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Trump's "Liberation Day"

Donald Trump's re-election brought about a radical change in American trade policy, culminating in yesterday's "Liberation Day," a day of supposed liberation from unfair trade relations. During the election campaign, Donald Trump emphasized that his favorite word was "tariffs." After his inauguration, his administration promptly implemented this announcement and imposed punitive tariffs on Mexico, Canada, and China, postponing the measures against neighboring countries for 30 days. The 10 percent tariffs on all Chinese goods, however, took effect immediately. Shortly thereafter, punitive tariffs of 25 percent on European steel and aluminum imports were announced. Both China and the EU responded with retaliatory tariffs, with the EU placing greater emphasis on dialogue. A two-stage plan with retaliatory tariffs was developed, the first step of which affected the same US goods as during the trade war in Trump's first term in office. However, these counter-tariffs were postponed to gain more time for negotiations with the US. Following Trump's press conference yesterday, these responses will likely be reconsidered. How the affected countries – especially the EU and China – will react to the new tariffs will become clear in the coming days. However, many indications point to further escalation.

How does Trump calculate his tariffs?

Last night, Trump launched a new, far-reaching tariff package in the White House Rose Garden. The reciprocity principle promoted by the Trump administration is based on the idea of symmetrical terms of trade. The goal is to equalize effective trade costs by considering all trade-relevant factors beyond tariff rates alone. Therefore, this calculation takes into account not only the partner country's current tariff rate on US goods, but also the partner countries' subsidy volumes and a regulatory component. The average of these three factors results in the proposed tariff rate. The US has decided to impose tariffs amounting to half of the tariff rates it has determined in order to correct the alleged trade imbalances (see table).

Tariffs announced by Trump (selection)

General	10%
China	34%
EU	20%
Japan	24%
Vietnam	46%
Taiwan	32%
India	26%
Canada/Mexico	25%

The subsidy component quantifies indirect trade distortions caused by government aid, such as direct export subsidies and tax incentives. The third (and equally controversial) factor, the regulatory component, captures non-tariff trade barriers using a complex assessment system. Factors such as the length of approval procedures, local content requirements, technical norms and standards, and administrative costs for US exporters are converted into monetary equivalents.

Unclear aspects of the tariff formula

Although the Trump administration describes the model as "scientifically rigorous," key calculation parameters remain opaque. Detailed publications on the weighting of individual subsidy types or the methodology for determining regulatory costs are lacking. The calculation applied therefore appears to be more of an arbitrary aggregation of heterogeneous factors into a single metric. The services sector—accounting for 45 percent of US export value—is also excluded. This may have been done deliberately to favor US tech giants.

The European Commission points out that actual trade between the EU and the US shows that tariffs average around one percent on both sides. Although the EU member states are already working on a new package of measures, they are simultaneously emphasizing their willingness to continue talks with the US administration. President Trump has made it quite clear that there will be no room for negotiation for the time being. Partner countries should first reduce their tariff rates before further negotiations can take place.

How does Trump justify his tariffs?

As we already analyzed in our publication two weeks ago[1], Trump's trade policy is based on the ideas of economist Dr. Stephan Miran, who sees the strong US dollar as the main problem facing global trade. Trump's plan includes tariffs to generate revenue to finance tax cuts for exporters and improve the trade balance. Critics, however, doubt that tariff revenue will be sufficient to offset the tax shortfalls. After the tariffs, which, ceteris paribus, cause the dollar to appreciate, the dollar is to be devalued by forcing trading partners to appreciate their currencies. Refusal threatens further tariffs and the loss of security guarantees.

At present, however, Trump's master plan does not appear to be working smoothly. Especially in recent weeks, the US dollar has depreciated relatively sharply against the euro. According to the current phase of Trump's master plan, however, it should be the other way around. The sharp decline in the US dollar can be explained by massive capital flight from the US to Europe. Currently, the markets seem to see the risks in Trump's trade policy actions.

What are the consequences for the United States?

Donald Trump is counting on the fact that the introduction of tariffs will generate significant additional revenue and allow American industry to be rebuilt. He assumes that, for example, automobile manufacturers will relocate their production entirely to the USA to avoid the tariffs. However, it is more economically plausible that Trump's calculations will not work out and that car prices for US consumers will initially rise significantly. Car prices are already very high due to supply chain problems. Similar effects can be expected for all other goods directly or indirectly affected by the tariffs. A trade war characterized by repeated tariff impositions and retaliatory tariffs would place a significant burden on the economy, with consumers in all countries ultimately bearing the costs.

The fear that the inflation rate could rise to as high as 4 percent if the Trump administration continues to implement all of its tariff plans remains omnipresent. The price component of the ISM indicator recently reached its highest level since June 2022. However, Federal Reserve Chairman Jerome Powell pointed out that tariffs are usually one-time price boosters and do not lead to permanent inflation.

Trade in transition: Is the traditional system on the verge of collapse?

The three-dimensional tariff model introduced by the Trump administration represents a significant departure from traditional trade approaches. While the inclusion of non-tariff trade barriers is fundamentally positive, the model's credibility and practical application are compromised by a lack of transparency and potential

[1] See Economic Situation and Strategy from March 20, 2025: “Trump's trade policy: What is behind it?”

political influence. The real innovation lies less in the tariff rates themselves than in the creation of a new assessment system that shifts future trade conflicts into a realm seemingly scientifically sound. For export-oriented economies like Germany, this means they must develop their own sound calculation models to prevail in negotiations and in the design of countermeasures.

The first 73 days of Trump 2.0 brought turbulence to the capital markets. His erratic statements and the frequency of his announcements strained confidence in the US capital markets and the US economy. "Liberation Day" can unfortunately be seen as only a temporary climax. Even though we don't know what antics US President Trump will pull in the near future, we believe the US economy and its companies are robust enough to weather a storm. Only a prolonged low could cause the system to struggle. The slackened trade conflict is likely to lead to continued volatility on the stock markets, but such phases are part of the capital markets, because without risk there is also no return. When in doubt, it is better to stay invested than to try to find the optimal entry and exit points. While there is now a pronounced skepticism regarding the US, which, in our view, offers good opportunities to positively exceed the low expectations, the opposite is true for German and European equities. A lot of premature praise has been given here, and it remains to be seen whether the high expectations for the real economy and future corporate profits are justified.

Jan Mooren

Market data

Stock marktes	As of 04.04.2025 09:50	Change versus 27.03.2025 -1 week	28.02.2025 -1 month	02.01.2025 -3 months	02.04.2024 -1 year	31.12.2024 YTD
Dow Jones	40546	-4,1%	-7,5%	-4,4%	3,5%	-4,7%
S&P 500	5406	-5,0%	-9,2%	-7,9%	3,9%	-8,1%
Nasdaq	16551	-7,0%	-12,2%	-14,2%	1,9%	-14,3%
DAX	21490	-5,2%	-4,7%	7,3%	17,5%	7,9%
MDAX	26533	-7,3%	-6,2%	3,2%	-0,9%	3,7%
TecDAX	3458	-6,4%	-8,4%	0,6%	1,8%	1,2%
EuroStoxx 50	5060	-6,0%	-7,4%	2,9%	0,4%	3,4%
Stoxx 50	4395	-5,2%	-7,7%	1,3%	-0,1%	2,0%
SMI (Swiss Market Index)	12147	-5,6%	-6,6%	4,7%	4,8%	4,7%
Nikkei 225	33781	-10,6%	-9,1%	-15,3%	-15,2%	-15,3%
Brasilien BOVESPA	131141	-1,5%	6,8%	9,2%	2,8%	9,0%
Indien BSE 30	75519	-2,7%	3,2%	-5,5%	2,2%	-3,4%
China CSI 300	3862	-1,8%	-0,7%	1,1%	7,8%	-1,9%
MSCI Welt	3533	-4,4%	-7,2%	-4,6%	3,8%	-4,7%
MSCI Emerging Markets	1103	-2,5%	0,5%	3,0%	5,0%	2,5%
Bond markets						
Bund-Future	129,84	149	-335	-345	-230	-360
Bobl-Future	118,78	124	88	99	95	92
Schatz-Future	107,27	36	33	31	158	28
3 Monats Euribor	2,36	0	-11	-38	-153	-36
3M Euribor Future, Dec 2025	1,86	-11	-6	-5	-55	-3
3 Monats $ Libor	4,32	-1	0	-4	-110	-5
Fed Funds Future, Dec 2025	3,37	-36	-30	-54	-70	-54
10 year US Treasuries	3,96	-41	-24	-61	-40	-61
10 year Bunds	2,56	-19	17	19	17	20
10 year JGB	1,20	-36	-16	12	46	12
10 year Swiss Government	0,43	-23	-3	16	-30	16
US Treas 10Y Performance	616,83	1,5%	0,5%	4,2%	5,7%	4,2%
Bund 10Y Performance	551,99	0,5%	-2,4%	-2,2%	0,1%	-2,2%
REX Performance Index	454,10	0,7%	-0,5%	0,1%	2,6%	0,3%
IBOXX AA, €	3,17	-2	25	17	-15	14
IBOXX BBB, €	3,62	0	30	17	-27	16
ML US High Yield	7,79	6	40	18	-26	14
Commodities						
MG Base Metal Index	426,54	-1,9%	1,4%	5,4%	6,8%	5,2%
Crude oil Brent	68,78	-7,1%	-6,5%	-9,8%	-22,6%	-8,0%
Gold	3095,16	1,4%	8,6%	16,6%	37,0%	17,9%
Silver	33,83	-1,4%	8,9%	14,3%	31,0%	14,0%
Aluminium	2465,55	-3,3%	-5,9%	-1,5%	5,5%	-2,4%
Copper	9653,73	-1,5%	3,4%	11,1%	8,6%	11,6%
Iron ore	104,18	1,8%	-2,5%	3,5%	1,2%	0,6%
Freight rates Baltic Dry Index	1540	-5,0%	25,3%	49,7%	-10,2%	54,5%
Currencies						
EUR/ USD	1,1019	2,2%	5,8%	6,8%	2,5%	6,1%
EUR/ GBP	0,8457	1,5%	2,4%	1,9%	-1,3%	2,3%
EUR/ JPY	161,05	-0,9%	2,6%	-0,6%	-1,2%	-1,2%
EUR/ CHF	0,9420	-1,1%	0,3%	0,5%	-3,5%	0,1%
USD/ CNY	7,2813	0,2%	-0,1%	-0,3%	0,6%	-0,4%
USD/ JPY	149,26	-1,2%	-0,9%	-5,3%	-1,5%	-5,1%
USD/ GBP	0,77	-0,5%	-3,3%	-5,0%	-3,5%	-3,8%

Source: Refinitiv Datastream

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