

The First 100 Days of Tariffs

Apr 2025

After a steep, sharp drop to start the month, global markets spent the rest of the month bouncing back (albeit not without ongoing volatility), ultimately closing the month in the black, up +0.9% in USD terms (as measured by the MSCI ACWI Index). For much of the year, returns differed sharply across regions, with European stocks up over +4%, while US stocks fell -0.5%. Likely defying most expectations, emerging markets were also in positive territory, up over +1% despite China's decline, which was over -4%.

The headline of the year remains tariffs — and President Trump's declaration of "Liberation Day" on 2 April preceded a sharp market drop which dominated much of the financial news for the rest of the month. The spate of tariffs, which were initially to take immediate effect, prompted various responses from impacted countries — with some reaching out immediately to negotiate better rates and others (particularly China) choosing to retaliate with their higher tariffs. Some countries and companies announced significant investments in US operations — ostensibly an attempt to avert tariffs from the outset. Just a week later, President Trump announced a 90-day pause on tariffs with countries that hadn't retaliated against the US, citing the influx of requests he and his administration received from countries interested in negotiating. Indeed, as we write, major negotiations are seemingly ongoing with countries including the UK, Japan and India, among others.

Meanwhile, the US and China traded tariff hikes with one another throughout the month, arriving at 125% on US exports to China and 145% on China exports to the US. With the two countries locked in a clear trade war, many speculated which side would be forced to blink first. China's GDP growth in Q1 registered a robust 5.4%, exceeding the government's target for 2025 and analysts' expectations. Meanwhile, US GDP contracted -0.3% in Q1, prompting concerns about whether the US is headed for (or already in) a recession. However, beneath the headlines, China's economy seems to be faltering, with manufacturing activity shrinking by the most since April 2023 and reports starting to surface of protests across the country as factories shut down and workers face unemployment — developments which potentially led China to blink first as the month concluded: State media announced there would be "no harm" in holding trade talks with the US. However, both sides naturally maintain the other has more to lose. We will see whether the two sides can successfully de-escalate and defuse the situation in the coming weeks and months.

Elsewhere on the economic front, the euro zone economy grew +0.4% in Q1 while the European Central Bank cut rates to 2.25%, citing concerns about fallout from US tariffs. The UK economy likewise outpaced growth expectations, increasing +0.5% in February, while inflation fell more than expected in March to +2.6% and retail sales unexpectedly rose +0.4%. However, revised data showed UK payrolls fell between January and February and preliminary March figures indicated a larger fall, prompting some speculation the Bank of England may cut rates in the near term.

In Canada, new prime minister Mark Carney was quick, following his electoral victory, to contact President Trump, ostensibly eager to begin improving the dialogue between the two countries — a major reason he was elected. However, Carney lacks a parliamentary majority and will need to create a coalition before tackling any of the issues he was elected to handle.

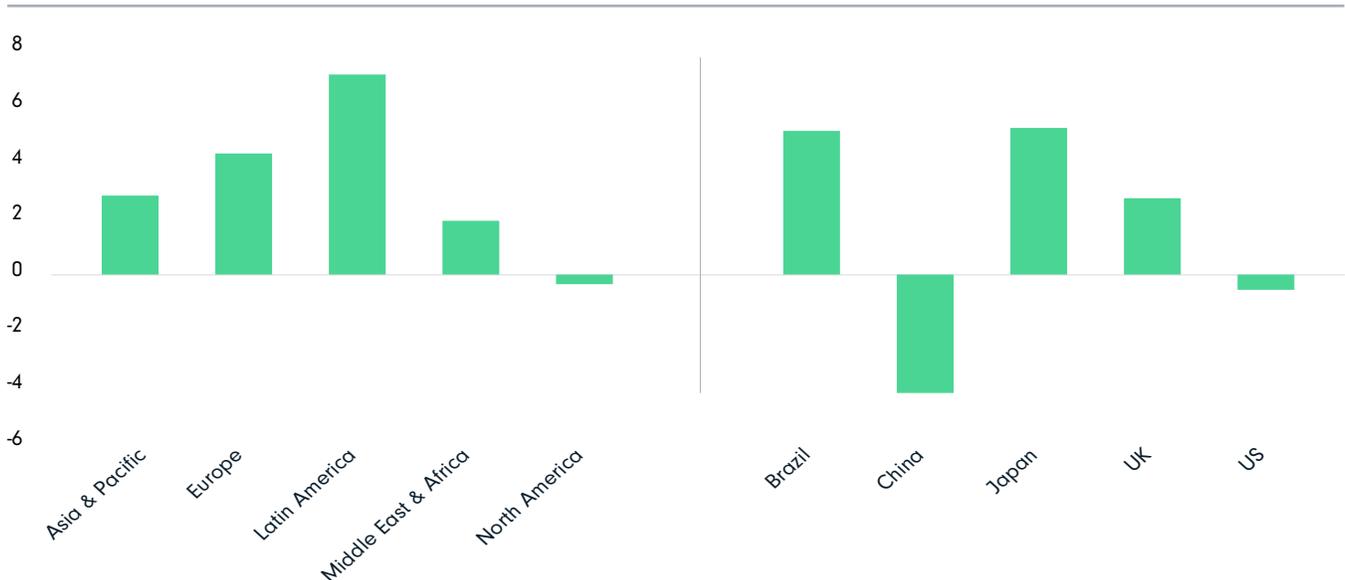
In early May, the US and Ukraine signed a minerals deal – an economic partnership which will give the US access to Ukraine’s minerals and natural resources. The deal initially fell through following a public falling out between Presidents Zelenskyy and Trump in February. With both sides making some concessions, they are hailing the deal as a positive step forward. For its part, Russia has continued aerial attacks on Ukraine, drawing Trump’s criticism and growing calls for Russian President Vladimir Putin to come to the table and negotiate peace with Ukraine.

April saw the conclusion of President Trump’s proverbial first 100 days, and to say they were eventful would be a meaningful understatement. Policy changes have come quickly and suddenly, and the fallout has been challenging to measure – though it will undoubtedly reveal itself over time as the economy factors in the new normal and markets begin to price in the likely consequences of the administration’s future direction. Though global trade arguably remains the most significant source of market uncertainty, investors seemed relieved by Trump’s announced 90-day pause and seem to be pricing in less dire outcomes than initially feared in the immediate aftermath of “Liberation Day.”

Regionally, Latin America led (up over +7%), with Mexico providing the biggest tailwind and rising +13%. Brazil was also nicely positive, adding more than +5% in April. No countries were in the red in the month. Europe was up over +4% in April, with the largest contributions coming from German stocks, which rose more than +7%; Switzerland, where stocks added nearly +5.0%; and France, whose market gained over +3%. Only two European countries notched declines in April: Turkey, whose market fell almost -7% as inflation remains a major challenge and the central bank increased interest rates to 46% in the face of the new prospect of US tariffs; and Norway, whose stocks fell a more modest -1%.

The Asia Pacific region was also nicely positive in April, up nearly +3%, with primary strength attributable to Japan (+5%), Australia (up almost +7%) and India (up just shy of +5%). China was the main detractor, with its market falling just over -4%. The Middle East and Africa also gained in April (rising nearly +2%), led by positive performance from South African stocks, which were up almost +4%.

Exhibit 1 – April Returns for Major Markets (USD) (%)



Source: FactSet, as of 30 Apr 2025.

From a sector perspective, utilities (+8.6%) and consumer staples (+7.9%) were the strongest sectors in April as investors showed a preference for more defensive stocks. Real estate stocks were also solid gainers, up over +7%. Energy was the sole sector to decline, falling nearly -6% in the month.

Though broad markets are roughly breaking even for the year (as measured by the MSCI ACWI Index in USD), the volatility has been noteworthy and seems likely to continue for the foreseeable future. So, too, could leadership shifts as apparent winners and losers evolve and trade places – sometimes on a seemingly daily basis. As we have noted previously, such times highlight the value of our investment philosophy and approach, which obviates the need to identify near-term winners and losers in favor of researching and investing in high-quality, undervalued companies that are well-positioned over the next three to five years. Regardless of how macroeconomic events unfold, we will adhere to this approach, which we believe will add value for long-term investors.

MSCI ACWI Index measures the performance of large- and mid-cap stocks in developed and emerging markets. **MSCI ACWI ex USA Index** measures the performance of large- and mid-cap stocks in developed (excluding the US) and emerging markets. The indexes are unmanaged, market capitalization weighted, include net reinvested dividends, do not reflect fees or expenses (which would lower the return) and are not available for direct investment. Index data source: MSCI, Inc. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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