PERSPECTIVES Special

Hefty stock price reactions to U.S. tariffs

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Key takeaways

- U.S. trade policy and its sometimes unexpected twists and turns have caused unusually strong market movements in recent days.
- Although U.S. President Trump announced a "tariff pause“, the trade conflict with China continued to escalate. Concerns grew in the capital markets regarding a global economic downturn. However, U.S. bonds and the USD are not in demand as a "safe haven."
- In the event of further equity market setbacks long-term investors could take advantage and buy more attractively valued stocks – particularly European stocks or technology companies.

01

What happened?

On April 2, U.S. President Donald Trump announced "reciprocal tariffs" of varying magnitudes on U.S. trading partners. These came into effect on April 9 after midnight Eastern Daylight Time and were significantly higher than previously expected by market consensus. A few hours later, however, Trump announced a 90-day tariff pause and reduced tariffs to 10% for nearly all U.S. trading partners for this period, with the exception of China. Last week, the tariffs on Chinese goods were raised to 145%, after which China, in turn, increased import tariffs on U.S. products to 125%.

Although Donald Trump initially announced a reduction to 20% for the tariff on electronic goods that China exports to the U.S. over the weekend, he emphasised that this was only a temporary step. He also announced decisions on tariffs on U.S. imports of semiconductors and pharmaceutical products for the course of Holy Week.

The U.S. President's erratic and sometimes only briefly applicable decisions caused massive price movements across all asset classes. Due to uncertainty surrounding trade policy and supply chains and raw material supplies to industry, markets are now pricing in a higher probability of a noticeable slowdown in the U.S. and global economy, along with a simultaneous rebound in inflation rates.

02 What does it mean for investors?

Bonds

In particular, the U.S. bond markets priced in a higher probability that the U.S. Federal Reserve (Fed) would have to cut interest rates more sharply than previously priced in due to the deteriorating outlook for the U.S. economy, while at the same time, inflation rates are likely to rise. As a result, the yield curve steepened significantly last week: While U.S. Treasury yields declined at the short end, because the effect of impending interest rate cuts is more relevant there, they rose sharply at the long end.

For example, while 10-year U.S. Treasuries yielded below 4.0% at the end of the day on Friday, April 4, in an initial reaction to the tariffs, they closed at 4.49% a week later. This was the largest weekly increase since 2001. The yield on 30-year U.S. Treasuries briefly rose above 5.0% during the week and closed the week up 46 basis points, the largest weekly gain since 1987.

Also striking last week was a strong divergence in the yield trends between government bonds of various countries. Similar to their stance on the U.S., many market participants also appear to be questioning the UK's financial performance – yields there rose noticeably. Yields on Japanese government bonds were also unable to escape the upward pressure. In contrast, 10-year German Bunds ended the week at 2.57%, exactly the same as the previous week. The spread between these and U.S. Treasuries of the same maturity thus widened by 50 basis points last week – the largest weekly difference since 1990, the year that statistics began to be collected and German reunification took place. Since April 2, yields have fallen by 15 basis points, a stark contrast to the yield trend in the U.S.

Under normal circumstances, U.S. Treasury bonds have historically been in demand as a "safe haven" in times of high market volatility or crises, including during the 2008/2009 financial crisis, even though that crisis originated in the U.S. However, this appears to have changed in the current market situation. The fluctuations in U.S. tariff policy and the lack of consideration for the resulting economic consequences currently appear to be leading to a loss of confidence in U.S. investments. Some investors appear to be doubting the exceptional position the U.S. economy has enjoyed in past years.

However, the "tariff pause" announced on April 9 and the reduction of global tariffs for most countries to the current level of 10% may have been a reaction to the strong selling in the U.S. bond markets that same day. In general, the U.S. government's focus is likely to be more on bond markets than on equity markets – after all, Donald Trump is also planning a significant tax cut. Thus, strong market reactions in the bond markets could well lead to a greater willingness to compromise regarding the tariff negotiations, which is why yields are likely to remain high in the medium term ("higher for longer"), but which may also provide entry opportunities for risk-tolerant investors in the near future.

This is particularly true for European government bonds and European investment-grade bonds, which have proven quite stable during the market turmoil of the past week.

FX

On the currency markets, the USD has also not been the "safe haven" it used to be. Quite the opposite – here, too, there appears to have been a noticeable loss of confidence in the U.S. currency. This, at least, seems to fit with the plans of the U.S. government, which has already called on some trading partners, particularly in Asia, to strengthen their currencies.

Between "Liberation Day" and the end of last week, the trade-weighted USD index lost nearly 4%, falling to a three-year low. The Swiss franc, in particular, thrived as a safe haven currency, gaining 8.2% against the USD during this period to a ten-year high. In addition to the yen, the euro was also in demand, rising from around EUR/USD 1.08 on "Liberation Day" to a three-year high of 1.1473 last Friday. The single currency achieved its biggest daily gain against the greenback in ten years from Thursday to Friday.

Losers on the currency markets, however, were the Australian dollar (AUD), which could be severely affected by the trade conflict between the U.S. and China, and the Norwegian krone (NOK), due to the risk-averse sentiment and pressure on crude oil and natural gas prices.

Fears that China could significantly devalue the renminbi (RNB) to at least partially offset the loss of exports to the U.S. have not materialised to date. Although the renminbi depreciated slightly in the daily fixing, this was done in a very orderly manner and still to a small extent.

It is also striking that the usual correlation between high interest rates and yields and the external value of a currency is currently reversed: The more yields rose in the U.S. and UK, the greater became the pressure on the currencies.

Following the very high volatility in the currency markets, which was also likely due to the very strong long positions in USD in the run-up to "Liberation Day," which are likely to have been largely unwound in recent days, the price fluctuations, which were quite unusual for currency markets, may now be somewhat less severe.

However, the currency markets also appear to have lost confidence in the USD, which may be difficult to repair in the short term. The more severe the conflicts that U.S. tariff policy stokes in the future, the greater the downward pressure on the USD could increase. The reason for this is the assumption of a resulting economic downturn in the U.S., to which the U.S. Federal Reserve could presumably respond with interest rate cuts despite the risk of inflation. Despite occasional assurances to the contrary, the market consensus remains that the U.S. government wants a weaker USD to stimulate its export industry.

The exact extent to which foreign investors have exited U.S. Treasury bonds and thus USD positions will only be revealed in the data in a few weeks' time.

The USD weakness may continue due to uncertainties regarding future U.S. trade policy, but the potential depreciation could be more orderly.

Commodities

Commodity markets reacted in different ways to "Liberation Day":

Gold: Gold prices initially came under pressure, as gold positions were sold, particularly on the futures exchanges, in order to meet margin calls on loss-making positions, for example on the equity markets, or to generate liquidity. It is not unusual for gold to initially lose value when market turmoil looms, this has often been observed. However, the gains in the past week were all the stronger: From April 9, the start of the "reciprocal" tariffs, to April 11, gold prices rose by more than 8% within three trading days. Since "Liberation Day" they have thus gained 3.3%, the record high was marked at around USD3,245/ounce.

Energy commodities: By contrast, oil prices in particular came under severe pressure. Concerns about the global economy and a simultaneous slight increase in production by OPEC+ resulted in a noticeable price setback. Brent lost 13.6% from April 2 to 11. Natural gas prices also came under pressure.

Industrial metals: Here, too, concerns about a slowdown in the global economy are playing a role. Copper fell by more than 5% on the London Metal Exchange during this period, while aluminum, which has been subject to tariffs since mid-March, fell by around 3.75%. However, the majority of industrial metals are trading well above their lows of Monday, April 7 - copper, for example, by more than 10%. This is said to be particularly due to purchases by industrial consumers in China, who took advantage of the low price level. In addition, many market participants are anticipating additional fiscal stimulus in China in the near future.

If confidence in the USD or U.S. government bonds has been sustainably damaged, gold continues to be a "safe haven." Setbacks in gold prices were recently viewed by central banks as well as Asian private and institutional investors as a buying opportunity, which - despite the high price level – is likely to remain so in the future.

Recently, recession scenarios have been increasingly priced into the energy and industrial metals markets. Expected stimuli in China to strengthen the real estate markets and domestic demand, as well as possible fiscal support measures in the Eurozone – if the trade conflict escalates further – and the planned infrastructure measures in Germany could counteract the recession scenarios. Oil prices, in particular, could possibly be close to finding a floor.

Equities

Equity markets around the world have reacted very negatively to the aggressive U.S. tariff policy. The S&P 500 and Nasdaq 100 each lost just under 13% between the tariff announcement on April 2 and their postponement or tariff pause from April 9, extending their losses from their highs reached in mid-February. The Nasdaq 100 temporarily fell into bear market territory (-22.9%), while the S&P 500 narrowly avoided this fate at -18.9%. Europe's STOXX 600 fared little better than its U.S. counterparts, also losing around 13%. From its high on March 3, the pullback was almost 17%. In Asia, stock prices also went into a tailspin. The MSCI China fell into a bear market after a rally of over 30% between mid-January and mid-March, while the MSCI Japan narrowly escaped this fate.

The reaction to the postponement of the tariffs was then very positive in all regions. U.S. equity markets even posted one of their best trading days ever last Wednesday. However, the euphoria over the tariff pause faded worldwide in the following days and prices fell again by a few percent. Today, all the indices mentioned are still trading more than 10% below their respective year-to-date highs.

Beneath the index surface, cyclical and export-dependent or expensively valued sectors in particular posted the sharpest declines following the tariff announcement. In the S&P 500, energy (-18.4% between April 2 and April 9), IT (-14.4%), materials (-14.3%) and consumer discretionary (-13.4%) were hit particularly hard. At the same time, the defensive sectors consumer staples (-6.3%), healthcare (-7.8%), utilities (-8.0%) lived up to their reputation and held up somewhat better. In Europe, the picture was very similar: Energy (-19.1%), banks (-17.2%) and basic materials (-16.4%) posted the largest declines, while consumer staples (-5.5%), utilities (-7.4%) and real estate (-8.4%) fell significantly less.

In the recovery phase that began with the postponement of tariffs, the sectors that had previously been sold off the most then rallied the most. In the S&P 500, the IT sector gained just under 12% from its low, while materials, industrials and consumer discretionary each rose by around 8%. Energy stocks, on the other hand, were only able to gain about 3% due to the hitherto only moderate recovery in the oil price. Again, the same picture emerged in Europe. From their lows, banks (+8.8%) and basic resources (+8.1%) have made significant gains, while the energy sector (+5.5%) is lagging somewhat. Defensive sectors are up as much as 5% each in both the U.S. and Europe. The described performance pattern could also be observed in Japan and China.

Looking ahead, the development of U.S. trade policy is likely to remain the key factor for equity markets. Due to the erratic course the U.S. administration is currently taking, however, there are likely to be further noticeable swings in both directions. We believe it is unlikely that share prices will return to their pre-April 2 levels any time soon. After all, the economic environment in which companies operate has already deteriorated significantly, if only because of the 10% minimum tariff and international retaliatory measures. A testing of the previous lows cannot be ruled out at this point in time. After all, in our estimation, a recession in the U.S. economy, in which the S&P 500 has historically lost an average of 30%, was priced in at most 50%. Should the situation in the U.S. economy deteriorate further, prices are likely to fall again.

European equities could then hold up somewhat better than their U.S. counterparts due to their significantly lower valuations, but in the past European equities have rarely been able to escape the pull from the U.S. and have generally also declined.

For investors with a long investment horizon and a corresponding risk appetite, there are also opportunities at present, despite all the uncertainties. The valuations of sectors that we consider to be good long-term investments have fallen to interesting levels. In Europe, these include banks and insurance companies as well as industrial stocks. In the U.S., courageous investors could look at shares in the large digital groups, although the announcement of Trump's announced tariffs on semiconductors should be awaited before entering.

For investors who wish to position themselves more defensively in the current environment, we recommend the telecommunications, utilities and consumer staples sectors in Europe. These are barely directly affected by tariffs and have attractive valuations. Their P/E ratios for expected earnings for the next twelve months are 14x, 12x and 14x respectively.
Telecommunications companies are thus currently trading at about the same price as the average for the past ten years, while utilities and consumer staples are trading at discounts of around 10% each.

Caution is currently advised with healthcare stocks, which may not live up to their reputation as a defensive market segment this time around. After all, Trump has announced there will be tariffs on pharmaceutical imports. Although European pharmaceutical companies have production sites in the U.S., which should cushion the direct effect of the tariffs, it would still be noticeable. Accounting for over 40% of revenues, the U.S. is the most important market for the industry. In addition, the recent depreciation of the USD is weighing on the industry's profits.

In the U.S., utilities are particularly convincing among the defensive sectors, with comparatively low valuations (P/E: 17x, -4% discount to the 10-year median) and solid earnings growth prospects of 5% and 8% for 2025 and 2026 respectively.

Glossary

EUR is the currency code for the euro, the currency of the Eurozone.

Price/earnings (P/E) ratios measure a company's current share price relative to its per-share earnings. In this context, LTM refers to last twelve months' earnings.

The **London Metal Exchange (LME)** is a major centre for industrial metals trading.

Median is the data point located in the middle of the data range.

The **MSCI China** includes various Chinese share types (A shares, H shares, B shares, Red chips, P chips and foreign listings, e.g., ADRs), with a focus on large and mid caps.

The **MSCI Japan Index** includes Japanese large and mid cap stocks that account for about 85% of the free float-adjusted market capitalization in Japan.

The **NASDAQ Index** is a market-capitalization weighted index of around 3,000 equities listed on the NASDAQ exchange.

The **OPEC (**Organization of the Petroleum Exporting Countries) is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members. The so-called "**OPEC+**" brings in Russia and other producers.

The **S&P 500 Index** includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The **Stoxx Europe 600** includes the 600 largest companies across 17 European Union countries.

Treasuries are bonds issued by the U.S. government.

USD is the currency code for the U.S. Dollar.

The **U.S. Dollar Index (DXY)** is a weighted index based on the value of the U.S. dollar versus a basket of six other currencies.

Appendix

Historical performance

Performance	16.4.2020 - 16.4.2021	16.4.2021 - 16.4.2022	16.4.2022 - 16.4.2023	16.4.2023 - 16.4.2024	16.4.2024 - 16.4.2025
S&P 500 Energy	55.0%	66.4%	10.3%	7.7%	-15.9%
S&P 500 IT	62.4%	2.3%	0.9%	42.7%	6.0%
S&P 500 Materials	70.8%	7.8%	-8.9%	9.7%	-7.9%
S&P 500 Consumer Staples	17.0%	14.9%	-4.7%	-0.7%	15.4%
S&P 500 Consumer Discretionary	59.0%	-2.4%	-18.6%	23.8%	7.2%
S&P 500 Health Care	23.0%	14.2%	-2.9%	3.0%	0.0%
S&P 500 Utilities	14.6%	13.2%	-9.4%	-8.9%	23.9%
Stoxx 600 Energy	26.9%	29.6%	8.2%	8.6%	-19.7%
Stoxx 600 Banks	59.0%	4.8%	13.5%	20.5%	27.3%
Stoxx 600 Basic Materials	58.5%	10.9%	-9.6%	1.3%	-16.0%
Stoxx 600 Consumer Staples	8.0%	7.3%	-2.2%	-14.9%	5.9%
Stoxx 600 Utilities	27.1%	1.7%	-2.0%	-7.3%	14.4%
Stoxx 600 Real Estate	23.4%	2.7%	-35.9%	4.8%	0.9%
Stoxx 600 Telecommunication	13.6%	6.7%	-9.3%	-13.8%	29.5%
Stoxx 600 Insurance	42.0%	5.6%	-0.4%	9.5%	25.5%
Stoxx 600 Industrials	65.0%	-5.7%	5.3%	17.3%	4.9%
Stoxx 600 Health Care	3.6%	23.5%	-3.8%	2.8%	-9.9%
Stoxx 600 Consumer Discretionary	62.5%	-10.1%	14.6%	3.4%	-13.9%
10-Year U.S. Treasury	-6.7%	-8.7%	-3.1%	-5.5%	6.7%
30-Year U.S. Treasury	-19.4%	-11.3%	-14.6%	-12.9%	3.5%
10-Year German Bund	-1.7%	-9.4%	-11.1%	2.2%	2.3%
10-Year British Gilts	-1.7%	-9.4%	-11.1%	2.2%	2.3%
10-Year Japanese government bonds	-0.3%	-1.0%	1.8%	-2.5%	-2.2%
ICE BofA All Maturity All Euro IG Government Index	2.2%	-7.9%	-9.4%	3.6%	3.8%
EUR/USD	10.6%	-9.8%	1.8%	-3.5%	6.9%
CHF/USD	-5.2%	2.5%	-5.2%	2.1%	-10.7%
GBP/USD	11.0%	-5.6%	-4.9%	0.1%	6.1%
NOK/USD	-20.0%	5.3%	17.8%	5.8%	-3.8%
AUD/USD	22.2%	-4.3%	-9.3%	-4.6%	-1.2%
JPY/USD	0.8%	16.2%	5.9%	15.6%	-7.6%
CNY/USD	-7.9%	-2.3%	7.9%	5.3%	1.0%
Gold	3.1%	10.7%	1.5%	19.4%	34.9%
Brent	253.0%	68.0%	-21.2%	4.6%	-27.6%
Natural Gas NYME HH	65.4%	163.9%	-73.1%	-26.2%	187.7%
Copper	80.3%	11.6%	-12.3%	3.6%	-2.1%
Aluminium	56.1%	42.1%	-27.8%	8.0%	-8.5%
S&P 500	52.0%	6.4%	-4.2%	24.0%	8.5%
Nasdaq 100	61.6%	-0.4%	-5.0%	36.6%	6.9%
Stoxx 600	39.8%	6.9%	4.8%	10.3%	3.6%
MSCI China	38.5%	-34.5%	-2.6%	-16.4%	31.8%
MSCI Japan	42.1%	-0.1%	8.1%	38.4%	-7.0%
Magnificent 7	110.1%	9.8%	-6.2%	69.4%	14.3%

Source: Deutsche Bank AG, LSEG Datastream. Data as of April 15, 2025.

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