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What to Expect After the Tariff Tantrum?



The market's tariff tantrum is a direct result of the previous monetary bubble. Market reaction to the announcement of tariffs may have surprised many, but it is a direct result of two decades of monetary insanity and the excess of 2024.

Thus, the slump in markets cannot be explained without understanding the level of risk accumulated in 2024, with various rate cuts and further monetary easing expected.

Stocks soared despite the economic slowdown, lacklustre earnings, and soaring debt. Two generations of market participants became addicted to rising government spending, debt, and central bank printing, which led to the Tariff Tantrum.

However, we need to avoid the Keynesian messages of doom and understand the real implications of what is happening.

For example, the anti-American narrative is so strong that headlines mention a "dollar crash" with a 2.7% decline in the trade-weighted dollar index year-to-date and talk of a "bond collapse" with a 1.8% real yield.

We can expect more volatility in markets as central banks remain cautious and headlines continue to be focused on negatives. However, money supply growth does not indicate the type of inflationary spiral that some market participants assume, and the latest producer price and core consumer price figures **showed** disinflation in March.

What should we expect in the next months?

Process of intense negotiation

After the United States government announced the largest set of tariffs in the past hundred years, there is an ongoing process of intense negotiation.

According to a **report** from the Department of Commerce, "2025 National Trade Estimate Report on Foreign Trade Barriers," tariffs and non-tariff barriers that the United States faces

from its partners are unsustainable.

The administration imposed reciprocal tariffs with the aim of negotiating an improvement in a trade deficit that reached \$918 billion in 2024.

The United States government does not seek to balance its trade account completely but rather to reduce the current deficit by half, according to estimates by JP Morgan and Bloomberg.

Tariffs are a last resort and aggressive measure to force a negotiation that levels the trade playing field

Mario Draghi, former president of the ECB, stated in a Financial Times **article** that the internal barriers of the European Union act like tariffs, raising the costs of the European manufacturing sector by 45% and the service sector by 110%, using IMF data. Even Ursula von der Leyen quoted these words in the European Parliament.

Tariffs are a last resort and aggressive measure to force a negotiation that levels the trade playing field.

The European Union exported goods to the U.S. worth 576.3 billion euros in 2024, according to Eurostat, 19.7% of its total exports.

With a 20% tariff, Goldman Sachs **estimates** that affected exports could amount to around 190 billion euros (40% of the total sold to the U.S.), reducing the eurozone's GDP by up to 1%. Germany would suffer more, with an estimated contraction of 1.1%.

All these tariffs, except those to China, which have increased to 124%, have a 90-day moratorium as more than 90 countries have shown a willingness to negotiate.

The impact on inflation

The IMF estimates that tariffs could reduce global GDP by 0.5% and increase inflation by a similar percentage. However, Brevan Howard and some members of the Federal Reserve believe that the impact on inflation will be modest due to the purchasing power of U.S. companies and the elasticity of demand.

Additionally, the White House estimates that this measure will attract billions in investment and jobs to the United States.

The key thing to understand is that countries can negotiate directly with the Department of Commerce to eliminate reciprocal trade barriers, and this would benefit everyone.

Negotiations can lead to the elimination or reduction of tariffs if European countries and the EU remove their trade barriers

Additionally, companies that invest in productive capacity and employment in the United States will not be subject to tariffs. The exemptions will be made individually and by country.

Negotiations can also lead to the elimination or reduction of tariffs if European countries and the European Union remove their trade barriers, particularly bureaucratic, environmental, and fiscal ones, from the CO2 tax and phytosanitary requirements to labelling, packaging, and licensing requirements that act as an impossibility for U.S. exports.

The options for the European Union

The options for the European Union are limited due to its enormous trade **surplus** with the United States, estimated to be around \$160 billion by 2025, according to Bloomberg.

The most efficient solution will be to negotiate the elimination of tariffs, and this can be done by removing the barriers imposed by the

European Union.



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In doing so, the European Union will also comply with the demands of the Draghi report on European competitiveness and the requests of industries all over Europe.

China will probably maintain the trade war, as it is not going to lift its bans and restrictions on the United States. However, it is very likely that retaliatory tariffs will have a significant impact on growth and employment.

The negotiation cannot be limited to tariff barriers

Trump knows that the world has two Achilles' heels: overproduction capacity that can only be reduced by selling to the U.S. and the need to bring exporter dollars to support local currencies.

The U.S. is also faced with two significant challenges. Both the trade deficit and the fiscal deficit pose significant challenges for the U.S.

If urgent measures are not taken, the dollar could disappear as a global reserve currency in a few years, and the world may face a global economic depression.

Trump knows that the weakness of the U.S. is also a global weakness because the entire financial system is a carry trade to the dollar. That's why the negotiation cannot be limited

to tariff barriers but rather to the more important ones, the non-tariff barriers.

US trading partner countries have no option but to negotiate

Japan, the EU, India, and 87 nations have already started negotiating with the Trump administration.

US trading partner countries have no option but to negotiate: their trade surplus is so high that there is no possibility of responding aggressively without destroying their own economy.

China is stunned by the impact of its response on its stock market and the yuan, reaching an 18-year low that the PBOC did not expect. Trump knows that no country can replace the American consumer with the Indian, European, or Brazilian.

So far, the EU has proposed reducing industrial tariffs, but that is completely insufficient when the highest tariffs are on agriculture, livestock, and automobiles.

A "power package"

The goal of the Trump administration is to present 70 or 80 trade deals by the end of April and announce up to 6 trillion dollars in investments in the U.S. for the coming years.

Additionally, if the estimated deficit figure drops by 280 billion, the Trump administration could announce the largest tax cut in US history as early as May.



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Furthermore, the Trump administration wants consumers to see a real reduction in gasoline, natural gas, food, and utilities. Major distributors like Walmart, Costco, Sysco, US Foods, and PFG have communicated to their Asian suppliers that they do not accept price increases on any product under any circumstance.

In summary, Trump wants a "power package" for May in which he presents the world with a substantial number of successful trade agreements, several trillion in investment for the U.S., reduced inflation, and a severely weakened Chinese economy that agrees to open its economy.

The risks are significant. Volatility may persist, central banks may continue sending contradictory messages, China may face a large devaluation of the yuan, and the European Union may not agree to reduce its non-tariff barriers.

No US trading partner has the cards to face a large-scale trade war. That is why there are only two options: negotiate or lose.