

MARKET UPDATE

INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

Week of April 8, 2025

Markets have been volatile after President Trump announced retaliatory tariffs on trade partners around the world and then announced a 90-day pause on most of them.

The 90-day pause in reciprocal tariffs (ex-China) and the 10% flat tariff in the interim came as the market was showing signs of sovereign market and FX stress, highlighting where some of the sensitivities of the US administration lie. “The tariff-induced volatility is likely not over yet. The effective tariff rate remains very elevated. While smaller countries have been queuing up to strike a deal with the US, what the EU, Mexico, Canada and China (largest trading partners) do over the coming months will be key in determining the macro impacts,” says Seb Vismara, Head of Research at the BNY Investment Institute.

Takeaways

- We believe a highly unequal tariff rate (with China at 125% vs. rest of the world at 10%) would incentivize trade diversion but it’s unlikely that this would happen so rapidly to avoid a meaningful impact on gross domestic product (GDP).
- In our view, US tariffs are likely disinflationary for Europe as China may look to reroute trade to more friendly buyers. We expect the European Central Bank to remain on an easing trajectory.
- It’s our base case that tariffs are negotiated down. However, in our view, there is a floor to the tariff rate and it’s higher than what was previously expected as the administration looks to use tariffs as a revenue source for extending the Tax Cuts and Jobs Act and other pro-growth policies.
- The market is currently pricing in five rate cuts in 2025. In our view, this seems overly optimistic.
- We believe the path to avoiding a recession would get narrower if the paused tariffs are implemented after 90 days. Monetary policy isn’t going to be enough and we look for pro-growth tax cuts, similar in size to the tariff burden and quickly, to avoid a recession.

Positioning amid volatility

Trade policy is likely to remain fluid, and the volatility of portfolio positions may be elevated.

Historically, companies that grow and pay dividends tend to be more resilient in downturns. Read more in [Why dividends are set to shine](#).

We see potential opportunities and value in value stocks. See our report: [Inflation and Magnificent 7 volatility could point to large cap value opportunities](#).

Meanwhile, diversification is key. We believe in seeking international equity opportunities in Europe, Japan and China. Read more in our report: [The “Golden Age.”](#)

Finally, this could be a particularly meaningful time to consider global fixed income, given it’s likely that a number of global central banks will lower rates more substantially than in the US. Investing in global fixed income, particularly on a hedged basis, can provide diversified sources of return to a domestic-only fixed income portfolio. See our report: [Vigilantes stay home](#).

BNY Investments will continue to monitor the situation and bring you our latest analysis.

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Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

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Past performance is not necessarily indicative of future results.

Gross domestic product, or GDP, is a monetary measure of the market value of all goods and services produced by a nation in a given period of time.

The Tax Cuts and Jobs Act (TCJA) was a major overhaul of the tax code in 2017, impacting taxpayers and business owners, particularly through tax cuts.

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