<u>Too Blunt an Instrument?</u>

The biggest economic news of the week, and perhaps the year, is what can only be described as the US sparking a trade war with the rest of the world. In the Rose Garden outside the White House, on the 2nd of April to avoid having it confused with an April Fool's Day prank, President Trump unveiled his long threatened global tariff policy much to the dismay of global onlookers.

The mathematics behind the levies were relatively simple, take the US trade deficit with a country, divide it by that country's exports to the US and turn it into a percentage figure. This figure was then in halved to produce the US "reciprocal" tariff, with a floor of 10%.

These figures raised tariff barriers to their highest in more than a century and were far worse than the market was anticipating. Global equity markets have reacted aggressively, with $2.5tn shed on Thursday with losses extending into Friday.

The broad-brush approach has been seen by many as far too blunt an instrument, with some cases being exceptionally harsh, to others being downright ridiculous. Take the case of the tiny frozen Australian territory of the Heard and McDonald Islands which has not been visited for years. Trump has taxed a colony of penguins.

From a human perspective, the tariffs have generally fallen hardest on poorer nations in Africa and Southeast Asia. Madagascar, for example, is one of the poorest nations in the world and export a relatively small $733 million to the US. Because of his formula, the country now has a 47% tariff on their exports, simply because they are too poor to buy an iPhone or a Tesla.

The latest investment letter from Ben Inker and John Pease was scathing about the tariff policy. While it might seem like the current period of uncertainty should end quickly once the administration finalises their proposals, the poorly designed nature of many of these policies makes it hard to have confidence that they will last in their current form. They cited copper tariffs as an example of how the whole scheme could rebound and potentially crater US returns and investment without achieving their aims.

Taking the goal of increased domestic production of copper as a given, imposing a large tariff on imported copper seems an inefficient and costly way to achieve it. Copper mines take years to develop before they can produce any metal. In the meantime, the only outcome is that the cost of copper in America rises substantially higher than elsewhere in the world.

They acknowledged that substantial tariffs on copper imports may incentivise investment in US copper mines, but only if those tariffs are expected to last. A mine could run for decades, so uncertainty about the duration of the tariffs will reduce the incentive to invest today. Another disincentive would be the risk that a future administration removes the tariff or perhaps offers subsidies instead.

This raises questions over the widely held view that Trump is launching an opening gambit in what will be one-on-one discussions with individual countries that will ultimately see the new US tariffs sharply reduced.

Many will retaliate, the first being China who announced on Friday that they will match the US tariff of 34% beginning on 10th April. The Commerce Ministry in Beijing also declared that it will impose more export controls on rare earths, which are materials used in high-tech products such as computer chips and electric vehicle batteries.

The news sent the oil price down a further 8%, already falling in response to the Organization of the Petroleum Exporting Countries planning output increases.

One of the few, continuing, benefactors of the storm is gold. Trade wars, military tensions, broken Western alliances, inflation concerns, recession fears and doubts about the dollar's dominant role in world finance. The combination of all this has seen gold rise 20% in 2025, peaking at an all-time high of $3,200 per ounce. It's been its best quarter since 1986.

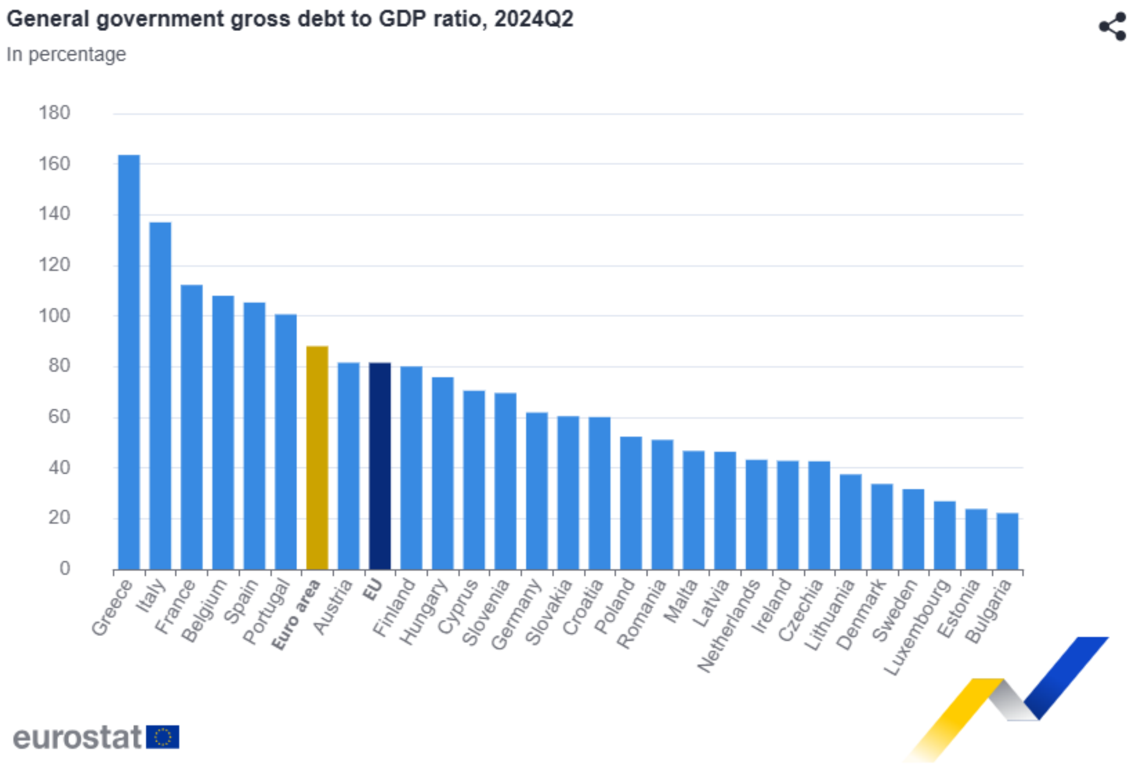
While equity markets are bearing the brunt, US Treasuries also appear to be increasingly worried about a recession, with four interest rate cuts in 2025 now priced into futures markets. Ten-year Treasury yields fell below 4% for the first time in six months, with US high-yield bond spreads rising above 400 basis points for the first time since 2023.

The Federal Reserve Chair Jerome Powell speaks later on Friday, and many will be looking for a steer in these highly uncertain times. Currently, Fed officials appear to see no urgency to cut rates, as the jobs market remains firm and the inflation picture continues to be murky due to tariffs. Allianz's Chief Economic Advisor Mohamed El-Erian also suggested that with the recent inflation figures this would suggest one rate cut or perhaps no rate cuts at all. This mismatch is clearly indicating the market worries of a US recession which some have now touted at around 50%.

Most other news this week pales in comparison but of note, Marine Le Pen was found guilty of embezzling European Union funds and barred from office for five years. Obviously, Trump came out in defence of the French far-right figurehead.

Elsewhere in Europe, Germany's need to expand its budget could fundamentally alter EU debt guidelines for the first time since the single currency was born 26 years ago. Germany's dramatic decision this year to rush through historic fiscal reforms to make way for massive spending on defence and infrastructure has raised questions about just how much of the stimulus it can deliver without running afoul of EU debt restrictions.

Some economists think the eurozone's long-standing debt/GDP "reference rate" of 60% could and should be lifted to 90% to ensure nothing will preclude more German spending, as this is now seen as necessary to support an entire region scrambling to defend itself and navigate the trade war with the US. Incidentally, the overall euro debt/GDP share came in at 88% last year, just below the proposed 90% reference rate.

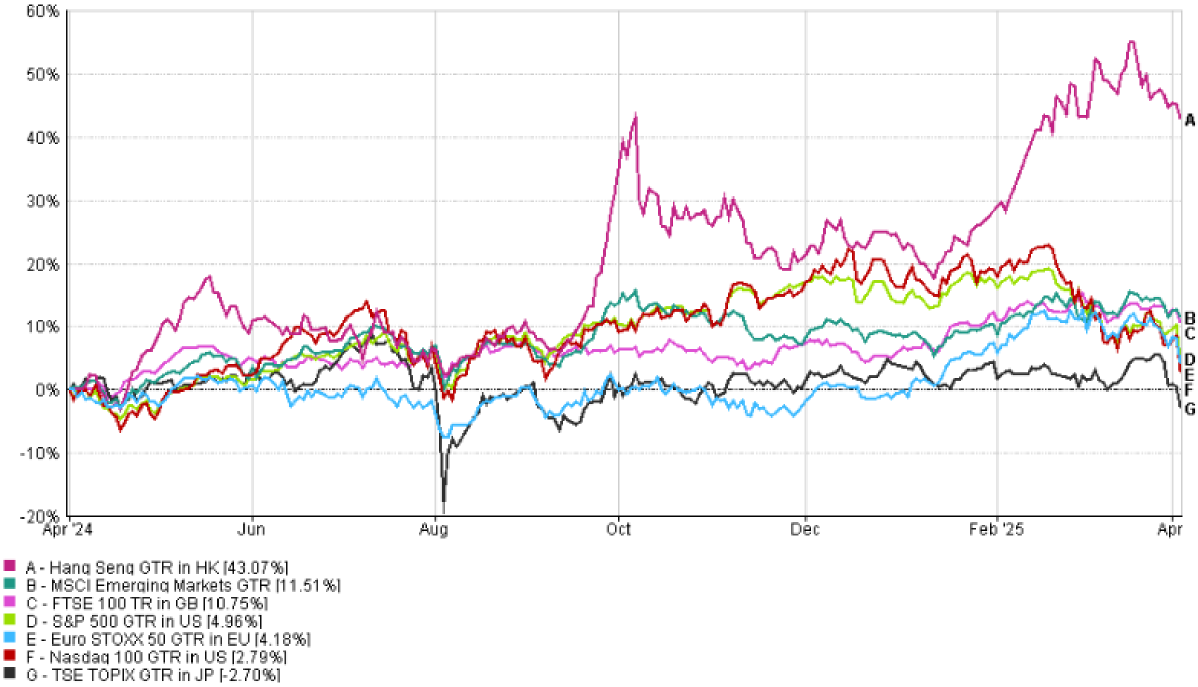


These economists also argue that boosting long-term growth prospects outweighs outdated public debt targets. Even credit rating agencies agreed on that when assessing the potential impact of Germany's removal of its self-imposed "debt brake". When the euro launched in 1999, all but two of the 11 nations involved had debt/GDP levels at or under 60%. Italy and Belgium both had debt/GDP ratios in excess of 100% but were still allowed to join.

Higher sovereign debt may seem an odd way to make the bloc more credit-worthy, but it could if it spurs meaningfully higher growth. And, relatively speaking, the EU still looks less profligate overall than many of its global peers.

Where are markets up to?

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



03/04/2024 - 03/04/2025 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	-1.34%	-3.41%	-3.21%	+0.63%
Balanced	-2.95%	-5.64%	-6.41%	-2.25%
Adventurous	-3.72%	-6.47%	-8.23%	-3.69%

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