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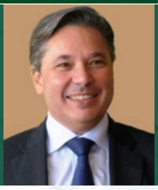
Investments - Flash



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A NEW SERIOUS DILEMMA FOR THE FED

Tariff hikes threaten GDP more than CPI

Whether or not there will be a tariff war in 2025 is undoubtedly premature, but we are rapidly moving towards a first round of tough confrontation. We'll have to wait and see whether the announced tariff hikes of 25% for Canada and Mexico, and 10% for China, are actually implemented. For the time being, we are already seeing a step backwards by D. Trump, who is postponing the implementation of these tariffs after Mexico and Canada introduced their own taxes while acceding to Trump's demands for tighter border controls. Studies of Trump's previous tariff hikes had shown that the US had lost factory jobs and that industrial production had contracted contrary to expectations. At the same time, business investment was falling and consumer incomes contracting. The damaging effects on growth were beginning to show, but were quickly eclipsed in 2020 by the Covid crisis. Fed reports released this month indicate that, at the time, the Fed was already concerned about the risks to growth. Today, it faces a similar situation, but on an extraordinarily larger scale this time. What happened in 2019 was already unique, as it was the first time since 1930 that such a risk had resurfaced. Today, the risks of economic disruption are massive and the Fed faces a serious dilemma. A 2018 Fed study suggests that it should instead look beyond the possible impact on short-term inflation and lower rates to prevent a recession from developing. If the Fed follows its own analysis into 2025, the outlook for bonds looks favorable, but negative for the dollar.