic growth.

Figure of the week

5.3

The U.S. stock market S&P experienced a loss of market capitalization of $5.3 trillion between the close on Wednesday, April 2, and the close on April 4, following the announcements of reciprocal tariffs by the U.S. and retaliatory measures from China.
Source: Bloomberg

Topic of the week

Trump triggers a global trade war

Donald Trump has triggered an unprecedented trade war in just over 100 years. After raising tariffs on imports of steel, aluminum, and those from China, Canada, and Mexico, he has just announced the imposition of universal tariffs of 10% on all of his trading partners, which will be supplemented by reciprocal tariffs for over 80 countries, and has instituted tariffs of 25% on automobile imports. Additional tariffs are forthcoming. Trump views trade deficits as a transfer of wealth to foreign countries, and tariffs are his preferred tool to put an end to this, reindustrialize the United States, and fund the maintenance of the tax cuts enacted during his first term, to "make America great again." He is mistaken: everyone will lose from the trade war, and the United States will be affected even more significantly.

Announcement of universal and reciprocal tariffs

"Day of Liberation": Trump's announcement of significant increases in tariffs on all trading partners

April 2 was "Liberation Day" for Donald Trump. He mistakenly believes that the bilateral trade deficits of the United States are detrimental to the American economy. For Trump, these deficits are a transfer of wealth to foreign countries, or rather a theft perpetrated by them, which has the consequence of weighing on the activity of the manufacturing sector and American employment. This is completely false, as the U.S. external deficit results from insufficient domestic savings to finance investments, making the United States dependent on foreign funding. To put an end to the bilateral trade imbalances, Donald Trump waited for the markets to close to announce, on April 2, the imposition of universal tariffs and colossal reciprocal tariffs on imports of goods from all trading partners, citing national security reasons.

Universal tariffs of 10% on imports from almost all countries

Imports will be taxed at a minimum of 10%

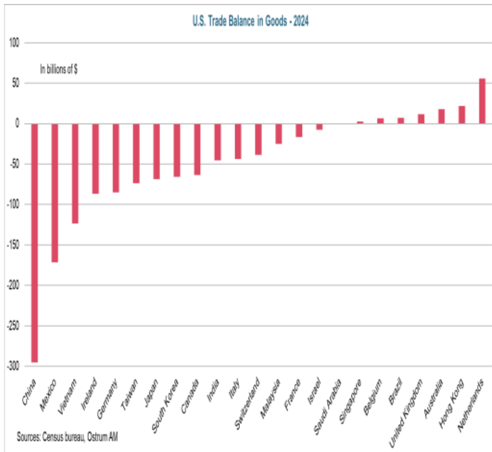
Tariffs of 10% have been applied since April 5 on imports of goods from all countries, with rare exceptions. These are baseline tariffs that trading partners must now face. Canada and Mexico are not subject to these tariffs, as their products are taxed at 25% since March 4, and at 10% for imports of Canadian oil and energy products. Exemptions are granted for imports from Canada and Mexico that meet the origin rule requirements under the United States-Mexico-Canada Agreement (USMCA). It is also worth noting that Russia, Belarus, Cuba, and Iran are not affected by these tariffs either.

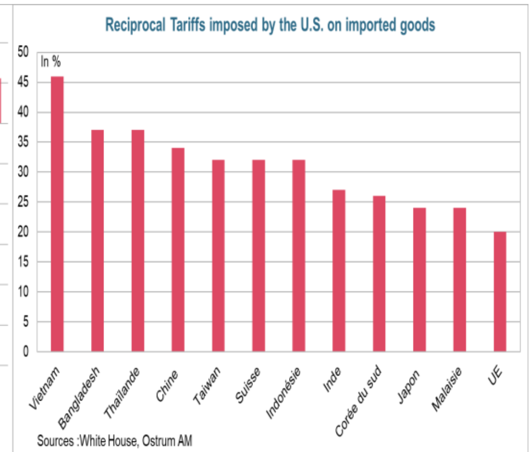
Reciprocal tariffs on 56 countries and the EU, which can reach up to 50%

These tariffs will be increased by reciprocal tariffs for a large number of countries, potentially reaching up to 50%

These universal tariffs will be supplemented by reciprocal tariffs that will be applied starting April 9 on 56 countries and the EU. These tariffs are intended to correct the unfair practices of trading partners, such as the imposition of higher customs duties than those levied by the United States and the existence of non-tariff barriers. This includes the implementation of sanitary and phytosanitary controls, regulations deemed excessive, protection of intellectual property, the application of VAT rates in certain countries, and currency manipulation.

To balance U.S. bilateral trade balances, the Trump administration calculated the tariff imposed by each country on imports from the United States, taking into account both tariff and non-tariff barriers. The formula used is quite surprising and completely unfounded. "Unfair" tariffs are calculated as the ratio of the bilateral trade balance to U.S. imports from the concerned country. Thus, the European Union would impose tariffs of 39% on American products. The reciprocal tariffs were adjusted so that this result was divided by 2 (because the United States "is nice," according to Trump), resulting in a reciprocal tariff of 20% on imports from the EU. As shown in the following graphs, the countries with which the United States has the largest trade deficit (left graph) are those with the highest reciprocal tariffs (right graph).





Reciprocal tariffs are thus set at 46% for Vietnam, 37% for Bangladesh, 34% for China, and 20% for the European Union. The United Kingdom, Australia, and Hong Kong, with which the United States has a trade surplus, do not face reciprocal tariffs but are subject to the baseline rate of 10% applied to all countries. Within this framework, the Netherlands appears to be an anomaly: even though the United States has a significant trade surplus with this country, the Netherlands is subject to the reciprocal tariff of 20% applied to the EU.

Imports from the EU will be taxed at 20%, while those from China at 65% when all tariffs are combined!

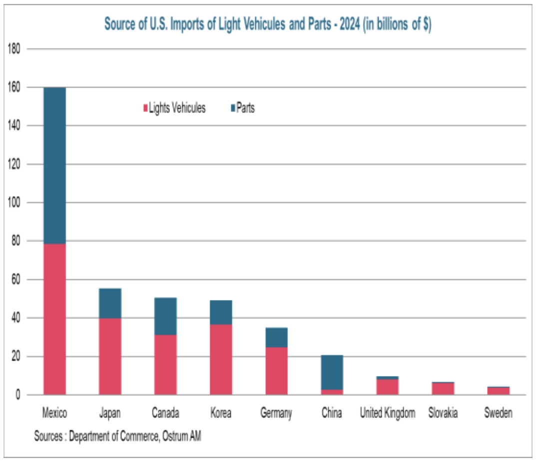
China receives special treatment. While Canada and Mexico have been exempted due to the imposition of 25% tariffs previously, this is not the case for China. The reciprocal tariffs of 34% are in addition to the 20% tariffs already imposed on imported goods since March 4 (initially set at 10% on February 10). Furthermore, the exemption on tariffs for packages under $800 has been lifted. Products from China and Hong Kong will either be taxed at 30% of their value or subject to a flat fee of $25 per item, which will increase to $50 on June 1. Taking into account the tariff already applied by the United States, the total tariff on Chinese imports amounts to 65%!

A small consolation is that the reciprocal tariffs do not add to the 25% tariffs imposed on automobiles, nor to those on steel and aluminum.

Increase of 25% in tariffs on automobile imports

Since April 3rd, imports of cars are taxed at a rate of 25%

Donald Trump has also confirmed the imposition of a 25% tariff on automobiles and certain auto parts in order to "address a critical threat to the national security of the United States." The tariffs on cars have been in effect since April 3, and they will apply to certain auto parts by May 3. Under the exchanges governed by the USMCA, parts produced in the United States will not be taxed. As shown in the following graph, Mexico is by far the country that will be most affected, followed by Japan, Canada, South Korea, and Germany. China is more exposed to the tariffs on auto parts than on cars.



Other tariffs are in preparation...

Donald Trump indicated that tariffs would be announced soon on semiconductors and that discussions are ongoing to determine the tariffs on pharmaceutical products that will be applied. Wood and certain critical metals (including copper) will also soon be taxed, as will auto parts starting May 3.

Possible negotiations or further increase in tariffs if retaliations occur

Donald Trump stated that the United States is open to negotiations if countries announce something "phenomenal." He indicated that in the case of China, progress in negotiations regarding the sale of TikTok would result in a reduction of tariffs.

At the same time, he warned that if countries adopt retaliatory measures or if U.S. production or production capacities continue to deteriorate, tariffs would be increased.

China responds immediately, while the EU wishes to negotiate while preparing retaliatory measures if necessary

Proportional measure by China

China responds promptly with a 34% increase in tariffs on American imports and other measures

China reacted quickly and firmly to the massive increase in U.S. tariffs on Chinese goods. On April 4, it announced tariffs of 34% on all imports of U.S. goods, effective April 10. It also imposed restrictions on exports to the United States of 7 types of rare earth elements, effective immediately. Additionally, China added 11 defense companies to a list of unreliable entities, imposed export controls on 7 U.S. companies, halted imports of poultry from two U.S. companies, stopped imports of sorghum from one U.S. company, launched an investigation into Dupont China for antitrust violations, and initiated an anti-dumping investigation on medical X-ray tubes from China and India. These measures are proportional and targeted, aimed at treating China as an equal to the United States. On March 4, China had already announced retaliatory measures in response to the increase in U.S. tariffs of 10% (later raised to 20%), targeting agricultural products as well as implementing controls on certain exports.

The European Union wishes to negotiate primarily while preparing retaliatory measures if necessary

Following Donald Trump's announcements, Ursula von der Leyen stated that the European Union was ready, as always, to negotiate with the United States to remove the remaining barriers to transatlantic trade. At the same time, she indicated that the EU was prepared to respond if necessary. The EU is finalizing retaliatory measures against the increase in tariffs on steel and is preparing additional measures in case negotiations fail.

The EU is expected to announce retaliatory measures in response to the tariffs on steel and aluminum

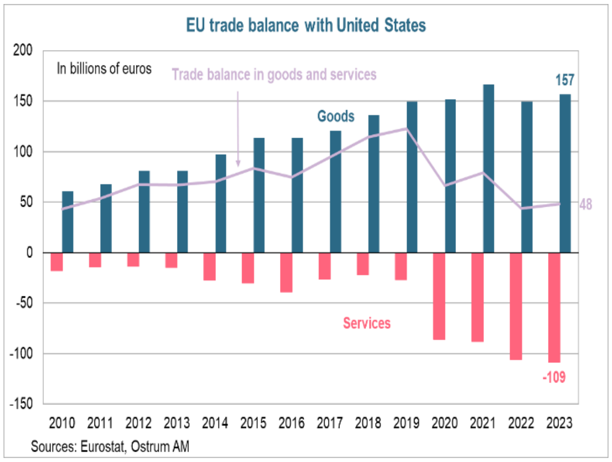
The European Union is expected to announce retaliatory measures in mid-April in response to the 25% tariffs imposed by the United States on aluminum and steel imports. A first list of American products was initially set to be announced on April 1, with a second list in mid-April. However, Trump's threat to impose 200% tariffs on European wines and spirits if American whiskey and bourbon were targeted led the EU to postpone these announcements. If these products were to be removed from the list, motorcycles, boats, certain agricultural products, and household goods would likely be included.

The EU is also preparing a unified response to the reciprocal tariffs and those on automobiles. Opinions differ between France and Germany, which advocate for a firm response, and Italy and Hungary, which are much more measured. On Friday, the European Commissioner for Trade, Maros Sefcovic, spoke with the U.S. administration, indicating that the EU was engaged in meaningful negotiations. These negotiations could include a reduction of European tariffs on certain imports from the United States (such as automobiles), increased purchases of U.S. natural gas, potential joint investments, and a relaxation of certain regulations and standards.

In the event of a failure in negotiations, the EU is preparing retaliatory measures. These could include an increase in certain customs tariffs, taxes on American services, and targeting American technology companies.

The EU could also impose taxes on imports of services from the United States.

As we can see from this graph, while the EU's trade balance with the United States is surplus in goods (with a surplus of 157 billion euros in 2023 and 198 billion euros in 2024), the situation is quite different for the trade balance in services: it is in deficit by 109 billion euros in 2023. Thus, the EU's overall trade balance with the United States in goods and services was a surplus of 48 billion euros in 2023.



The EU's Anti-Coercion Instrument

The EU could ultimately use the anti-coercion instrument

In December 2023, the EU established a new tool to combat unfair trade restrictions imposed by third countries: the Anti-Coercion Instrument. This was created in response to the trade restrictions imposed by China on Lithuania. It has never been used. Primarily, it serves as a deterrent aimed at resolving trade conflicts through negotiation. However, it can be used as a last resort by imposing restrictions on trade, investments, and financing.

This instrument allows the EU to increase customs duties, restrict the trade of services and certain aspects of intellectual property rights, limit access to foreign direct investments, as well as to public procurement. The instrument also enables the EU to demand that the third country compensate for the damage caused.

Measures in Preparation to Guard Against the Massive Influx of Chinese Products

The EU is also developing measures to protect itself from a massive influx of highly competitive Chinese products, especially after the significant increase in U.S. tariffs on Chinese goods. The EU had already announced, last October, a potential tax of up to 35% on imports of Chinese electric vehicles due to unfair competition linked to massive public subsidies.

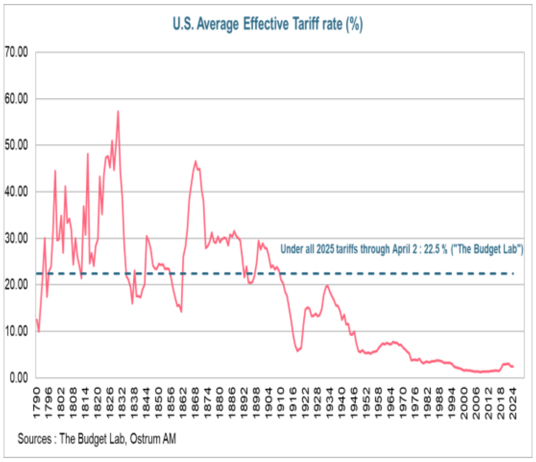
Negotiation is not Trump's priority

Donald Trump appears determined to maintain high tariffs

By invoking a national emergency, the Trump administration's priority is to implement the announced tariffs to put an end to unfair practices by trading countries, reindustrialize the United States, and create jobs. While U.S. stock markets experienced their largest decline over two days since the shock related to COVID, Donald Trump addressed investors on social media to inform them that "his policies would never change." The goal is to make these tariffs permanent to provide visibility to companies and foreign investors so they will invest in the United States to avoid U.S. customs tariffs.

Consequences for the Global Economy

The average effective tariff rate on American imports has reached its highest level since 1909



The measures announced by the Trump administration on April 2, combined with those taken since the beginning of 2025, represent a significant shock to global trade. The announcements on April 2 resulted in an increase of the average effective tariff rate applied to U.S. imports by 11.5 percentage points, according to estimates from Yale's research center, "The Budget Lab." With the measures implemented since the beginning of the year, this raises the effective tariff rate to 22.5%, the highest level since 1909! It was only 2.4% in 2024. This increase in tariffs will weigh on global growth. In 1930, the enactment of the Smoot-Hawley Tariff Act resulted in higher taxes on U.S. imports to protect certain businesses and the agricultural sector. This led to retaliatory measures from affected countries. While these tariffs were not the cause of the Great Depression, they exacerbated its impact through a decline in global trade and its diffusion to the rest of the world.

The WTO forecasts a 1% contraction in global trade volume for the year.

According to estimates from the World Trade Organization, global merchandise trade volumes could contract by 1% over the year, and even more in the event of retaliatory measures, which is substantial. This could disrupt global supply chains.

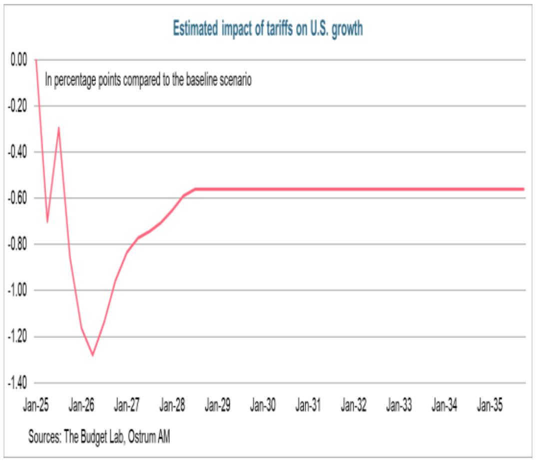
The rise in import prices will partially affect businesses but also American consumers. The least advantaged households will be the most affected. There will also be an indirect impact through

Global growth will be affected by the direct impact of tariffs and the indirect effect of increased uncertainty on investment and employment

increased uncertainty, which is expected to lead business leaders to adopt a cautious approach regarding investments and employment, while households will become more prudent. American consumer confidence has significantly declined in recent months due to expectations of higher inflation and fears of slower growth and a less robust job market. These tariffs therefore increase significantly the risk of recession across the Atlantic. The tariffs will also weigh on the exports of trading partners, but the impact of uncertainty on investment and employment is expected to be the most significant factor affecting their growth.

The risk of recession has significantly increased in the United States

According to estimates from "The Budget Lab," the tariffs announced in 2025 and the retaliatory measures implemented to date would result in real GDP growth being lower by -0.9 percentage points in 2025 and -0.1 percentage points in 2026. The impact would be permanent on activity, amounting to -0.6% in the long term. The tariffs would generate a short-term increase in the price level of 2.3%, resulting in an average loss of $3,800 per household. The least advantaged households would be the most affected.



The eurozone will not be spared. The extent of the slowdown will depend on potential retaliatory measures and the duration of the implementation of the tariffs.

During her address to the European Parliament, Christine Lagarde presented the European Central Bank's estimates of the impact of a 25% increase in tariffs on all U.S. imports from the EU. The impact on GDP would be greatest in the first year, amounting to 0.3 percentage points, and 0.5 percentage points in the event of retaliatory measures being adopted. The impact on activity would subsequently decrease but remain persistent. Inflation prospects would become more uncertain. In the short term, the EU's retaliatory measures and a weaker euro exchange rate, resulting from reduced U.S. demand for European products, could increase inflation by about half a percentage point. This effect would ease in the medium term due to lower economic activity, which would dampen inflationary pressures.

Conclusion

The protectionist policy pursued by the United States constitutes a significant shock to international trade, which will have repercussions on global growth. The risk of recession across the Atlantic has clearly increased, as has the risk of higher inflation. The extent of the slowdown in the global economy will depend on whether retaliatory measures are adopted, the potential escalation of the trade war, and the duration of the implementation of the tariffs. It is unlikely that these tariffs will be reduced quickly, as Donald Trump appears determined to keep them high long enough to encourage foreign-based investors to invest in the United States.

Aline Goupil-Raguénès

Market review

The Misunderstood Genius Syndrome

Equity markets have capitulated in favor of fixed income markets following the sweeping tariffs announced by Donald Trump. The 10-year Treasury note has plunged below 4%, reclaiming its status as a safe haven at the expense of gold. The first tangible signs of a slowdown are emerging in the U.S. labor market.

The brutal imposition of tariffs on all countries has sparked a global financial storm. The Trump administration aims to rectify bilateral trade imbalances by imposing tariffs commensurate with each deficit. However, the chronic external deficit of the United States largely reflects the central role of domestic demand in the global economy and the lack of domestic production that could substitute for imports. Beyond the direct impact of tariffs on consumer prices, this taxation of importers will recreate the disruptions in supply chains that emerged during the COVID-19 pandemic. Global trade is likely to contract. The prospect of recession is increasing, particularly if market weakness leads to a credit crunch. The credit quality of U.S. households is already deteriorating, putting consumers on a precarious edge. Improvements in surveys from Europe or China go almost unnoticed. Canadian and Chinese retaliatory measures are adding to this deleterious dynamic. China is matching U.S. tariffs while implementing embargoes on its exports and American companies. The escalation is underway—will it force Donald Trump to bend? On the employment front, job openings are decelerating, and hiring rates continue to moderate. Nevertheless, job creation was reported at 228,000 in March. Layoff announcements are piling up in the public sector and retail, which are caught in a squeeze between tariff pressures and falling consumer confidence, yet these sectors are still increasing headcounts. Healthcare, for instance, created another 77,000 jobs.

Liquidation flows are cascading across all risky asset markets. The VIX index of implied volatility has reapproached the 40% mark, signaling acute stress in the markets. The underperformance of U.S. equities has become widespread this week, with the Nikkei dropping 9% and European markets down 8%. European bank stocks, which had significantly outperformed since the beginning of the year, are now subject to profit-taking. The 10-year Treasury note has broken through the 4% floor as markets price in a more aggressive response from the Federal Reserve. Money markets now forecast a full 100 bps of easing in 2025. Speculation around an emergency intervention is plausible if financial conditions point to an immediate downturn in economic activity. As concerns the European Central Bank, market participants anticipate an additional reduction in the deposit rate to 1.75%, or even 1.50%. The Bund is trading around 2.50%, with little impact on sovereign spreads, which remain relatively measured. The political risk in France adds a mere 1 basis point to the widening of spreads, while the BTP trades at 115 basis points. Credit spreads, particularly in the high yield segment, are suffering from the decline in equities. Investment-grade spreads have widened by about 10 basis points to 95 basis points against swaps. The rise in spreads on U.S. high yield bonds (+100 basis points in 2025) is likely not yet over, given the valuation levels and the impending refinancing needs next year.

Axel Botte

Main market indicators

G4 Government Bonds	07-Apr-25	1wk (bp)	1m (bp)	2025 (bp)
EUR Bunds 2y	1.71%	-34	-54	-37
EUR Bunds 10y	2.51%	-23	-32	+15
EUR Bunds 2s10s	79.9 bp	+11	+21	+52
USD Treasuries 2y	3.59%	-30	-41	-65
USD Treasuries 10y	3.98%	-23	-33	-59
USD Treasuries 2s10s	38.1 bp	+6	+8	+6
GBP Gilt 10y	4.45%	-22	-18	-11
JPY JGB 10y	1.12%	-37	-21	-4
€ Sovereign Spreads (10y)	**07-Apr-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
France	80 bp	+9	+9	-2
Italy	120 bp	+7	+7	+4
Spain	75 bp	+12	+12	+6
Inflation Break-evens (10y)	**07-Apr-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
EUR 10y Inflation Swap	1.86%	-18	-21	-7
USD 10y Inflation Swap	2.29%	-21	-16	-17
GBP 10y Inflation Swap	3.23%	-16	-23	-30
EUR Credit Indices	**07-Apr-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
EUR Corporate Credit OAS	117 bp	+23	+25	+15
EUR Agencies OAS	55 bp	+6	+4	-7
EUR Securitized - Covered OAS	49 bp	+3	+3	-7
EUR Pan-European High Yield OAS	398 bp	+60	+98	+80
EUR/USD CDS Indices 5y	**07-Apr-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
iTraxx IG	82 bp	+18	+27	+25
iTraxx Crossover	413 bp	+84	+118	+100
CDX IG	77 bp	+15	+24	+27
CDX High Yield	462 bp	+81	+130	+151
Emerging Markets	**07-Apr-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
JPM EMBI Global Div. Spread	384 bp	+38	+56	+58
Currencies	**07-Apr-25**	**1wk (%)**	**1m (%)**	**2025 (%)**
EUR/USD	$1.096	1.322	1.163	5.8
GBP/USD	$1.281	-0.836	-0.851	2.3
USD/JPY	JPY 146	2.390	1.079	7.3
Commodity Futures	**07-Apr-25**	**-1wk ($)**	**-1m ($)**	**2025 (%)**
Crude Brent	$64.0	-$10.8	-$5.9	-13.1
Gold	$3 027.4	-$96.2	$118.3	15.4
Equity Market Indices	**07-Apr-25**	**-1wk (%)**	**-1m (%)**	**2025 (%)**
S&P 500	5 074	-9.08	-12.06	-13.7
EuroStoxx 50	4 631	-11.77	-15.32	-5.4
CAC 40	6 908	-11.33	-14.93	-6.4
Nikkei 225	31 137	-12.58	-15.59	-22.0
Shanghai Composite	3 097	-7.60	-8.18	-7.6
VIX - Implied Volatility Index	48.41	117.28	107.15	179.0

Source: Bloomberg, Ostrum AM

Additional notes

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