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GLOBAL MACRO VIEWS

Taking stock amid tariffs

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Liberation Day in the U.S. dished a hefty dose of tariff shock and awe, sending financial markets into a frenzy. President Trump announced a mix of broad and reciprocal tariffs far exceeding market expectations, prompting a rethink of the global economic outlook. Ongoing uncertainty on retaliatory and negotiating measures from the U.S.'s top trading partners creates a challenging backdrop. We take stock of the global outlook and how central banks could respond.

In a push to reindustrialize the U.S. economy, President Trump announced a minimum 10% tariff on all goods exported to the U.S. alongside additional duties for major trading partners including China, Japan and the European Union. While Mexico and Canada were excluded, both face earlier-announced tariffs. Despite the announcement of a 90-day pause on the reciprocal rates, collectively the measures will raise the effective U.S. tariff rates to levels not seen in a century and open the door to further rounds of negotiations and threats of escalation. This accelerated shift to greater economic autarky has broad implications for the global economy.

U.S. recession risks rising, but not yet base case

Leading U.S. economic indicators have been weakening and consumer confidence has been under pressure. U.S. households remain critical to the outlook. While backwards-looking employment data has shown resilience, the potential hit to wealth as stock markets tumble alongside elevated uncertainty could curtail spending. Ongoing uncertainty could derail capital spending, raising recession risks, and this is before incorporating any retaliatory measures of trading partners.

Further threats of escalation and retaliatory actions leave global trade war risks and medium-term global deflationary risks elevated

Front-loading import purchases ahead of tariffs and upside inflation risks mean the U.S. Federal Reserve will likely remain patient and await material signs of economic deterioration. The key risk is pronounced market dislocations that would warrant interventionist action. As of writing, liquidity across the U.S. fixed income market is uneven but short-term borrowing rates point to orderly price action, leaving the Fed on the sidelines.

Nuveen's U.S. macro team are tentatively penciling in 0.7% growth for 2025, with the Fed poised to cut 100 basis points (bps) by end-2026. Ongoing uncertainty including retaliatory measures from top trading partners, however, leaves our forecasts fluid.

Rethinking European outlook amid retaliatory risks

Broad 20% tariffs on European exports to the U.S. came into effect on 9 April, aggravating existing downside growth risks in Europe. We had already incorporated a 0.3% potential hit from tariff uncertainty to our 1% growth forecast, though the retaliatory efforts to-date lean towards an additional economic drag. Uncertainty on the persistence of tariffs warrant an additional layer of caution. The European Central Bank does not foresee a trade-induced recession and appears poised to continue its cutting cycle in a data-dependent manner to buoy financial conditions. However, it warned of the "non-negligible" direct impact on the economy of a trade war.

Markets ramped up rate cut expectations for 2025 amid the heightened trade uncertainty. While the ECB will have to weigh positive sentiment effects from recent fiscal announcements against the significant tariff downside, our base case is for the ECB to reduce its deposit rate to 1.75% in 2025. Downside growth risks and potential collapse in sentiment leave risks skewed slightly lower.

Outsized risks in Asia with attention turning to China

Asia is set to bear the brunt of tariffs, skewing growth risks to the downside, notably in China, Japan and South Korea. While the tariff dynamics are ostensibly shifting daily, as of now China will face a 125% tariff while several other Asian economies will face rates at 10%. A consequence is the stance of the region's central banks. The Bank of Japan is delaying its next rate increase, while other central banks are poised to take a more dovish turn.

In China, we expect 2025 economic growth in the range of 3.5-

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4.0%, depending on the degree of policy response. While the Chinese government's focus has been on consumption, as we noted last month, this comes from a desire to address industrial sector overcapacity rather than embarking on conventional Western economic policy prescriptions. As such, with tariffs amplifying excess capacity, China could take a more proactive front to defend their growth target.

Elsewhere, tariff-induced growth pressures are building including in Canada, Australia and the U.K. Tariff risks have derailed Canada's positive momentum from successive rate cuts since May 2024. Despite strong domestic demand, the Reserve Bank of Australia is likely to quicken their cuts amid uncertainty. While less vulnerable to U.S. tariffs, uncertainty adds to downside growth risks in the U.K. and aggravates the already challenging fiscal backdrop. The Bank of England is poised to continue its rate reduction cycle with three additional cuts likely this year.

Keep calm, carry on

Looking ahead, markets are likely to further ramp up U.S. growth fears due to ongoing policy uncertainty weighing on sentiment. While expectations will now shift toward hopes of negotiations, further threats of escalation and retaliatory actions leave global trade war risks and medium-term global deflationary risks elevated. Uncertainty on how central banks will react given the potential short-term upside inflations risks adds to this volatility.

The interplay between tariffs, labor market strength and central bank policy will continue to dictate risk appetite and asset allocation strategies as investors navigate a higher tariff environment than initially expected coming into 2025.

Long-term considerations around trade flows, corporate earnings and consumer sentiment will also remain in focus. There will be opportunities across asset classes, with active management and bottom-up fundamental analysis crucial in this environment of elevated uncertainty and volatility.

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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