

THE U.S. AND CHINA TARIFF PAUSE

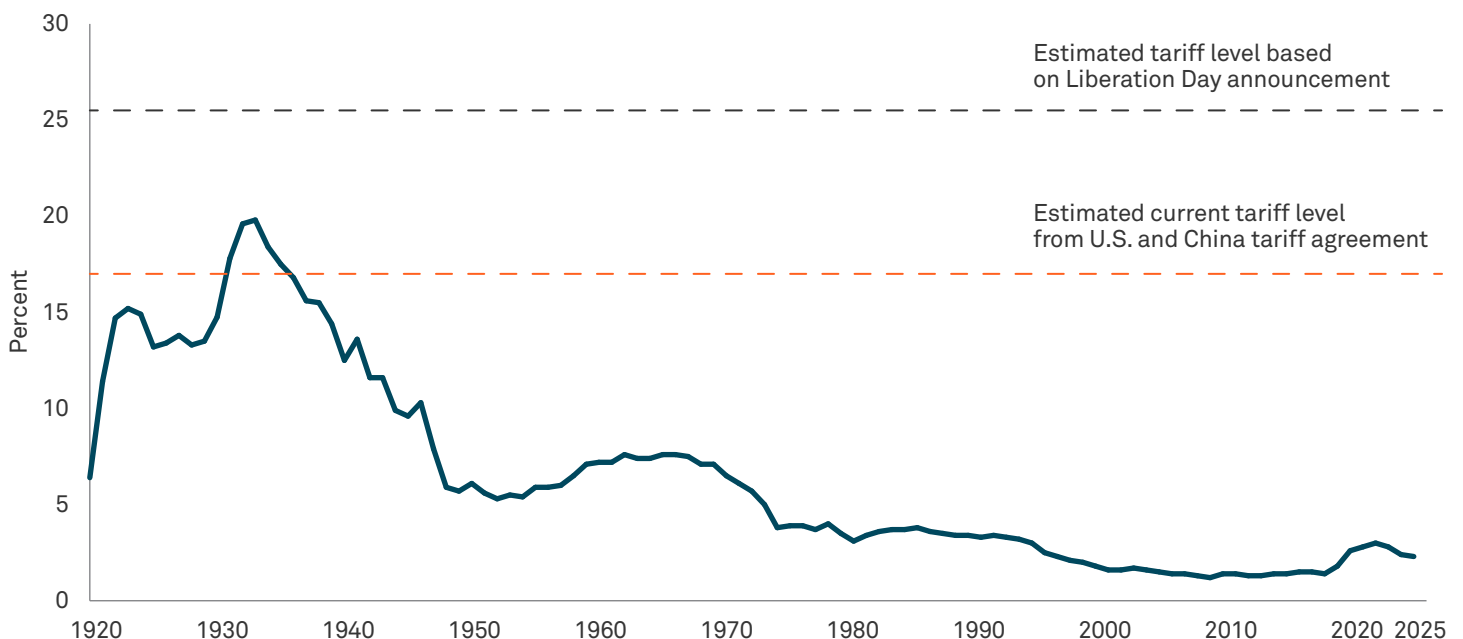
INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

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The U.S. and China announced a deal to reduce tariff rates for 90 days, starting May 14, 2025. The truce is encouraging and should be positive for risk assets in the near term. However, the global tariff rate is still much higher than before President Trump took office for his second term and will likely lead to a significant slowdown in growth.

The U.S. and China will temporarily lower tariffs on each other's products, with the U.S. reducing its levies from 145% to 30% and China dropping its duties from 125% to 10%. This brings the U.S. global effective tariff rate to ~17%, from 25.5% after the April 2 Liberation Day announcement.

U.S. — EFFECTIVE TARIFF RATE



Source: BNY Investment Institute, Macrobond. Data as of May 12, 2025. Chart for illustrative purposes only.

Our views on the news and its implications

- 1** U.S. officials met with their Chinese counterparts over the weekend. The verbal agreements sounded better than expected — highlighting we are likely past the “peak tariff” moment.
- 2** We believe this underscores the realization within the Trump administration of how difficult it is to replace Chinese supply in a compressed time frame, and the (inflationary) consequences of not being able to do so. As such, it showcases a heftier clout, going forward, of the more pragmatic officials in the administration.
- 3** The thaw in the relationship is not a surprise. Treasury Secretary Bessent has characterized the scale of the bilateral tariffs as virtually akin to a “trade embargo” which is unrealistic when viewed against the speed with which the U.S. can realistically find substitutes for Chinese goods.
- 4** This should come as a relief for Chinese exporters — who are starting to test the limits of export-rerouting and diversification, and stretch the patience of other trade partners who are increasingly resorting to countervailing measures to safeguard their own manufacturing companies and signaling a push-back against outright dumping.
- 5** The constructive tone in the weekend’s talks may also reflect the possibility of purchase commitments by the Chinese to lower the lopsidedness of the Sino-U.S. trade imbalance.

More details on the broader path of the trade relationship and implications for other trade partners are still pending but both countries have agreed to an ongoing dialogue. The announcement led to immediate positive market reactions. BNY Investments will continue to monitor the situation and bring you our latest analysis.

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