Trump’s Tariff Announcements -How it affects us

What is a tariff?

A tariff is a tax imposed on imported goods to make foreign products more expensive, encouraging consumers and businesses to buy domestic alternatives. For instance, a 104% tariff on Chinese electronics will increase their prices, potentially making American-made electronics more competitive.

However, tariffs can also raise costs for domestic consumers and businesses relying on global supply chains, leading to:

- Higher prices (inflation)
- Reduced competitiveness
- Slower economic growth

This is why markets and economists are concerned.

Market implications

Financial markets have reacted sharply:

- S&P 500 fell 3.3%
- Nasdaq Composite dropped 4%
- Dow Jones Industrial Average lost nearly 1,100 points

In the UK:

- FTSE 100, the UK’s benchmark stock index, closed 4.38% down, one of the biggest drops in years, comparable to the early days of COVID-19 lockdowns, although slightly less steep than the 4.95% drop seen on Friday.

Impact on global trade

The new tariffs mark a significant shift towards protectionism, potentially disrupting decades of global economic integration. China has already responded with a 34% tariff on U.S. imports, and additional measures from both sides could escalate tensions in global trade.

Why do these indices matter?

- The S&P 500 is a stock market index tracking the 500 largest U.S. companies. It's often seen as a broad measure of U.S. corporate health.
- The Nasdaq Composite focuses more on tech and growth companies (e.g., Apple, Amazon, Microsoft).
- The Dow Jones Industrial Average (Dow) tracks 30 major U.S. companies and is one of the oldest indicators of stock market performance.
- The FTSE 100 represents the 100 largest companies listed on the London Stock Exchange and serves as a key indicator of UK market sentiment.

Why do they matter? These indices reflect investor confidence and economic expectations. Sharp drops signal fears of slower growth, lower corporate profits, or geopolitical instability.

Example: In response to Trump's tariffs, markets fell because investors feared retaliatory tariffs from China and the EU, higher import costs for U.S. businesses, and disrupted global supply chains. This all makes business more expensive and less profitable — so stocks drop.

And it hits closer to home than many realise:

Pensions and ISAs, the bedrock of most people's personal finances, are largely invested in the stock market. Millions of people saw their investment portfolios shrink gradually over the past week and then sharply on Monday as markets responded to the tariff threats.

And in the UK?

Although the UK is not directly targeted, it will still feel the impact:

- A U.S. tariff regime like this could cause UK exports to drop by £22 billion according to the Telegraph, hitting sectors like fishing, petroleum, and mining.
- A 0.8% reduction in UK economic output is possible as global demand slows.

What does "UK economic output" mean?

This refers to the total value of everything the UK economy produces — essentially its GDP (Gross Domestic Product). A drop in output means less income, lower growth, and potentially fewer jobs or business investment. For context, a 0.8% hit to GDP is equivalent to a significant slowdown, particularly in already fragile economic conditions.

What will this mean for UK inflation, interest rates and mortgages?

With global supply chains disrupted and trade costs rising, imported goods become more expensive, pushing up inflation. In the UK, where inflation has already been a concern, this adds further pressure.

The Bank of England (BoE) faces a difficult decision. While inflationary forces could push it to raise interest rates, markets are increasingly pricing in rate cuts, believing that the global economic shock from Trump's tariffs could weaken demand and slow growth. Markets are baking in as much as 63 basis points of cuts to SWAPs.

SONIA swap rates, which influence fixed-rate mortgages, fell after the announcement — prompting speculation that borrowing costs could fall. Some mortgage brokers voiced optimism that this could be a boom for the housing market, giving buyers and remortgagers a window to access cheaper loans.

However, caution is advised, highlighting that inflation remains the key unknown, and that betting on rate cuts may be risky. The wider effects of unemployment, price inflation and general economic conditions are the real unknowns.

So, while swap markets suggest the potential for falling mortgage rates, the reality remains uncertain. Advisers and borrowers alike will need to balance the optimism with a dose of realism, given how unpredictable the global picture remains.

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C/O Thorne Lancaster Parker, Palladium House, 1-4 Argyll Street, London, W1F 7TA

PRINCIPAL: JOLYON DAVIS **TELEPHONE:** 020 7493 4747 **EMAIL:** ENQUIRIES@WEFINANCIAL.CO.UK

WEB: WWW.WEFINANCIAL.CO.UK

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