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MARKET VIEWS

Entering the Bear Market: Trump's Tariffs Tip Global Markets Into Turmoil

By

Nato Balavadze

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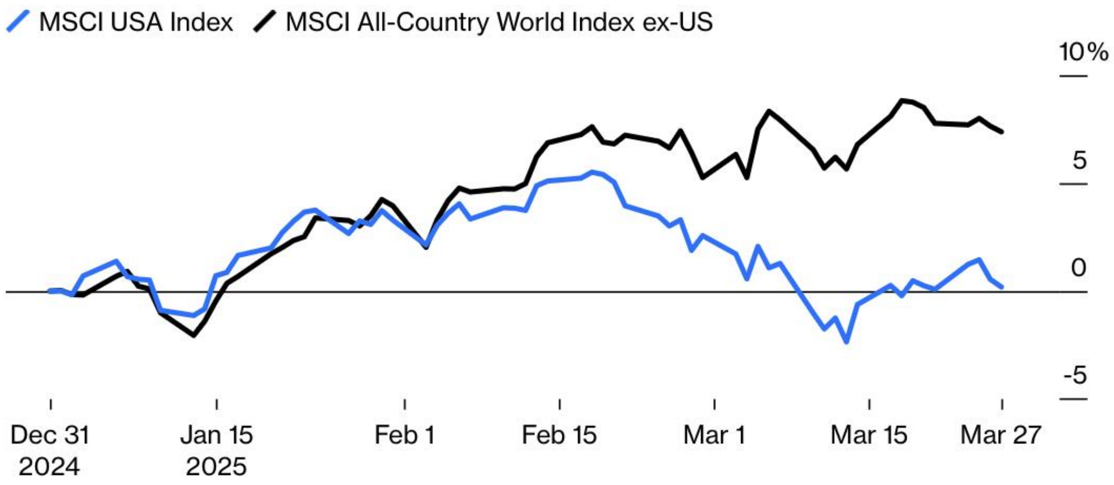
Executive Summary

- A sweeping new U.S. tariff policy imposes a 10% baseline on all imports, with much higher rates on key trading partners like China, Vietnam, and the EU, triggering fears of a global trade war.
- U.S. stocks experienced their most volatile week in years, with the S&P 500 falling nearly 9% from February highs and the STOXX Europe 600 down 8.4%—its worst weekly drop in five years.
- U.S. consumer confidence fell sharply amid inflation and labor market worries, with the University of Michigan's sentiment index hitting its lowest since 2022.
- After years of outperformance, U.S. stocks are now lagging behind global peers, driven by tariff uncertainty, tech sector weakness, and AI competition from China.
- Major tech stocks like Tesla and Nvidia led a 10.5% drop in the group's ETF in March, contributing heavily to broader market declines.
- The Russell 2000 entered bear market territory as trade policy uncertainty and recession fears weigh on domestic-oriented firms.
- U.S. bond yields tumbled, with the 10-year yield hitting 4.00%, as investors fled to safety amid growing recession risks.
- Germany's fiscal pivot has driven bund yields to multi-decade highs, narrowing the U.S.-Germany yield gap and reshaping capital flows.
- Credit spreads remain tight, but rising consumer delinquencies and policy uncertainty suggest growing financial stress.
- dollar weakened sharply as traders priced in Fed rate cuts and safe-haven currencies like the yen and Swiss franc rallied on tariff fears.
- Cryptocurrencies fell on risk-off sentiment, with Bitcoin dropping 4% and Ethereum briefly dipping below $1,800, as traders reassess macro risks.

Key Picture: Comparison MSCI USA Index and MSCI-All-Country Index ex-US



Source: [Bloomberg]

Introduction

Global markets are sliding into bear territory as President Trump's sweeping new tariffs unleash the biggest disruption to international trade since World War II. With a baseline 10% tariff on all imports and much steeper rates for "worst offenders" like China (34%), Vietnam (46%), and the EU (20%), the policy aims to punish what the White House calls unfair trade practices. While details for Canada and Mexico remain unclear, analysts estimate the average tariff on the top 20 U.S. trade partners could range from 18.5% to 26.5%. This bold move has shaken global markets, ignited fears of a trade war, and sparked wide-ranging economic and political fallout—reflected across equities, bond yields, FX rates, and cryptocurrencies.

US Stocks Enter a New Volatility Regime

Stocks experienced a turbulent week marked by heightened volatility and growing investor unease. After climbing in anticipation of President Trump's expected tariff rollout, U.S. equities plunged by Friday as Wall Street reacted to the intensifying trade war and signs of renewed inflationary pressure. The decline coincided with a sharp drop in consumer sentiment: the University of Michigan's March reading fell to 57, the lowest since November 2022, down from 64.7 the previous month, reflecting growing concerns over inflation and labor market conditions.

The market initially rallied on hopes that Trump might soften his tariff stance, but optimism quickly faded midweek with the announcement of new 25% duties on auto imports. This, combined with increasingly hawkish trade rhetoric, deepened investor anxiety. Fed officials, projecting higher inflation and slower growth, sought to calm markets, with Chair Jerome Powell calling rising prices "transitory." Still, confidence remains shaky, as even Fed policymakers admit to operating under "zero visibility" amid the deepening uncertainty surrounding the economic outlook.

Reversal of American Exceptionalism

In late 2024, U.S. markets basked in investor optimism following Donald Trump's electoral victory, with the "American Exceptionalism" trade reaching new highs. This momentum, fueled by strong U.S. growth, a booming AI sector, and massive fiscal spending, drew foreign capital into American equities at unprecedented levels. Since March 2005, the S&P 500 has risen by 370%, compared to less than 65% for the MSCI All Country World Index ex-U.S., excluding dividends. Foreign investors now own a record 30% of U.S. stocks, and passive investment flows have magnified this exposure—U.S. equities now make up 72% of global benchmarks like the MSCI, up from 47% in 2007. This stark performance gap has driven massive inflows into U.S. equities from both foreign investors and domestic retail buyers, reinforcing America's dominance in global portfolios.

Yet by early 2025, cracks began to emerge (**Key Picture**). AI-driven trades unwound, Trump's tariff policies sparked market turbulence, and U.S. stocks underperformed their global peers. One symbolic blow came from China's DeepSeek-V2, a locally developed large language model (LLM) that outperformed OpenAI's GPT-4 across multiple key benchmarks. The launch marked the first time a non-American company had leapfrogged the U.S. in the most prized frontier of technological innovation, shattering long-held assumptions that America would maintain permanent leadership in AI. The S&P 500 has fallen nearly 9% from its February peak, while global indices—particularly in Europe and Japan—rallied. The Bloomberg Dollar Spot Index has dropped over 4% since January, amplifying foreign investor losses.

For instance, Norway's wealth fund has reduced U.S. tech exposure, but its overall allocation to U.S. assets has risen to 53%, up from 32% a decade ago, driven by benchmark constraints and government policy. A recent stress test showed the fund could lose 18% if the AI boom collapses—a significant risk given the fund finances about 20% of Norway's national budget and social programs.

This shift has raised broader questions about the sustainability of short-term U.S. dominance. The foundations are now under stress. The U.S. international investment deficit has widened to 80% of GDP, suggesting vulnerability in both equity and currency markets. Meanwhile, fiscal deficits remain near 6% of GDP, an unsustainable level of government dependence even by American standards.

While Trump's policies may have accelerated the pullback, structural forces are also in play. Germany's fiscal reset and China's low-cost AI models challenge U.S. dominance, and European stock markets recently recorded their strongest foreign inflows in a decade. Emerging markets, long tied to U.S. performance, are now showing signs of decoupling.

Magnificent Seven Stocks Slide

The Magnificent Seven tech stocks ended March with their worst monthly and quarterly performance on record. The Roundhill Magnificent Seven ETF (MAGS), which includes Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta, and Tesla, dropped 10.5% in March—bringing its 2025 losses to over 15%. Tesla led the declines with a 35% plunge amid slowing sales and concerns over Elon Musk's political activities. Nvidia followed with a 20% drop. The group's sharp selloff was triggered by the launch of DeepSeek, a highly efficient Chinese AI model that shook confidence in Big Tech's AI-driven valuations. Tariff threats from President Trump have added further pressure, pushing investors toward safer assets. After driving over half of the S&P 500's returns in 2023 and 2024, the group's outsized influence is now dragging the index down. The Mag Seven entered correction territory in February, ahead of the broader market.

Figure 1: Market-cap Weighted Basket of Magnificent Seven

Source: Financial Times

Small-Cap Benchmark Entered Bear Market

The fallout from Trump's trade policies is spreading beyond Big Tech. Small-cap stocks, once seen as beneficiaries of his America First agenda, are now leading the market downturn. The Russell 2000 is down over 20% from its 2021 peak, as hopes for a domestic manufacturing boost fade amid tariff-driven uncertainty, rising costs, and recession fears. Long viewed as early economic indicators, small caps are now bearing the brunt of trade policy volatility.

Despite these warning signs, American exceptionalism is not dead. The U.S. still leads in innovation, with top scores in R&D, intellectual property, and startup formation. The dollar, though pressured, remains the world's reserve currency, commanding 88% of global trade volume. And the country's institutional capacity for reinvention—grounded in risk-taking and relative economic openness—remains a powerful long-term asset. Still, the hype cycle has broken. As global investors reassess their overexposure to U.S. markets, the era of unchallenged American exceptionalism may be giving way to a more multipolar, competitive financial landscape.

Global Bond Markets Rattle as Tariff Shock Sparks Recession Fears

US Treasuries: Recession Fears Spark Bond Rally Amid Tariff Shock

U.S. Treasury yields have tumbled in response to President Trump's sweeping tariff announcement, triggering a global flight to safety. The 10-year Treasury yield—closely watched as a benchmark for borrowing costs across the economy—fell sharply to as low as 4.00% on Thursday morning, down from 4.20% the previous day. This marks its lowest level since mid-October and one of the largest single-day drops since August 2024. The 30-year bond yield also slid to 4.43%, a one-month low.

While Trump has repeatedly called on the Fed to cut interest rates, yields are falling for reasons unlikely to please him. Fears that tariffs will boost input costs and weigh on household purchasing power are raising the risk of recession. If the slowdown materializes, the Fed may be forced to lower its federal funds rate—though its room to maneuver could be constrained if inflation remains elevated.

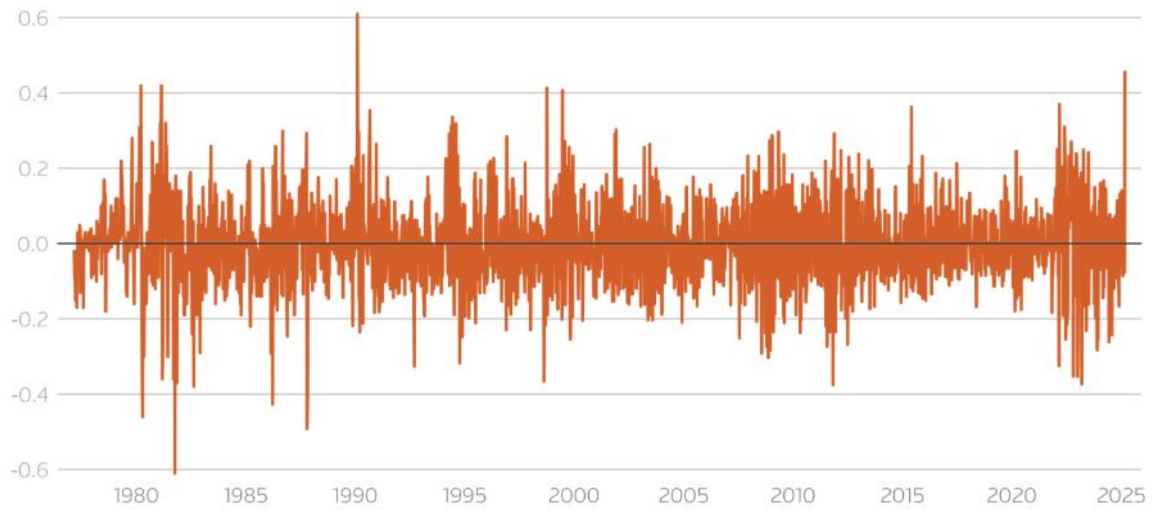
In this environment, Treasury bonds have become a key safe-haven asset. Lower yields could bring relief to consumers facing elevated mortgage and car loan rates, but they also reflect mounting investor anxiety over macroeconomic instability and policy uncertainty. Markets are now confronting the possibility that the U.S. economy is heading into a 1970s-style stagflation scenario—one that monetary policy alone may struggle to fix.

German Bund Yields: Germany's Fiscal Pivot Reshapes Eurozone Borrowing Costs

German Bund yields have risen sharply in early 2025 as the country undergoes a historic fiscal policy shift, upending its decades-long tradition of budgetary restraint. In March, Berlin approved a sweeping €500 billion infrastructure fund and signaled broader borrowing rule reforms. The result: the largest weekly bond sell-off since the 1990s.

This pivot has had significant global repercussions. The yield spread between U.S. and German 10-year government bonds has narrowed by 62 basis points since the start of the year, reaching 158 bps—on pace for its largest quarterly decline since the 2008 global financial crisis (excluding the pandemic). The tighter spread reflects diverging monetary and fiscal trajectories between the two economies and is reshaping capital flows and euro/dollar dynamics.

Figure 2: 10Y German Bund Yield Saw Its Biggest Weakly Increase Since 1990



Source: Reuters

Goldman Sachs has revised its year-end 2025 Bund yield forecast down slightly to 2.80% from 3.00%, citing weaker eurozone growth. However, the bank expects Germany's fiscal stance to remain expansionary, which may cushion downside risks and reinforce expectations for a structurally higher Bund yield environment beyond 2025. While ECB rate cuts—three more are forecast—will likely ease front-end yields, long-term yields are expected to stay elevated due to the increased supply of top-rated euro-denominated debt and expectations of medium-term recovery.

Germany's 10-year yield, which had been below 0% between 2019 and 2022, has not held above 3% since the 2009 implementation of the constitutional "debt brake." With that brake now being loosened, the euro area's benchmark bond market may be entering a new era of structurally higher rates.

Japanese Government Bonds: BOJ Hike Bets Recede Amid Global Turmoil

Japanese government bond yields plunged in late March 2025, as President Trump's sweeping tariff announcement triggered a flight to safety and raised fears of global recession. The 10-year JGB yield dropped as much as 13 bps to 1.34%, its lowest level since February, posting the largest daily drop since August 2024.

The sharp move reflects a reversal in market expectations: just a week earlier, BOJ rate hike bets had pushed some JGB yields to 17-year highs. However, investors have reassessed the outlook, with global growth fears outweighing domestic wage and inflation signals. Swaps now assign less than a 10% chance of a rate hike in May.

The BOJ has already raised rates three times since scrapping its negative interest rate policy in March 2024—leading to a 5.2% annual loss in JGBs, the worst among global sovereign bonds. Yet with the Fed and ECB now easing, the BOJ stands out, contributing to divergence in global policy paths. Some analysts, like Mizuho's Yurie Suzuki, caution that the market is overpricing further hikes, and yields could fall again in H2 2025.

Despite recent losses, long-end JGBs are increasingly attractive to foreign investors, especially Europeans hedging currency risk. February saw record inflows into JGBs with maturities beyond 10 years. With the ¥1,138 trillion market now offering relatively higher yields, Japan's bond market—once stagnant—has become a growing opportunity for global investors.

UK Gilts: Caught Between Inflation and Global Trade Shocks

UK gilt yields have surged amid domestic fiscal concerns and global tariff shocks. The 10-year gilt yield rose to 4.8%, its highest since January, driven by persistent inflation and worries over Trump's sweeping import tariffs, which now include the UK. While the BoE has cut rates three times over the past year, sticky inflation is limiting further easing. Markets now price in two more cuts by year-end, with a 77% chance of a cut in May. Short-term yields have responded: the 2-year gilt yield dropped to 4.07%, while the 10-year yield fell to 4.53%, reflecting increased recession fears. Despite the dip, gilt yields remain high, highlighting ongoing pressure from both domestic and external risks.

Credit Spreads: Are We Seeing Systemic Stress?

U.S. credit markets are showing signs of vulnerability beneath the surface calm. While credit spreads remain historically tight, several indicators point to potential trouble ahead. The yield premium on high-yield corporate bonds over U.S. Treasuries has narrowed to just 2.8%, one of the slimmest gaps on record. This historically tight spread suggests investors are still willing to bear credit risk for minimal additional reward—at a time when the foundations of consumer and corporate credit look increasingly shaky.

Delinquency rates on credit cards have climbed to their highest levels since 2011, while auto loan defaults are now at a peak not seen since 2010. These are not just coincidental red flags; similar patterns were observed well before the global financial crisis, when the widening of credit spreads led to steep losses for bondholders. During that episode, the Bloomberg U.S. Corporate High Yield Bond Index recorded a total return of -35%.

Adding to the unease is the uncertain policy environment. This elevated rate environment continues to stress corporate balance sheets, particularly for firms on the lower end of the credit spectrum. Meanwhile, the volatility introduced by the Trump administration's sweeping tariff regime and budget cuts has further clouded corporate revenue forecasts, raising questions about cash flow stability and future default risks.

These concerns are not lost on investors. Growing interest in hedging strategies—particularly via exchange-traded futures on credit products—suggests that many are preparing for the possibility of a sharp repricing. If spreads were to widen meaningfully from such compressed levels, the fallout could be swift and severe, particularly for unhedged investors in lower-rated debt.

The apparent calm in credit markets may not last. With economic momentum slowing, consumer financial stress rising, and public policy in flux, the conditions are ripe for credit spreads to snap wider—a move that could expose how thin the margin for error has become.

Corporate bond spreads have widened to their highest levels since September, reflecting rising investor anxiety over recession risks and escalating trade tensions. U.S. investment-grade spreads reached 94 basis points, while high-yield ("junk") bond spreads hit 322 basis points, according to ICE BofA indices. These widening gaps—seen as a key measure of financial market stress—underscore growing unease following Trump's sweeping import tariffs and fears of a global trade war.

Even as traditional credit spreads show signs of stress, parts of the leveraged loan market remain euphoric. Risk premiums on BB-rated CLO tranches have tightened to post-GFC lows (around 470 bps), fueled by optimism that strong consumer spending and easing inflation will limit defaults. S&P expects loan defaults to fall to 1% by September, and the share of CCC-rated debt is expected to decline. However, analysts warn that tight spreads and elevated issuance volumes could leave CLO mezzanine and equity tranches exposed if interest rates remain higher for longer.

Taken together, these developments point to a credit market that may be underpricing risk. With economic growth slowing, delinquencies rising, and policy uncertainty escalating, today's tight spreads may not be sustainable—and the consequences of a sudden repricing could be severe.

FX Turmoil: Tariffs Weaken Dollar, Boost Safe-Haven Currencies

Volatility Rises as Dollar Weakens

The global foreign exchange landscape is undergoing a period of acute volatility as President Trump's tariff-driven economic agenda, diverging central bank policies, and mounting recession risks disrupt established currency dynamics. Traditional safe havens like the euro and yen have gained ground, while the U.S. dollar—long viewed as the world's anchor currency—is showing signs of vulnerability.

Trump's strategy of using tariffs and budget deficits to weaken the dollar and restructure global monetary relationships has rattled FX markets. His support for a crypto reserve system and lighter financial regulation suggests a longer-term vision for preserving U.S. dominance in a multipolar financial world—even at the risk of near-term instability.

Despite heightened uncertainty, a recent Reuters survey suggests the dollar may remain broadly stable in the months ahead. However, confidence in its safe-haven status is waning. Traders, facing overlapping tariff announcements and unclear policy signals, have unwound long-dollar positions, flipping to net short for the first time since October. Growing expectations of multiple Federal Reserve rate cuts are further fueling repositioning.

This evolving backdrop highlights the shifting foundations of global currency markets, where political unpredictability, monetary divergence, and changing investor behavior are challenging long-held assumptions.

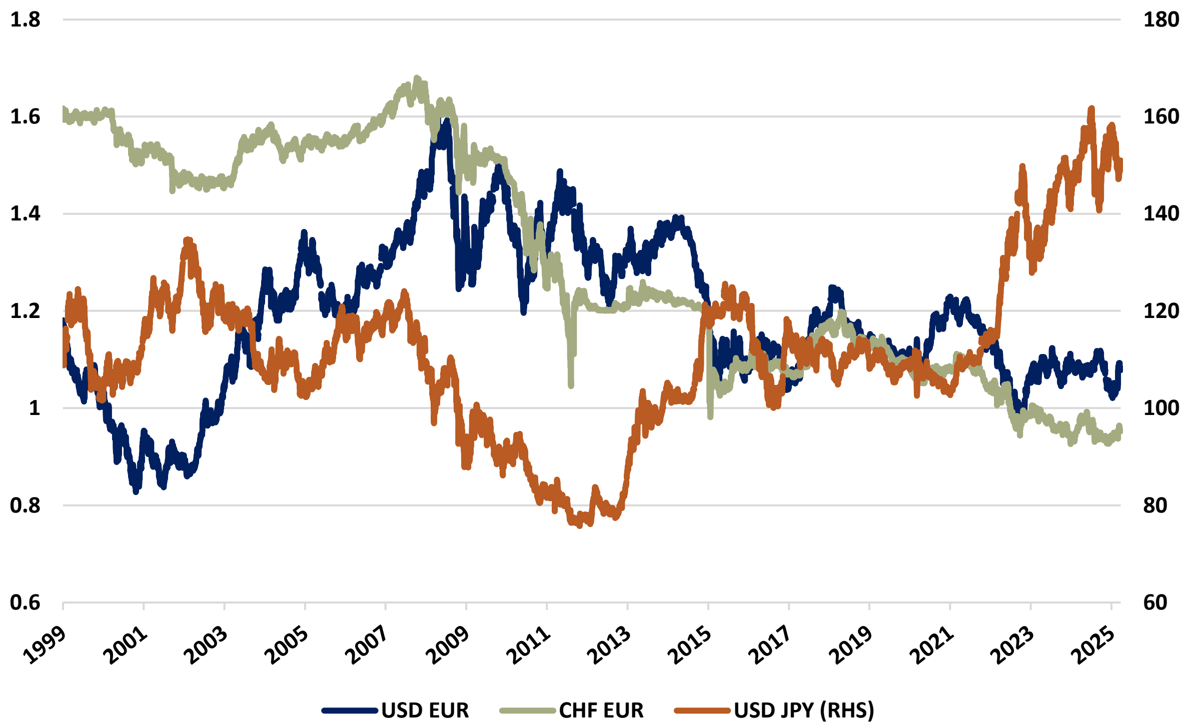
EUR/USD Surge Amid Dollar Weakness

The euro has emerged as a relative outperformer. The EUR/USD pair climbed to 1.1145, its highest level since October, with a daily gain of 2.5% after the Trump tariffs were announced. The drop in the U.S. Dollar Index

(DXY) to 101.30—its lowest in six months—reflects investor uncertainty over Trump's policies and broader structural changes in the U.S. economy.

This surge comes despite escalating trade tensions. Nonetheless, the European Central Bank (ECB) remains committed to rate cuts. ECB policymakers have indicated that U.S.-driven inflation spikes will not deter further monetary easing, even as the Eurozone braces for a slight GDP drag of 0.3%–0.4% from trade-related shocks. As FX markets adjust to these shifting dynamics, the dollar's role as the global anchor is increasingly being questioned—raising the stakes for financial stability amid a brewing transatlantic economic confrontation.

Figure 4: Major Crosses



Source: FRED

Swiss Franc Surges Amid Tariff Turmoil

Swiss franc surged after Trump Tariffs, with USD/CHF plunging 2.5% to its lowest level since October 2024, as investors flocked to safe-haven assets amid growing market anxiety over Trump's sweeping tariffs. The U.S. imposed a 31% levy on Swiss imports, claiming retaliation for high Swiss duties—raising fears of export losses and supply disruptions for Switzerland. This protectionist shift comes as Swiss inflation remains subdued, with March CPI at just 0.3% year-on-year. In contrast, U.S. data showed signs of weakening: the ISM Services PMI fell to 50.8, the lowest since June 2024, suggesting tariffs are starting to weigh on business costs and activity.

Markets are now bracing for a softer U.S. jobs report, which could pressure the Fed to cut rates. Technically, USD/CHF trades below key moving averages, suggesting a bearish trend. The Swiss franc's strength underscores rising global uncertainty and growing skepticism about the U.S. dollar's role, as Trump's trade agenda continues to rattle financial markets. Regarding EUR/CHF, with the ECB maintaining a dovish stance—potentially reinforced by tariff tensions—and limited easing expected from the SNB, the upside for the pair appears capped.

USD/JPY Outlook: Bearish Pressures Intensify

The USD/JPY exchange rate has come under pressure in early 2025, driven by fading U.S. economic momentum, stronger-than-expected Japanese data, and a sharp narrowing in yield differentials. Most recently, USD/JPY dropped to 146.69 as safe-haven demand for the yen surged—despite Japan being hit with a 24% reciprocal tariff by the U.S. Bullish momentum has faded, and risks are skewed to the downside. Further weakness is likely in the medium term, as diverging central bank policies take hold: the Federal Reserve is easing, while the Bank of Japan is gradually normalizing policy, supported by rising GDP, wages, and CPI.

Although USD/JPY remains rangebound for now, the bias is clearly bearish amid persistent trade tensions and macroeconomic uncertainty. A sharp downside break remains possible if "risk-off" sentiment triggers a broad unwind of carry trades.

Crypto Market Tumbles Amid Tariff Shock and Macro Headwinds

Bitcoin and other major cryptocurrencies fell sharply following President Donald Trump's announcement of sweeping new tariffs, which reignited policy-driven market volatility and risk-off sentiment. The largest digital asset, Bitcoin, dropped as much as 4% to around $82,000 in early Thursday trading in Asia, while Ethereum (ETH/USD) and altcoins like Solana and XRP also saw significant declines. The market reaction reflects a broader risk-off sentiment, with traders wary of rising macroeconomic and geopolitical uncertainty.

This correction came after Bitcoin had touched an all-time high of $108,786 in January 2025, fueled by optimism over a friendlier U.S. regulatory environment and Trump's proposed Strategic Bitcoin Reserve. That rally now appears vulnerable as markets grapple with renewed volatility and stagflation fears.

The February 2025 crypto crash, which wiped out $2 billion in liquidations following earlier tariff announcements, highlights Bitcoin's vulnerability to macro shocks. With the Fed signaling caution on rate cuts—no move expected before June, and an 83.5% chance of holding steady in May—tightening liquidity could further weigh on BTC.

Ethereum: Mixed Signals Beneath the Surface

Ethereum, in particular, has come under pressure. ETH briefly dipped below the key $1,800 support level before rebounding to $1,820. During this drop, short-term holders realized over $400 million in losses—often a signal of capitulation, which could mark a local bottom.

Despite the price weakness, on-chain data paints a more nuanced picture. Mid-sized holders have been trimming their positions, while large-scale "whale" investors are accumulating. At the same time, exchange reserves remain historically low, with over 900,000 ETH withdrawn in March—much of it redirected into staking. This suggests a longer-term bullish bias, even as the short-term outlook remains shaky.

Technical Outlook and Risks

From a technical perspective, the $1,800 level is a critical support zone for ETH. A sustained break below this level could open the door to further losses toward $1,500. Conversely, a decisive break above $2,070 is needed to reignite bullish momentum.

Looking ahead, the crypto market remains highly sensitive to macro developments. Persistent inflation concerns, tighter Fed policy, and geopolitical uncertainty are likely to keep volatility elevated. While long-term fundamentals for assets like Ethereum remain strong, the short-term path is likely to remain choppy.