

# Markets recover despite ongoing tariff turmoil



## Investor sentiment improves after early-April volatility sparked by US policy shifts

**Policy signals calm markets.** Global markets regained ground after a shaky start to the month, as concerns over the impact of US tariffs began to ease. Markets were initially rattled by uncertainty surrounding President Donald Trump's trade measures, but sentiment improved after Washington signalled a softer stance.

Bond markets were also volatile, with US Treasury yields surging (which means bond prices fell) on fears about the economic fallout. Confidence returned after Trump announced a 90-day pause on higher tariffs for most countries, although levies on China still rose by 145%. The US dollar slid to a three-year low after Trump intensified criticism of Jerome Powell, the chairman of the US central bank, the Federal Reserve.

The US economy shrank by 0.3% in the first quarter of 2025, largely due to companies rushing to import goods ahead of the tariffs. This compared with a 2.4% growth in the economy in the previous quarter. US inflation fell by more than expected in March, dropping to 2.4% from 2.8%, though economists warn prices could rise again as imports become more expensive.

Meanwhile, the labour market remains solid, despite federal workforce cuts. But falling consumer confidence and weakening indicators are fuelling fears of a sharper slowdown. The broad scope of the tariffs is adding to uncertainty, with growing concern the US economy could tip into recession.

**UK economy surprises with modest growth.** The UK economy grew by 0.5% in February, exceeding expectations and offering a boost for Chancellor Rachel Reeves. Still, escalating trade tensions and domestic headwinds mean the outlook remains fragile. UK inflation eased to 2.6% in March from 2.8%, offering a glimmer of relief for households and businesses. With risks to economic growth mounting, markets now expect the Bank of England to cut interest rates in May, with more reductions likely later in the year.

The UK jobs market is showing signs of strain. Vacancies fell to 781,000 in the first quarter, and payroll numbers also declined. Average pay

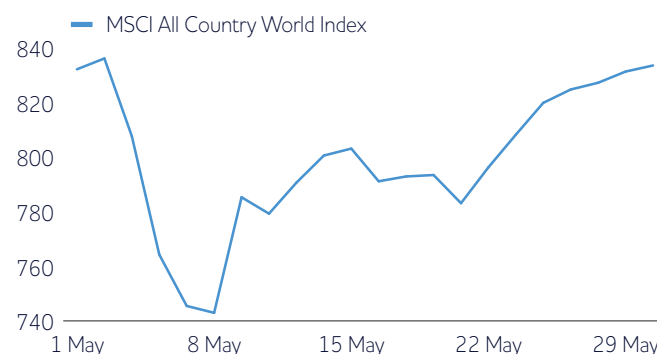
rose 5.9%, but recent increases to National Insurance and the minimum wage are expected to weigh on employers. The unemployment rate held steady at 4.4%.

**Trade tensions drag on European outlook.** Prospects for euro area growth have weakened as global trade tensions intensify. The region's economy stagnated in April, with the services sector slipping back into contraction. Business confidence dropped to its lowest level since November 2022, hit by Trump's tariff actions. Germany, the bloc's largest economy, saw activity decline after three months of expansion.

Meanwhile, China's economy grew 5.4% in the first quarter, fuelled by consumer subsidies and a rush of exports ahead of new tariffs. But the outlook is less certain as trade barriers bite. Without more government support, hitting China's 5% growth target may prove difficult. Exports, which are responsible for a third of 2024's growth, are expected to fall. Export shipments jumped 12% year on year in March, while industrial production rose 6.5% in the last quarter. But the struggling property sector continues to weigh on the economy

### Figure 1: Markets stumble, then steady

After falling as much as 12% in early April, global equity markets rebounded to finish the month close to where they began.



Source Bloomberg

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