Global Rout after Trump's Shocking Tariff Scheme

April 2025

On April 2, 2025, the U.S. implemented sweeping reciprocal tariffs, sparking global market turmoil. U.S. and Taiwanese stock markets plummeted, reflecting investor fears. While the tariffs pose a substantial economic threat, particularly to export-reliant nations, mitigating factors exist, including potential negotiation adjustments and offsetting policy measures. Notably, semiconductors are temporarily exempt. China responded with a 34% retaliatory tariff on U.S. goods. Taiwan, however, opted for non-retaliation, emphasizing U.S. investment alignment. The long-term impact hinges on negotiation outcomes and global policy responses.

By Cathay SITE

On 2 April 2025 , U.S. President Donald Trump officially announced the implementation of a reciprocal tariff policy, which significantly exceeded market expectations. He signed an executive order imposing a 10% universal tariff on all U.S. imports starting 5 April, and a 10% to 50% reciprocal tariff on approximately 60 countries identified as engaging in unfair trade practices starting 9 April, together bringing the U.S. effective tariff rate to approximately 27% from 2.5% and marking a 25% increase.

The U.S. stock market experienced significant declines, with the Dow plunging by 8.75%, the broader S&P 500 being 10.51% lower and the tech-heavy Nasdaq being 11.44% lower in the week after the tariff announcement. With a reciprocal tariff of up to 32%, Taiwan experienced a sharp decline in its stock market post-Tomb Sweeping Day, with the index falling below 20,000, down 2066 points (9.7%).

It never rains but it pours

According to Cathay SITE's internal model, the global economy may have reached a peak. The newly announced tariffs are expected to exert extra downward pressure on the global economy, particularly in the second and third quarters. However, several mitigating factors could cushion the impact:

1. **Tariffs Represent a "Ceiling"**: The announced figures are considered upper limits, with actual rates likely to be lower depending on negotiation outcomes.
2. **Offsetting Policy Measures**: U.S. tax cuts are still in play, and other countries are expected to roll out expansionary fiscal and monetary policies to counter the effects.
3. **Realignment of Global Trade**: Export-oriented countries may increasingly shift toward non-U.S. markets to reduce their dependence on U.S. demand.
4. **Reduced Uncertainty Post-Negotiations**: The commencement of negotiations may help stabilize market sentiment by clarifying policy direction.

Semiconductors dodge tariffs in this round

Certain products like copper, pharmaceuticals, lumber, and semiconductors are currently spared tariffs, pending further investigation and will not face immediate tariff hikes. It is expected that a 6-9 month investigative process under Section 232 will be required before any additional tariffs are imposed.

Because the U.S. lacks viable domestic substitutes for these products, any imposed tariffs would likely be passed on to consumers,

resulting in higher inventories and weaker sales. The current policy appears to be more of a “warning shot” aimed at encouraging foreign companies to relocate production to the U.S. rather than a direct tariff imposition - at least for now. Semiconductors are exempt under Trump’s initial round of reciprocal tariffs but he still plans on tariffing foreign-made chips. Therefore, investors should note short-term volatility while keep an eye out for demand changes in the long-term.

In 2024, Taiwan's exports amounted to $475 billion, with electronic products accounting for $309.7 billion (chips $177.2 billion, ICT $132.5 billion), making up 65%. Most of these are components exported to China, ASEAN, and Mexico for assembly before being shipped to the U.S., with only a small portion directly exported to the U.S. Trump hopes to reshore its manufacturing, and major Taiwanese server manufacturers have indicated that they are contemplating setting up factories in the U.S. or have already gotten on with it. This move is supposed to moderate the tariff impact in the course of time.

Taiwan’s President Lai Ching-te stated on 6 April that Taiwan had no plans to take tariff retaliation and reiterated commitments to U.S. investments as long as they align with national interests. Lai proposed zero tariffs as the basis for talks with the U.S., with reference to the U.S.-Canada-Mexico free trade agreement.

China’s swift strike

In contrast, on 4 April, China announced that it will impose a 34% tariff on all imported goods from the U.S. starting 10 April as a retaliatory measure.

In 2024, the United States' dependency on imports from China decreased to 13.4%, with a higher proportion of miscellaneous manufactured goods (toys, travel accessories, clothing), transportation equipment, and machinery. Conversely, imports from the U.S. accounted for 6.33% of China's total imports. The dependency on bilateral trade has reduced compared to the 2018 trade war.

Trump's tariffs on China may cause market fluctuation, potentially leading to a decrease in trading volume and financing balances. Industries heavily reliant on exports might be significantly impacted, while funds may shift towards defensive sectors and domestic demand themes. The performance of A-shares will predominantly governed by recovery of fundamentals and domestic demand, with a lesser influence of U.S.-China trade relations.

We believe the U.S. may bear the brunt of the tariff war should it happen and advise investors to consider the event as another "Trumpandemic" and focus on fundamentals. While Trump’s reciprocal tariff policy may temporarily unsettle global markets, the eventual outcome will depend on how countries respond through negotiations and policy measures.

Note: Indices mentioned herein are for information only. Past performance of each index is no guarantee of current or future results. Securities mentioned herein are for informational purposes only and should not be interpreted as recommendation to buy or sell any security. Investors should carefully consider the investment objectives and risks.

【Cathay SITE is operated independently.】This document is solely for informational purposes and should not be construed as investment recommendations for specific clients. All content in this document is information of a general nature and does not address the financial circumstances and particular needs of any particular individual or entity. Therefore, information provided herein may not be suitable for all clients or investors. **Readers should be aware that they are self-responsible for evaluating the investment risks and their investments.** The making of this document is based on information which Cathay SITE deems reliable. However, Cathay SITE makes no guarantee of the entireness or correctness of the information contained in this document notwithstanding our efforts to use reliable and general information. Opinions or estimation contained in this document reflect the views when this document was made; Cathay SITE will not make subsequent notifications if relevant information or views changed. Cathay SITE is under no obligation to update the content of this document or follow up the analysis on the topics covered herewith. **This document does not constitute an offer or solicitation to buy or sell any securities or other financial instruments.** This document may not be copied, circulated, reproduced or distributed without the prior written consent of Cathay SITE.