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Trump's first 100 days: a new economic regime takes shape

By Steve Williams, Head of EMEA Global Fixed Income
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Tariffs bring global uncertainty

Donald Trump's second term in office has now passed the symbolic 100-day mark, and his most significant action this far was his announcement of global tariffs on 2 April. Trump's "Liberation Day" triggered a market sell-off in anticipation of a global supply shock, but after he subsequently announced a 90-day pause, global equity indices recovered, ending the month broadly where they began.

The pause should give the US administration time to negotiate with its closest allies, but if no meaningful progress is made, particularly with countries like South Korea and Japan, by the end of May, it could signal a prolonged impasse. That would reinforce concerns that this is not simply a short-term negotiating tactic, but the beginning of a more entrenched trade rift. Therefore, while investors who avoided panic selling in April may have found themselves emerging relatively unscathed, the tariff shock continues to justify a higher risk premium across global equities.

US economic concerns at the fore

This not the first time the world has faced a severe supply chain disruption. But unlike the pandemic, for example, the current shock is self-inflicted, driven by Trump's idiosyncratic approach to trade policy rather than external forces. We're already starting to see the effects ripple through the US economy. Logistics data shows a sharp drop in goods moving from China to the US. Container bookings are significantly lower than a year ago. The Port of Los Angeles, the main entry point for Chinese goods, expects arrivals in early May to be down by a third. Airfreight bookings are also falling. According to Vizion, container bookings for standard 20-foot boxes from China to the US were 45% lower year-on-year by mid-April. As John Denton of the International Chamber of Commerce noted, many businesses are delaying decisions while they wait to see whether the US and China can reach a deal.

China-US relations remain key

As discussed last year, Trump's approach to tariffs has been to target China most aggressively. But political headwinds may force him to take a more conciliatory approach than he would like. With mid-term elections in November 2026, the Republican Party needs a quick win with allies, ideally leading markets towards new highs before then. China's President Xi Jinping, of course, faces no such political pressure. The tariff strategy appears designed to create what economists might call a "separating equilibrium", pushing allies to side with the US in isolating China, while also testing China's response. Trump's approach leaves little room for Xi to save face, effectively forcing Beijing into tit-for-tat measures. That lack of an off-ramp increases the risk of a drawn-out standoff, with economic data releases ratcheting up the pressure.

Looking ahead, we expect more anecdotal evidence of supply disruption to emerge by the end of May, followed by harder economic data shortly after. The potential inflationary effect is notable. Based on trade volumes of around USD 425 billion and tariff rates that could eventually settle around 50%, we estimate the direct impact on US inflation could be around 1 percentage point, assuming no offsetting effects. Depending on how much of the cost is absorbed by importers and exporters, the range could be anywhere from 30 to 70 basis points. In short, the trade war's economic effects are already becoming visible. The longer it persists, the greater the risk that it drags on US growth and complicates the Federal Reserve (Fed)'s task of managing inflation expectations.

Threats to Federal Reserve impartiality: are Powell's days numbered?

Early in his second term, Trump appeared to be testing the legal ground for removing the Fed Chair Jerome Powell before the end of his term, with suggestions he could do so without needing to show cause. Trump has recently softened his public stance on Powell, but questions remain over future Fed independence.

At the heart of this issue is *Wilkins v. United States*, a Supreme Court case expected to be decided in June. The case could effectively challenge the precedent set by Humphrey's Executor in 1935, which limits a president's ability to remove the heads of independent agencies without cause. Should the Supreme Court side with the Trump administration, it could strip away key legal protections that shield the Fed Chair from political interference. Even if the court offers a more limited ruling, the legal precedent could still be weakened, clearing the way for greater executive control over independent agencies. In the most extreme outcome, Trump would have the authority to dismiss Powell, or any other agency head, at will. Such a move would undermine the institutional integrity of the Fed and draw comparisons to the erosion of central bank independence seen in countries like Turkey, where politically driven monetary policy has contributed to economic instability.

Powell's current term ends in May 2026, and it is unlikely he will be reappointed, and his successor could be announced well before then. Trump will likely nominate a more dovish candidate willing to cut rates aggressively in support of his policy agenda. This puts the Fed in a difficult position. Even if political pressure builds to ease policy, the Fed must remain vigilant about the risk of re-accelerating inflation. A premature or politically motivated pivot could risk repeating the mistakes of the 1970s, when monetary policy missteps allowed inflation to spiral. For now, this uncertainty may push the Fed to maintain its current pause for longer, as it waits for greater clarity on both inflation and the political landscape.

Has the tariff risk premium already been priced in?

In fixed income markets, some degree of tariff-related risk premium has already been priced into the long end of the US rates curve. However, when comparing US long-term yields with those of other developed markets, the relative value is starting to look more compelling. Global bond market scepticism, often described as bond vigilantism, can only stretch so far.

At a certain point, investors recognise they are being adequately compensated for bearing tariff-related inflation risks. When that happens, US long bonds may start to attract stronger demand, offering not just a yield premium but also a degree of protection in a potentially slower growth environment. With the European Central Bank moving onto an easing path, the spread between US and European long-end rates is likely to widen further in the near term. That divergence supports the case for US duration, especially as the risk premium embedded in Treasury yields becomes more attractive.

Downward pressure on the dollar

While credit markets also weakened during April, the more pressing concern is the US dollar. The dollar index fell to a three-year low in the month, and the currency is currently looking technically oversold, even when assessed relative to interest rate differentials. Fundamentally, there appears to be an incentive for the US to maintain a weaker dollar in order to reduce its export deficit.

What we are seeing is the emergence of a new economic regime. Previously, foreign exchange moves were largely driven by interest rate differentials. But under Trump's policies, those drivers appear to be shifting. Trade dynamics and political strategy are taking a more central role in currency movements. In this new environment, we expect continued downward pressure on the dollar. Slowing economic data, which we anticipate will materialise soon, could reinforce this trend. We also believe that at its upcoming June meeting the Fed is more likely to ease policy, which the markets have currently priced in at only around 50%.

Thoughts on volatility

The start of April brought a spike in market volatility that unsettled many investors. In today's markets, risk premiums are priced in far more quickly than they were two decades ago, and we saw this in action with the volatility index (VIX) briefly surging above 50 following Liberation Day. Such levels are rare and typically short-lived. While similar spikes occurred during the Global Financial Crisis and the early days of pandemic, volatility above 50 historically tends not to persist. It creates an environment where selling volatility becomes attractive, quickly pulling the index back down. This pattern appears to be playing out again.

The initial equity sell-off seemed to bottom shortly after the Liberation Day announcement, in a manner not dissimilar to the bottom reached in March 2020 at the onset of the pandemic. Back then, valuations fell to around 16 times forward earnings. This time, we've only seen multiples contract to roughly 19 times, and credit markets have experienced far less severe dislocation. While macro risks remain, current conditions do not yet point to a systemic crisis.

From a market positioning perspective, the worst may now be behind us. What happens next largely depends on the pace and direction of trade negotiations, both with Washington's allies and, further down the line, China. Ultimately, we expect US-China tariffs to settle in the mid-double-digit range, depending on how far both sides are willing to compromise. Crucially, Trump will need to make at least a symbolic concession to allow Xi Jinping to save face. Without that, a sustainable off-ramp becomes much harder to achieve. For now, based on historical patterns and current valuations, we think it's likely the market has found a near-term bottom, unless trade tensions escalate significantly from here.

In our view, now is an opportune time to consider an active global fixed income approach to navigate what is likely to be a prolonged period of uncertainty and for those seeking diversification. With bond yields and geopolitical risks remaining elevated, this environment presents unique opportunities in fixed income, particularly as markets adjust to lower inflation expectations.

About the author

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Steve Williams was appointed as the Head of EMEA Global Fixed Income in March 2024, concurrently he is also the Head Portfolio Manager for Global Core Strategies and a Managing Director in Nikko AM's London office. He is a member of the fixed income & foreign exchange investment committee as well as the portfolio manager with oversight for the firm's investment grade, municipal, green bond, global mortgages and global bond business. He joined Nikko AM in 2007 and took over co-management responsibility for the firm's flagship global sovereign bond strategy as well as launching the first dedicated Danish mortgage bond strategy into Japan in 2016 and has managed Nikko AM's Green Bond strategy since 2015.

Steve, previously served as a Credit research analyst with New York Life Investment Management in corporate bonds and structured finance as a senior analyst. He has over 20 years of investment experience and holds an MBA from Duke University's Fuqua School of Business. He received his undergraduate degree from the University of Michigan and is a certified FRM.

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