Investments - Flash

M. Alain Freymond - Associé & CIO

THE TRUCE WITH CHINA WILL NOT PREVENT A RECESSION

The 10% tariffs will remain four times higher than the previous 2.3% duties

The financial markets reacted positively to the first truce on April 7 and the second granted to China on May 12. These truces are far from being an announcement of future trade agreements that would allow the US to achieve its objectives, if these are indeed clearly defined. But in fact, after the panic of recent weeks, the “relief rally” that we announced on April 8 (SPX +17%) has now developed significantly and has benefited further from the announcement on May 12. While the announced tariff level of 30% is indeed much lower than the rates previously mentioned and may provide some short-term relief, it remains significant and is likely to slow trade with China. It should also be remembered that 10% tariffs are already in place and compare with a previous tax level of just 2.3%. This decision effectively reduces the impact on average effective tariff rates from 20.3% to 10.4%, but it will now be more difficult to anticipate a lower overall rate. We have to go back to the end of the Second World War to find average customs duties like those now being applied. In this new and still extremely uncertain context, with virtually no concrete agreement having been approved and signed, the markets have nevertheless almost regained the optimism that prevailed in January. However, we believe that the current uncertainty and the recession that is taking hold will continue and will have further damaging effects on US consumption and production chains. This persistent damage does not bode well for corporate results. The rebound in equity markets and interest rates is not justified by the slowdown scenario and should be followed by further corrections.