Trump is Red, Tariffs are Due, Talks with Putin turn Ukraine Blue

President Trump's bluster briefly appeared to coalesce into something more solid this week with a plan to impose reciprocal tariffs on countries that are imposing their own tariffs on US goods and services.

He did not, however, go as far as to sign an executive order, despite summoning the media to the Oval Office for the announcement, instead signing a memorandum which directs federal agencies to investigate and address discriminatory or extraterritorial practices.

This directive will delve a little deeper and explore the impact of more indirect protectionist policies such as VAT and digital services taxes which have been implemented by many European countries.

Capital markets have been relatively sanguine, in part because we are yet to face double-digit blanket tariffs but also calmed by the 180-day period for agencies to report their findings. We've now had several successive pieces of evidence that President Trump, or potentially his advisers, favours reciprocal, piecemeal, and policy specific tariffs instead of massive across-the-board tariffs, and that approach will be more welcome.

While the US is likely to push ahead with tariffs on China, the impact may be softened by the significant shift in trade flows since Trump's last presidency, when equity markets corrected as global trade slowed in response to the ensuing trade war:

	Share of US Imports							
	China	Mexico	Vietnam	India	Korea	Taiwan	Thialand	Europe
China Peak, 2018	21.59	13.24	1.98	2.07	2.95	1.8	1.31	18.63
March 2024	11.46	15.91	3.81	2.9	4.44	4.97	2.01	20.89
% Change	-47%	20%	92%	40%	51%	176%	53%	12%

Source: GMO, citing the data as from the Federal Reserve Bank

The dollar is being pulled in two directions. As we expect, the promise of tariffs and their impact on domestic prices should push up inflation expectations and in turn that should maintain expectations for higher bond yields. At the same time other developed economies are struggling for growth and central banks are beginning to cut interest rates as a result. The consequence is a bond yield differential that should increase the relative value of the dollar.

This week's announcement of tariffs on steel and aluminium have already begun to push up domestic US prices of many industrial metals as manufacturers attempt to lock in prices in the futures market. One notable outcome is the large disparity between metal prices in the US compared to the London Metals Exchange, for example. It has also resulted in a huge amount of physical metal being shipped across the Atlantic to back these contracts.

US headline inflation data for January has come in hotter than expected this week at 3.3% year-on-year reconfirming the resilience of the US economy in the face of higher borrowing costs, and making it all but certain, in bond markets at least, that the Federal Reserve will hold on interest rates instead of cutting at the next meeting in March. That reinforces this strong dollar narrative.

At the same time, data from the other component of the Fed's dual mandate, US employment, is yet to indicate any reason to be concerned reporting lower-than-expected jobless claims. The outlook here may be a little more cloudy, however, with some key large US companies announcing layoffs, including Microsoft, Boeing, and Meta (Facebook) who will reduce their workforce by 5%.

Pulling in the other direction, the dollar weakened upon news of Trump and Putin agreeing to commence negotiations aimed at ending conflict in the Ukraine. While Trump appears to be buddying up with Putin, his second in command, Vice President J.D. Vance indicated that deploying U.S. troops to Ukraine remains on the table if Russia does not engage in good faith negotiations to end the ongoing conflict.

The end of geopolitical tensions at the European periphery could be a significant near-term boon for European economies and capital markets. The potential for sanctions to be rolled back could allow for the return of Russian energy supplies and dissipate a significant inflationary threat through a period of significant domestic energy infrastructure.

The US dollar benefits as a safe-haven asset during periods of geopolitical tensions and market stress so it is no surprise that it may weaken in relative terms as the outlook for the wider global economy improves. However, we should also recognise that the dollar performs well during periods of exceptional economic expansion.

Back in Blighty, the Office for Budget Responsibility has downgraded its economic growth forecasts and has suggested that, as a consequence, the government's £10bn fiscal buffer has been eliminated. Chancellor Rachel Reeves may need to consider spending cuts or tax increases to adhere to fiscal rules as a result, so 2024 fourth quarter GDP coming in at 1.4% year-on-year, higher than the expected 1.1%, was a welcome data release.

Equity markets have rebounded from some of the worries brought about by DeepSeek’s exceptionally cheap open-source AI model and now, instead of dragging down global equity markets, the result of news appears to be that Chinese technology stocks are quietly and steadily creeping higher. The Hang Seng (Hong Kong’s stock exchange) is already up 15% this year!

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:

13/02/2024 - 13/02/2025 Data from FE fundinfo2025

Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.04%	+2.38%	+3.13%	+8.68%
Balanced	+0.07%	+2.83%	+3.84%	+10.52%
Adventurous	+0.11%	+2.97%	+3.96%	+11.40%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.

Blythe Financial is the registered business name of Blythe Financial Limited which is registered in the Isle of Man and whose registered number is 103941C. Registered office: 11 Myrtle Street, Douglas, Isle of Man, IM1 1ED. Directors: Alan Blythe, Sue Blythe & Chris Bell.

Blythe Financial is licensed by the Isle Man Financial Services Authority.