

Tariff Revival: Global and Strategic Effects of U.S. Trade Policy.

Complutense Finance Society
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Introduction

The President of the United States, Donald Trump, announced on April 2 a list of tariffs during his speech in the White House Rose Garden in what he called "Liberation Day", with the aim of addressing a national emergency described by himself as a "large and persistent trade deficit".

The measures taken include a universal 10% tariff on all imports, which would take effect starting April 5, 2025, and even additional tariffs for approximately 60 countries that the president considers having engaged in unfair trade practices. President Trump has offered a 90 day pause to implement tariffs in order to make bilateral agreements with at least 57 countries before July 9. According to the Peterson Institute for International Economics, U.S. trade negotiations typically take over 18 months to conclude so this timeframe seems unrealistic in order to get to a good agreement between countries.

These actions have marked an escalation in the protectionist policies of the Trump administration, having considerable impact both nationally and internationally. They have even sparked discontent among key figures in his legislature, such as the businessman Elon Musk. This chaos has colored Washington and much of the globe turning the announcement into a global panic that has eliminated \$11 trillion (USD) from Wall Street between February and April, elevated the average U.S tariff rate to its highest level since 1909 and estimations say this is the largest effective tax hike on American families in over 70 years.

Previous Tariff Increases: Reactions and Trends

During Trump's presidency between 2018 and 2020, he implemented an aggressive commercial policy focused on economic protectionism imposing generalized tariffs to imported products principally from China, UE, Canada and Mexico.

These policies had three main objectives: First, he wanted to reduce the commercial deficit of the U.S., specially with China, to level up the importation prices and increase the national consumption. Then to protect key U.S. industries like steel, aluminum and manufacturing sectors which were threatened by foreign competition. Finally, they pressured China to modify the unloyal commercial practices like stealing the intellectual property, forced transfers of technology and the statal subsidies to enterprises.

These tariffs were imposed on more than \$360 billion (USD) worth of Chinese products, to which China responded with strong countermeasures targeting U.S. goods, which directly affected many farmers and exports of the country. Sectors like automation, technology and minor commerce were ones of the most affected due to the increase of costs. These sectors rely heavily on global supply chains, and rising import costs squeeze margins, reduce competitiveness, and increase prices for end consumers. Unlike the earlier tariffs which focused mainly on China, the current ones apply a universal 10% to all imports, affecting a much wider range of countries and industries. In contrast, the 2025 tariffs are framed as part of a strategy to "rebalance" U.S. trade relations globally and boost domestic production.

When Joe Biden took office in 2021, many expected a reversal of Trump’s tariff policies. Nevertheless, in a practical way most of them had been maintained, especially those with China for several reasons. This position reflects the consensus among industry sectors, labor unions, and legislators regarding the need for tariffs to protect the employment and promote reindustrialization. Specifically, this political agreement between Republicans and Democrats can be seen in laws such as the U.S. Innovation and Competition Act (2021), a sweeping bipartisan bill designed to bolster American competitiveness and counter China’s technological advancements, or the American Economic Independence Act (2024), a comprehensive analysis of the national security risks posed by economic integration with China across key sectors such as financial services, artificial intelligence, critical minerals, and manufacturing. Additionally, recent policies—such as the Inflation Reduction Act (IRA) and the CHIPS and Science Act—reflect a clear governmental push to prioritize domestic manufacturing and emphasize the “Buy American” strategy.

Legal Framework

In the United States, Congress holds constitutional authority over foreign commerce and technically has the ability to block the president’s decision to impose tariffs. However, in practice, both the Senate and the House of Representatives would need to pass a resolution, requiring a two-thirds majority in both chambers, which is challenging given the current political polarization. Additionally, many powers have been delegated to the president through laws that allow action without prior legislative approval, particularly in cases of national emergency or threats to national security.

The three main laws in this area are: Section 232 of the Trade Expansion Act of 1962, which empowers the president to impose trade restrictions if imports are deemed to threaten national security (as seen with steel and aluminum); Section 301 of the Trade Act of 1974, which authorizes retaliatory actions against countries engaged in unfair trade practices (providing the legal basis for tariffs on China during the 2018–2019 trade conflict); and the International Emergency Economic Powers Act of 1977, which grants the president broad powers to regulate commerce during a declared national emergency involving foreign threats, including the imposition of trade restrictions like tariffs.

Negotiation: Trade Agreements Involving the United States

The introduction of these tariffs represents a significant escalation in unilateral trade action damaging the legal integrity and functionality of several of the United States’ most important trade agreements.

The most affected agreement is the USMCA, signed between the United States, Mexico, and Canada. These tariffs represent a clear violation of the spirit of the treaty, prompting the other two countries to take countermeasures—such as imposing tariffs on key U.S. industries like agriculture, steel, and automotive, as they did during the 2018 trade tensions. The agreement also includes binding arbitration panels, allowing these tariffs to be challenged through the USMCA’s dispute resolution mechanisms.

Furthermore, the European Union and China have shown a growing rapprochement in recent years, partly in response to U.S. trade policies. In 2020, both blocs signed the EU-China Investment Agreement, aiming to improve trade relations and provide more balanced market access. Particularly, Germany and France, as the largest economies in the EU, have intensified their cooperation with China, particularly in sectors such as technology and automotive, where U.S. tariffs have had a significant impact. In turn, Spain is also working to strengthen its trade relations with other partners. Prime Minister Pedro Sánchez has shown interest in deepening ties with China, and the country is actively promoting the ratification of the Mercosur trade agreement, which could significantly benefit key sectors such as wine and olive oil.

Another damaged treaty is KORUS, a bilateral trade agreement with South Korea that ensures tariff-free access for numerous industrial and consumer goods. In response, South Korea may seek compensation or retaliatory ways in key exports like steel, vehicles and electronics are affected. In the case of the agreement with Japan, the scope is more limited with tariff reductions on agricultural and industrial goods. Japan is a key ally to counterbalance China so they can affect the U.S. by joining multilateral pacts like the CPTPP or RCEP, both of which exclude the U.S.

Alternatively to negotiation, the World Trade Organization could become a forum for legal challenges against the U.S. However, this mechanism has been severely weakened. The U.S. has blocked the appointment of new judges to the WTO's Appellate Body, effectively paralyzing its dispute settlement system. This "embargo" on the WTO judicial process has left many nations without a functioning legal pathway to contest U.S. tariffs, increasing global trade uncertainty.

The Underlying Factors Behind Tariffs

Tariffs can be profoundly detrimental to international trade and economic growth, particularly for an economy as globally integrated as that of the U.S. Considering these risks, why is Trump advocating for the imposition of such exceptionally high tariffs? Are his motivations rooted in economic reasoning, or are other factors at play?

Government's Explanation: Defend the U.S. Economy

Trump's primary justification for imposing tariffs centers on strengthening the U.S. economy. According to statements from his administration, these tariffs serve three main purposes, including boosting domestic industry. By making imported goods more expensive, the intention is to encourage consumers and businesses to buy American-made products. This approach mirrors measures taken during his presidency in 2018, when tariffs of 25% on steel and 10% on aluminum were introduced to support the domestic steel industry, particularly in response to competition from countries like China.

A second objective is the protection of American workers, especially in manufacturing sectors. Trump has claimed that tariffs on steel during his first term helped preserve jobs in industrial states such as Ohio and Pennsylvania. However, the broad application of

high tariffs to all countries could have the opposite effect. Many U.S. companies rely on imported intermediate goods to produce their own products and services. As a result, tariffs would significantly raise production costs, potentially jeopardizing the survival of numerous businesses—especially small and medium-sized enterprises.

The third objective is to reduce the trade deficit, with a specific focus on the United States' imbalance with China, which stood at \$295 billion in 2024. President Trump argues that trade deficits reflect unfair treatment, asserting that countries running surpluses with the U.S. are exploiting American economic openness.

Pressure on the Federal Reserve to Lower Interest Rates

Trump has been openly critical of the Federal Reserve and its chairman, at times even suggesting the possibility of his dismissal—an approach that has raised concerns about the erosion of the Fed's perceived independence from the executive branch. Many analysts argue that Trump's strategy may involve deliberately pushing the U.S. economy toward a recession through the imposition of tariffs, thereby increasing pressure on the Federal Reserve to lower interest rates.

A reduction in interest rates, in this context, could stimulate short-term GDP growth and help offset some of the negative effects of tariffs. During his first term, Trump consistently advocated for lower interest rates, claiming that such a move would fuel economic expansion by making credit more accessible and affordable. This, in turn, would facilitate greater federal spending, as well as increased investment and consumption by households and businesses.

A 100-basis point reduction in interest rates could save the federal government an estimated \$90 billion in annual interest payments.

Another key reason is the serious fiscal challenge posed by the growing unsustainability of U.S. Treasury debt, as outlined in our previous report. Interest payments as a percentage of GDP have surged in recent years and are projected to continue rising, contributing to larger budget deficits and further compounding the debt burden—thereby creating a self-reinforcing cycle of increasing debt and interest costs. In 2025 alone, the United States must refinance approximately \$9 trillion in maturing debt.

Against this backdrop, Trump is pressuring the Federal Reserve to lower interest rates in order to reduce yields on U.S. Treasury bonds, thereby decreasing the cost of refinancing existing debt and issuing new obligations. A 100-basis point reduction in interest rates could save the federal government an estimated \$90 billion in annual interest payments, potentially alleviating some pressure on the federal deficit.

In the days following April 2, there were signs that Trump's influence was succeeding in pushing bond yields lower. However, the resulting loss of market confidence led many investors to sell off U.S. bonds, which drove down their prices and pushed yields back up. This adverse market reaction reportedly forced Trump to retreat, at least temporarily, from his aggressive posture.

Yield of the 10-year U.S. Treasury note

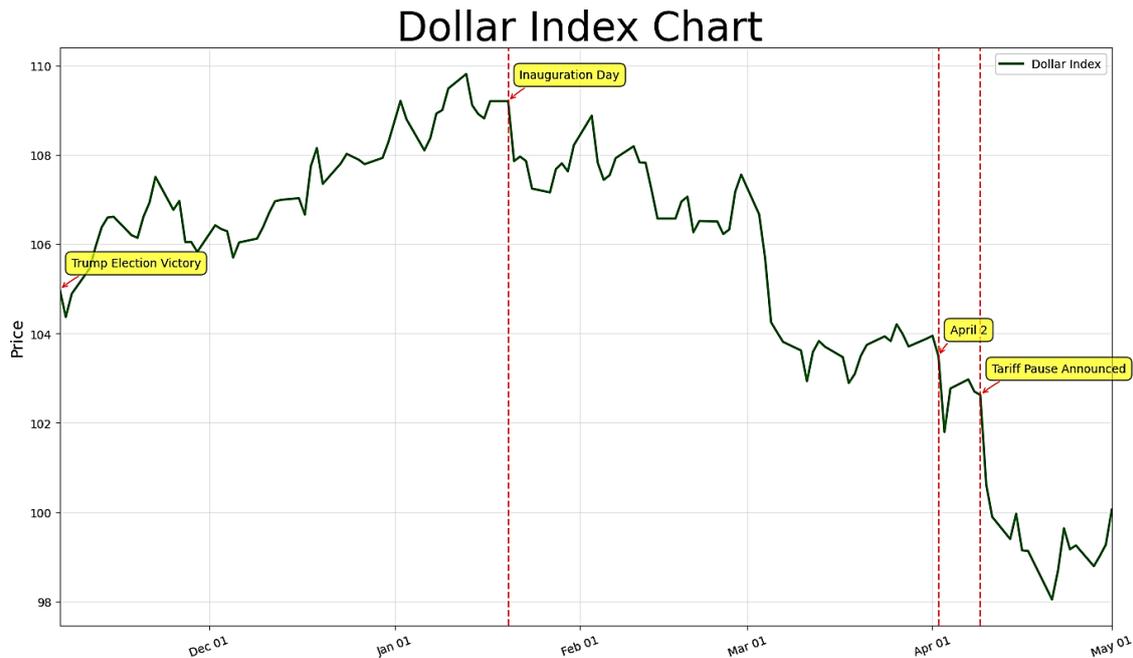


We can observe that Trump managed to bring the yield of the U.S. Treasury note below 4%. However, after April 4, yields surged rapidly to 4.5% by April 11 due to the significant distrust being generated. For this reason, faced with a potential disaster in the bond market, Trump had to backtrack, announcing on April 9 a 90-day pause in the imposition of tariffs, except for China.

Moreover, Trump has consistently voiced his dissatisfaction with the U.S. dollar's excessive strength relative to other currencies. He contends that a weaker dollar would enhance the competitiveness of U.S. exports while discouraging imports, thereby helping to reduce the trade deficit. A cut in interest rates would likely make U.S. bonds less attractive to investors by lowering their returns, which in turn could reduce demand for the dollar. This depreciation would boost the international competitiveness of American goods and services.

The Dollar Index shows a weighted average of the U.S. dollar's exchange rate against other currencies based on their importance. It could be said that it is one of the indicators that best reflects the value of the U.S. dollar against other currencies.

In the following chart, we observe that from the day Trump won, the dollar began to appreciate due to expectations that tariffs would lead to a reduced international supply of U.S. dollars, increasing their value. However, from the day he takes office, the Dollar Index starts to decline, reflecting a deterioration in confidence in the U.S. economy due to the significant uncertainty being generated. This trend becomes even more pronounced after the announcement and pause of the tariffs.



From the perspective of other countries, tariff increases by the United States often lead to the depreciation of non-dollar currencies. As demand for foreign goods declines, so does the need to exchange local currency for U.S. dollars, reducing demand for those currencies and contributing to their depreciation. This dynamic can create the appearance that the affected country's currency is being deliberately manipulated, even when the shift is a natural market response to reduced trade flows.

However, it is noteworthy that some currencies have appreciated despite rising tariffs. For example, the USD/EUR exchange rate stood at 0.9654 at the beginning of the year and has since strengthened to approximately 0.88. This appreciation may be driven by factors such as capital flight, as investors seek safer assets amid growing uncertainty.

In contrast, China is one of the few countries whose currency has depreciated — but this appears to be intentional. To maintain export competitiveness and offset the impact of tariffs, China allowed its currency to weaken slightly, with the USD/CNY rising from 7.2996 to 7.3499. Interestingly, while the yuan initially depreciated, the currency showed signs of appreciation once the details of the tariff calculation formula were made public.

Paradoxically, in this case, the Trump administration is indeed succeeding in depreciating the U.S. dollar, which was one of its main objectives. However, this is happening due to reduced confidence in the U.S. economy, which in the long term could be negative. Furthermore, some analysts argue that the U.S. dollar could cease to be the world's reserve currency in the future.

How Were “Reciprocal” Tariffs Determined?

According to the USTR, the percentage imposed on goods produced outside the United States is determined using the following formula:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon \cdot \varphi \cdot m_i},$$

where $\Delta\tau_i$ denotes the increase in tariff rate, x_i refers to U.S. exports to country i , m_i represents U.S. imports country i , ε is price elasticity of import demand—fixed at 4 by the USTR—and φ is the tariff pass-through rate—that is, the extent to which tariffs affect final prices, fixed at 0.25.

***“The USTR isn’t reciprocating actual tariffs. It’s just placing the biggest tariffs on the countries running the biggest trade surpluses”,
Axios reported***

For example, in the case of China in 2023, the United States exported approximately \$143.55 billion in goods and imported \$462.62 billion. Taking the fixed values of the elasticity variables¹ and substituting in the previous equation, the resulting tariff rate on goods originating from China would be approximately 68.97%. However, former President Donald Trump suggested halving this figure—reportedly as a gesture of goodwill—which would reduce the effective tariff rate to 34.48%. Looking at other regions, this percentage reaches 20% for the EU—four times the average tariff rate reported by the WTO for the EU—, 17% for Mexico, and 10% for Canada, the United Kingdom, and Brazil. The inclusion of the UK and Brazil, countries in which applying the previous formula results in a tariff change of -17% in both, highlights a key criticism of the method: it disproportionately penalizes countries with significant trade surpluses with the United States—often developing economies—which may lack the capacity to increase imports of U.S. goods to offset the imbalance.

Is This Just a Negotiating Tactic?

Another prominent strategy attributed to former President Trump is the use of tariffs as a negotiating instrument. Under this approach, tariffs function less as a long-term economic policy and more as a tactical threat intended to secure political, economic, or trade concessions. A relevant example can be observed in a recent episode involving Colombian President Gustavo Petro. After the United States unilaterally repatriated individuals of Colombian origin with criminal records, President Petro refused to accept them. In response, the Trump administration threatened to impose—and briefly did impose—a significant tariff on Colombian exports, effectively rendering trade between the two nations unviable. Subsequently, President Petro reversed his position, prompting the removal of the tariff.

Such instances suggest that Trump may employ the threat of severe tariffs as part of a highly assertive negotiation strategy aimed at achieving specific objectives. Nevertheless, in most cases, these threats have not been fully executed. While tariffs have been enacted, they have often been less severe than initially proposed.

¹ Beyond the USTR values, according to BNP Paribas, empirical studies estimate that the price elasticity would be around -2% and -7% and the pass-through rate of tariffs could range from 10% and 30%, although “there are no consistent estimates for the tariff pass-through rate and the price elasticity of demand coefficient of a country, including China”.

A recent example is the May 8 pre-trade agreement with the United Kingdom, which eliminates the 25% tariffs previously imposed on British steel and aluminum, and lowers tariffs on British automobiles from 27.5% to 10% for up to 100,000 vehicles annually. Additionally, the UK will be permitted to export up to 13,000 metric tons of beef tariff-free, although the standard 10% universal tariff remains in effect for other goods. In exchange, the United Kingdom agreed to eliminate tariffs on U.S. ethanol, reduce non-tariff barriers affecting American agricultural and chemical products, and commit to purchasing \$10 billion worth of Boeing components. Despite these concessions, former President Trump emphasized that this deal is a unique exception, and that significantly higher tariffs will be applied in agreements with other countries.

Who Pays the Price? Distributional Effects of Tariffs on Consumers and Businesses

Tariffs are typically absorbed by importers such as manufacturers and retailers, who often pass them on to consumers in the form of higher prices. In fact, a survey by Apollo Global Management's chief economist Torsten Sløk and the Dallas Fed found that 76% of Texas manufacturers intend to pass tariff costs to consumers, while 50% expect to absorb part of the burden internally. This could result in reductions in the range of available products and in noticeable increases in the cost of everyday items, including groceries, clothing, electronics, and even housing—where tariffs on materials could raise home prices by thousands of dollars.

The impact on consumers is particularly regressive, disproportionately affecting lower-income households that spend a higher percentage of their income on necessities like food and energy. The regressive nature of tariffs remains consistent across all tariffs projected for 2025: according to an analysis by the Yale Budget Lab, the burden on households in the second income decile is 2.5 times greater than that on those in the top decile (-4.9% versus -2.0%). As a result, the average annual cost to households rises significantly across income groups, with the second decile facing a \$2,100 burden, the fifth decile \$3,700, and the top decile \$10,000. These households face reduced purchasing power and are often forced to cut back on discretionary spending or seek cheaper alternatives.

U.S. consumers will face an average effective tariff rate of 27%—the highest level since the early 20th century. This represents only a slight change from the rate prior to the late-April 9 announcement. Even after accounting for shifts in consumption, the average effective rate is projected to remain at 18.5%, the highest since 1933."

When it comes to prices, consumers are expected to face sharp short-term increases, particularly in clothing and textiles. Specifically, apparel prices are projected to surge by 64%, while textile prices rise by 44%. Although consumers are likely to substitute toward cheaper alternatives over time, prices are still expected to remain elevated in the long run—27% higher for apparel and 17% for textiles. Meanwhile, food prices also see an upward trend, increasing by 2.6% in the short term and remaining 3% higher in the long

run. In the case of fresh produce, prices initially jump by 5.4% before stabilizing at a 3.9% increase. Finally, motor vehicle prices are set to rise significantly—by 12% in the short term and by 19% in the long term. This latter increase is equivalent to an additional \$9,000 on the price of an average 2024 new car.

Businesses also experience considerable pressure. Tariffs raise the cost of imported raw materials and finished goods, forcing firms to choose between absorbing the costs—thus lowering their profit margins—or increasing prices, which risks losing customers. Small businesses, in particular, face challenges in adjusting quickly, making them more vulnerable to losses or even closure. Tariffs can also disrupt established supply chains, requiring firms to find new suppliers or shift to domestic production, which is not always viable. These economic strains often lead businesses to delay growth plans, cut back on hiring, and reduce investments in innovation or marketing. In more severe cases, companies may resort to layoffs or reducing employee hours.

PWBM: “Tariffs are estimated to raise about the same amount of revenue as increasing the corporate income tax from 21 to 36 percent, in the absence of these recent tariffs.”

According to a Penn Wharton Budget Model (PWBM) report, if consumers bear the full cost of tariffs, consumption is projected to decline by 3.5% in 2030 and by over 3.3% in 2054. When 75% of the tariff burden falls on consumers and 25% on businesses, the initial drop in consumption is slightly less severe—but capital investment and wages decline more sharply in 2030. Moreover, when the cost is split equally between businesses and consumers, the economic effects follow a similar trajectory to the first two cases, but with greater intensity: capital formation, wages, and overall output fall further, while the reduction in federal debt is marginally smaller.

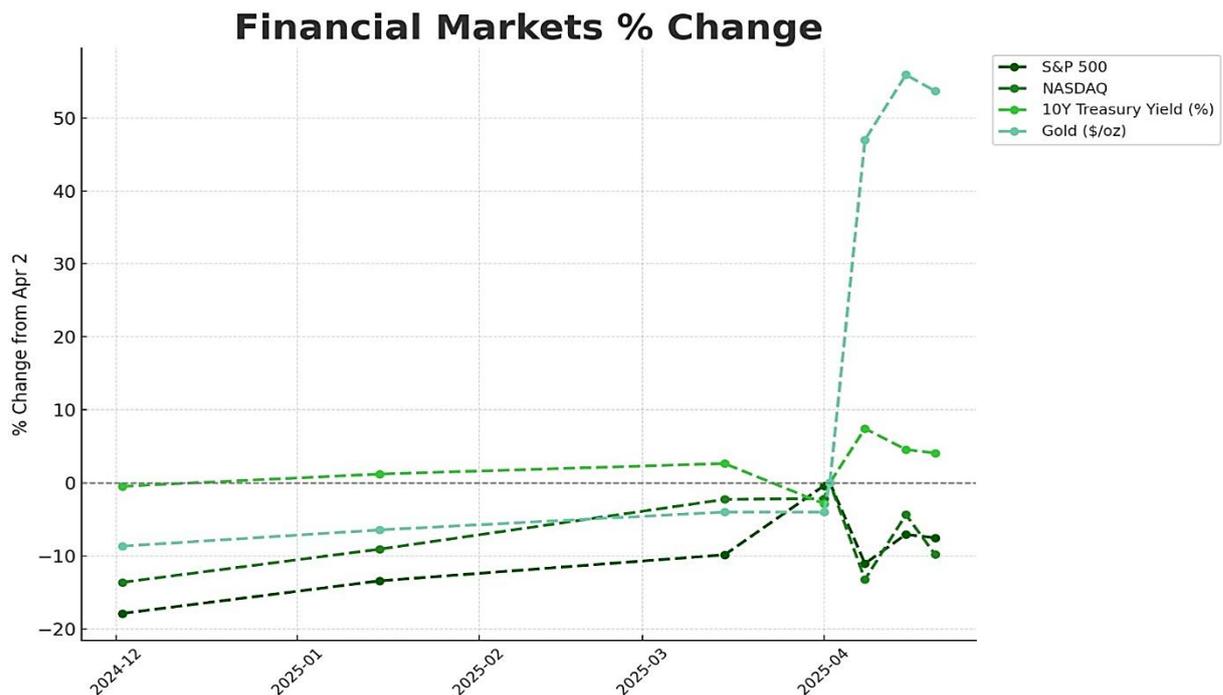
In all scenarios, U.S. households are required to shoulder a greater share of government debt, which diverts their savings away from private investment. This crowding-out effect, combined with heightened economic uncertainty, triggers a cascade of negative consequences—reduced output, weaker capital formation, lower worker productivity, and declining wages. As wages fall, labor income tax revenues shrink, ultimately resulting in only modest federal debt reductions—between 9.8% and 11.6% by 2054, according to the analysis.

In the long term, for example, a 30-year-old household in the lowest income group is projected to lose the equivalent of \$16,000 over their lifetime. Future households fare slightly better when the burden of tariffs falls primarily on consumers, while retirees are better off if businesses absorb most of the cost. Losses range from \$6,500 for a 70-year-old household under a shared burden scenario, to \$102,600 when consumers bear the entire cost.

On a broader scale, the combined effects of higher consumer prices, disrupted trade, and reduced business activity can slow down economic growth. Because lower-income households and small businesses are less able to buffer the effects, tariffs can also deepen economic inequality. If trade tensions persist over time, the economy risks falling into stagflation—a damaging combination of stagnant growth and high inflation.

Impacts on Sectors and Companies: Who's Hit the Hardest

These recent U.S. tariff announcements and constant changes have been bringing uncertainty to global markets, forcing industries and investors to reevaluate strategies such as sourcing, risk exposures and cost structures. This revaluation typically triggers volatility in equity markets, especially in sectors with high international exposure with long supply chains such as industrials, consumer discretionary, and technology.



Equity and Fixed Income Markets

Equity

In equities, the companies with the highest vulnerability are the ones that heavily rely on outsourcing, imported inputs or foreign sales, since tariff increases can squeeze their margins. Usually, what happens when facing this disruption is a series of increases on prices throughout the whole chain which results in the final sale prices rocketing.

Additionally, the uncertainty around trade policy and the volatility cause business investment and expansion plans to be delayed, further weighing on stock valuations, such as the S&P 500 dropping 6.65%, the Dow Jones Industrial Average losing over 4,000 point and the Nasdaq Composite declining more than 10% in less than a week after the announcement of the sweep of tariffs by the Trump Administration on April 2nd of 2025, called *Liberation Day*. Earning expectations were also impacted and adjusted to this new trade context, the Deutsche Bank reduced its S&P 500 EPS forecast for 2025 from \$282 to \$240, which represents a 15% decrease from previous estimates and a 5% decline from 2024 levels.

Fixed Income

In fixed income, the impact is more nuanced. The uncertainty caused by continuous policy changes can lead to a “flight to quality,” with investors shifting toward U.S. Treasuries and investment-grade bonds, driving yields lower.

As uncertainty rises, investors look for safer options, which caused the 10-year U.S. Treasury yield to drop from 4.05% to 3.87% within the first two days of the April 2 tariffs announcement. However, soon after, the inflationary pressure driven by rising import costs reversed this trend, and by April 9, 2025, the yield went up to 4.34%, reflecting market fears of persistent inflation.

Regarding corporate bonds, wider spreads can especially happen as credit risk increases. High-yield corporate bonds widened by an average of 68 basis points within the first week after the tariff escalation, particularly in sectors that rely on cross-border supply chains.

Spot Gold

Gold is usually perceived as a safe asset during periods of crisis and political and economic uncertainty. Within the first week after the announcement made on April 2, spot gold prices rose by 4.2% (from \$2,155/oz to \$2,245/oz), which represents the market interest in mitigating negative consequences driven by volatility and inflation by heightening demand for safer assets, which could also be seen in the massive inflows into gold-backed ETFs.

Spot gold plays a dual role in the market: A hedge against inflationary pressures and a refuge from financial market instability and uncertainty.

Spot gold was climbing at the same time tariff fears caused big changes in global markets, reaching \$3,200/oz on April 11 for the first time ever and spiking another 2.6% on April 16, recording \$3,300/oz, and by late April it reached an all-time peak of roughly \$3,500/oz due to a weaker dollar and recession fears.

However, in mid-April spot gold momentarily lost its momentum and experienced a moderate pullback when the U.S. Treasury yields began to rise significantly.

Commodities

Agriculture

U.S. farmers faced an immediate decline in demand from their largest export market, China. One of the most impacted agricultural goods was soybeans. Within a week of the announcement of China’s retaliatory 125% tariff on the U.S., soybean exports collapsed, falling from 72,800 tons to just 1,800 tons, which represents a 97.5% drop. Pork was also highly impacted, with weekly sales to China reaching a new 2025 low of 5,800 tons, which represents a decrease of 72%.

One of the main consequences (until now) was the generation of a domestic soybean oversupply, which pressured prices downwards and increased storage and logistics costs for American farmers, as China accounted for approximately 60% of soybean exports.

Industrial Metals

In the industrial metals sector, the tariff announcements and the consequent volatility and destabilization of the supply chains and investment sentiment caused prices of many goods to skyrocket, especially after the implementation of a 25% tariff on all imported steel and aluminum as an attempt to bolster domestic production.

The consequences, until now, have been a sharp upward pressure on prices, causing the price of domestic steel to rise by more than 30% in just two months, while aluminum prices went up by approximately 15% due to the international trade chaos, especially with Canada, which has historically been the U.S. top exporter of these two metals.

Regarding copper, the market experienced a harsh contraction immediately after the April 2 announcement, with the London Metal Exchange (LME) three-month copper contract reaching \$8,105/ton, a 17-month low; however, it rebounded above \$9,000/ton later in the month as expectations shifted around global supply adjustments.

The current scenario has resulted in worries that go beyond prices. Alcoa, one of the largest U.S. aluminum producers, has announced that the tariffs could lead to 20,000 job losses in the aluminum sector alone.

Energy

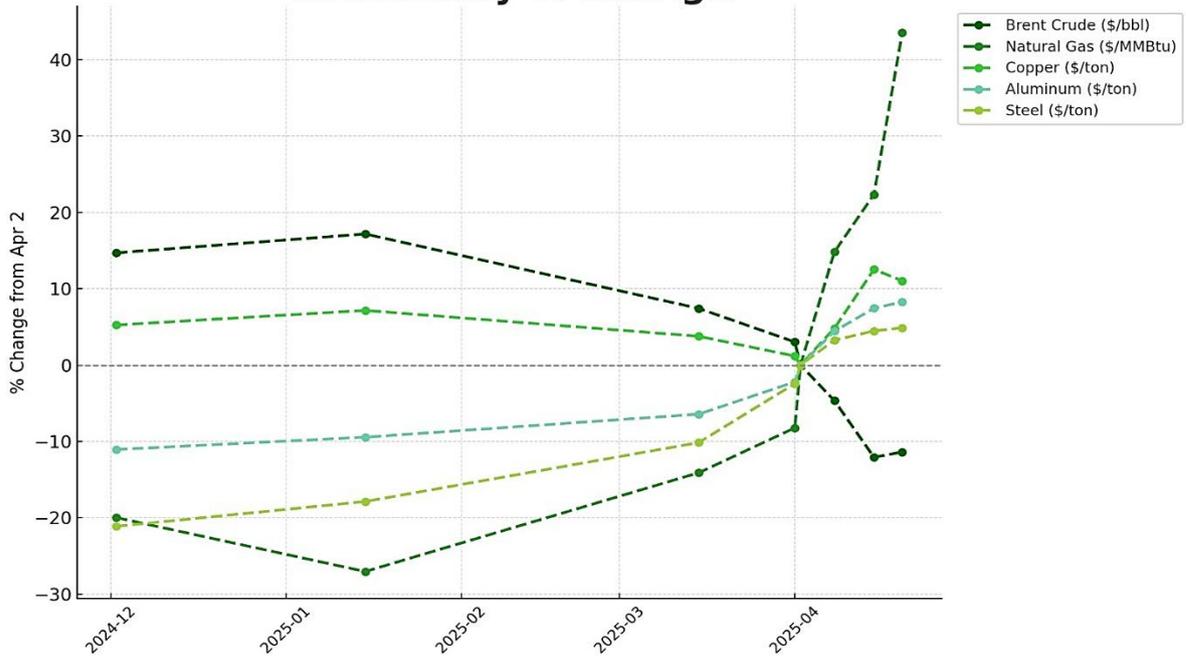
On traditional energy, in April 2025, U.S. natural gas prices went up by approximately 80% year-on-year, due to higher export costs and rerouted trade flows. On the other hand, Brent crude oil prices faced heavy pressure and reached their four-year low after falling from \$75/barrel in late March to approximately \$64/barrel by mid-April.

Regarding cleaner sources of energy, China, a key player in the trade chaos, dominates the global production of lithium-ion batteries, rare earth elements and solar panels. It has responded to U.S. tariffs with new export controls on key materials, not only generating a high risk of the disruption of mineral supply chains but also the creation of bottlenecks in the availability of essential components for renewable energy technologies outside of China.

Meanwhile, different effects are being felt in other regions such as Europe and Latin America. With the American blockade of Chinese clean tech imports, these other regions are experiencing increased inflows of Chinese solar panels, assisting the reshaping of their energy transitions.

In the longer term, CSIS analysts anticipate a deeper fragmentation of global clean energy supply chains brought on by trade wars, which may lead to reshoring, rerouting, and consequently higher costs, reduced efficiencies, and slower progress on decarbonization.

Commodity % Change



Automotive

The automotive industry was affected by the aluminum and steel tariffs disruptions as previously mentioned due to these metals' crucial roles in vehicle manufacturing. Furthermore, on Liberation Day, Trump announced a 25% tariff on all finished vehicles and a future 25% on vehicle parts (starting in May) and on top of that, a 145% individual tariff on China exports. Thus, Industry suppliers have communicated that U.S production cannot meet the domestic demand on their own. As a consequence, even if the sourcing is domestic, it will result in higher prices to the final consumer.

The Center for Automotive Research expects the new tariffs to add about \$108 billion to manufacturing costs in 2025, reinforcing the sharp increase in prices. Additionally, the 25% on car parts tariffs can incur a "tariff stacking" placing the entire supply chain under strain. Anderson Economic Group estimated that American-assembled models could see prices increasing up to \$10,000 per unit, especially EVs.

Not surprisingly, market forecasts have been experiencing sharp decreases, such as S&P Global Mobility sales projections of U.S. light-vehicles for 2025 decreasing 700,000 units compared to its prior forecast. As far as production, the projection is a fall of over 1.2 million units in the same year.

Technology

Semiconductors & Microchips

The trade war has directly impacted the semiconductor industry, raising costs across the global chip supply chain. On "Liberation Day," tech product exports from major suppliers were targeted with sweeping U.S. tariffs: China was hit with a 34% tariff, Taiwan with 32%, and South Korea with 25%, all on top of a 10% baseline tariff on all imported goods.

Semiconductor components were initially exempt, but a "coming soon" 25% direct tariff on chips has already been announced.

Many consumer electronics firms, Apple in particular, which assembles around 85% of iPhones in China, are heavily exposed to this disruption. With cumulative tariffs on some Chinese exports exceeding 100%, supply chain rerouting and product repricing are expected.

In response, China imposed a 125% retaliatory tariff on U.S. tech products, effectively pricing American firms out of one of their largest foreign markets. Europe has also been caught in the crossfire: U.S. tariffs now include a 20% levy on EU tech goods, which has already impacted the cost structure of firms like ASML, whose advanced chipmaking machines now face tens of millions of dollars in added import costs.

According to industry estimates, the U.S. semiconductor sector may lose over \$1 billion annually due to tariffs. The three major U.S. equipment firms, Applied Materials, Lam Research and KLA, could face individual annual losses of up to \$350 million each, due to higher component costs and reduced global sales.

The financial markets have reacted swiftly. On April 3, TSMC's shares fell 7.6%, while Nvidia, AMD, and Broadcom stocks dropped between 7–10%. Intel, however, saw a 2.1% gain, reflecting speculation it might benefit from the shift toward U.S.-based chip production.

Outside the U.S., in the first week following the tariff escalation, Taiwan's TSMC and South Korea's Samsung Electronics lost a combined \$117 billion in market capitalization, with stock declines of 15% and 10%, respectively.

Software & Tech Services

Although software and services are not directly subject to tariffs, they are being impacted by second-order effects. On April 3, shares of Microsoft fell 2.4%, Alphabet (Google) declined ~4%, and Amazon dropped 9%, reflecting investor concerns about rising infrastructure costs and reduced global demand.

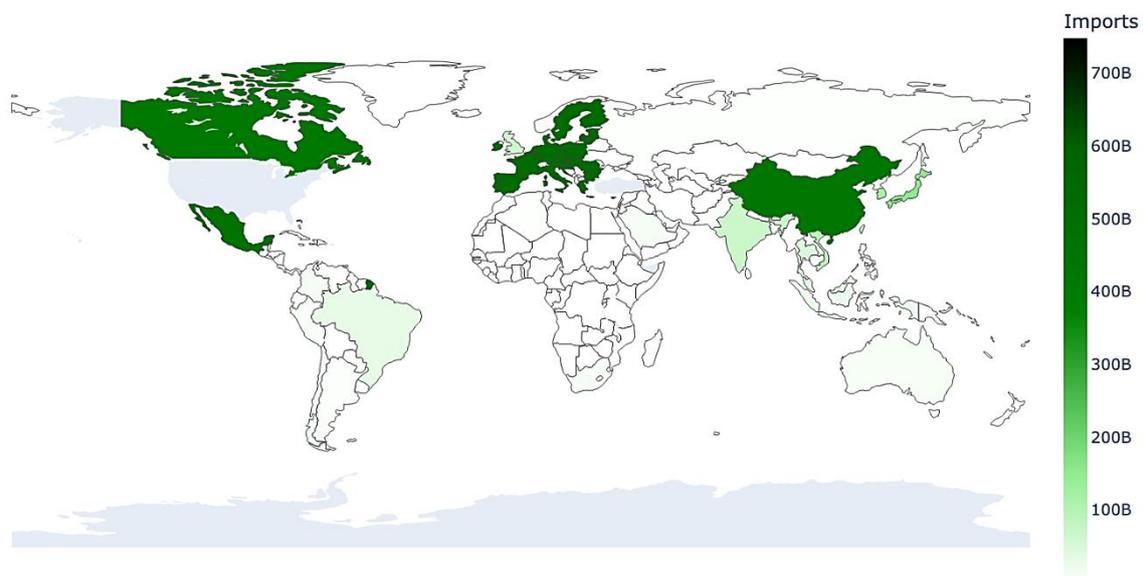
These firms are also experiencing pressure on their capital expenditure plans. The core hardware that supports data centres, servers, networking equipment, and storage, now faces tariffs of up to 34%, depending on origin. Key suppliers include China, Mexico, and Taiwan, making much of the tech stack vulnerable to cost surges.

In response, several major tech firms have announced plans to pause or scale back expansion in order to reallocate capital and mitigate exposure to supply chain risk and inflationary pressures.

Mapping the Damage: Countries Most Severely Affected

When assessing the possible consequences of Trump's proposed tariffs, it is essential to consider at least three variables: who the main exporters to the U.S. are, what goods they sell, and what type of tariffs could potentially be imposed. According to trade data, four economies stand out as the United States' largest suppliers: the European Union, Mexico, China, and Canada. While others play relevant roles, these four dominate in terms of export volume. Let's explore the possible effects, case by case.

Imports of the United States by origin, 2023



European Union

In 2023, the EU exported goods worth \$520 billion to the U.S., equivalent to 2.75% of the bloc's GDP—a considerable economic dependence on a single trade partner. The top exports included pharmaceutical products (serums, vaccines, and medicines), which alone totaled \$117 billion or 17.7% of all shipments. Combined with other chemical products, this category surpassed \$200 billion. Vehicles represented another major sector, with exports reaching nearly \$93 billion, while machinery followed closely at \$147 billion.

The pharmaceutical and chemical industries are critical for the U.S., with European companies controlling over 50% of the global market. In this case, it's likely that the American consumer would bear most of the tariff burden. As for vehicles, Europe holds around 44% of the global market share, compared to 10% for the U.S., suggesting that tariffs may again impact U.S. buyers more than producers. A similar situation applies to machinery, where Europe commands 40% of the market and the U.S. just 10%.

According to Christine Lagarde, President of the European Central Bank (ECB), a 25% blanket tariff on European goods could reduce EU economic growth by 0.3 percentage

points in the first year, and up to 0.5 points if Europe retaliates. Additionally, inflation could rise by 0.5 points the following year, putting extra pressure on prices and interest rate policies.

Mexico

Mexico's export structure is highly dependent on the U.S., with \$660 billion in total exports—73% of which are directed to its northern neighbor. Much of this trade stems from multinational firms seeking lower labor costs. For example, cars account for 8.2% of Mexican exports to the U.S. (\$39 billion), while computers represent 5.2% (\$25 billion). Commodities also play a significant role, totaling around \$38 billion.

Unlike the EU, Mexico does not lead in any of the sectors it heavily relies on—its market share doesn't exceed 6% in any major industry. As a result, the country is particularly vulnerable to tariff shocks.

Goldman Sachs estimates that a 10% general tariff could shrink Mexico's GDP by 2%. If the tariff reaches 25%, the economic contraction could deepen to 3.5%. Inflation would also surge—by 1% under a 10% tariff and up to 2.3% under a 25% rate.

China

China exported approximately \$450 billion worth of goods to the U.S. in 2023, representing about 2.5% of its GDP. Among the primary exports are computers (7.64%, or \$34 billion), telecommunications and broadcasting devices (9.5%, or \$42.5 billion), and various commodities (\$17 billion).

Electronics is one of the sectors where China is dominant, holding around 27% of the global market. Similarly, in textiles, China controls more than 35% of the share. This last industry is labor-intensive and difficult to relocate to the U.S., so tariffs here would most likely increase prices for American consumers. However, if other countries are not subject to similar tariffs, companies might shift production elsewhere to mitigate costs.

Goldman Sachs predicts that China's economic growth could slow by 0.5 percentage points in the first year and by 1% in the second due to tariff escalations. The most severe impact may be on employment, with up to 16 million jobs at risk, particularly in the sectors mentioned above.

Canada

Like Mexico, Canada is highly exposed to global trade, with \$730 billion in exports accounting for 34% of its GDP. Around 60% of these exports—roughly \$450 billion—are destined for the U.S.

Cars and commodities are key Canadian exports, valued at \$34 billion and \$20 billion respectively. However, what sets Canada apart is its significant role in supplying energy to the U.S.: over 30% of its exports to the U.S. (\$225 billion) are petroleum-based

products—mainly crude oil, but also refined fuels and natural gas—making them critical for the American energy and industrial systems.

The OECD warns that a 10% general tariff could reduce Canada's growth by 1.3 percentage points in the same year. If the rate rises to 25%, Oxford Economics projects a GDP decline of 2.5% by 2026, along with the potential loss of over 150,000 jobs.

United States

As is well known, producers often do not absorb the full burden of tariffs—in many cases, they pass on most of the cost to consumers. This dynamic suggests that if the newly proposed tariffs are implemented, the U.S. economy could face significant consequences. While it remains difficult to quantify the exact damage—given how fast the landscape evolves—there are several key elements worth highlighting.

We've already analysed the origins of U.S. imports, but what does the country actually purchase in broad terms? As the world's largest importer, with over \$3.7 trillion in imports—equivalent to 13.7% of its 2023 GDP—its import basket is highly diversified. Standout categories include vehicles (\$418 billion, 11.28%), machinery (\$615 billion, 16.61%), and commodities (\$100 billion, 2.7%). In addition, electronics (\$421 billion, 11.37%), travel and tourism services (\$159 billion, 4.28%), and transport equipment (\$143 billion, 3.86%) also represent significant shares.

The most vulnerable sectors to tariffs appear to be machinery and electronics. In both cases, a dominant supplier—Europe for machinery and China for electronics—holds substantial market power and could choose to pass the cost of tariffs directly to U.S. consumers instead of compressing margins. Moreover, any meaningful attempt at U.S. reindustrialization would be difficult without European machinery, just as progress in AI and digital infrastructure would likely stall without access to Chinese electronics. In this context, the intended strategic benefits of the tariffs could ultimately prove counterproductive.

Even before the tariffs take full effect, the uncertainty surrounding them is already having a tangible impact. According to JP Morgan, U.S. GDP growth for 2025 has been revised downward from a pre-policy estimate of 2.3% to just 0.3%. Several institutions now warn that a recession is increasingly plausible. With Q1 already registering negative growth (-0.3%), this scenario is not far-fetched: Goldman Sachs assigns a 45% probability to a U.S. recession, while JP Morgan puts the likelihood of a global recession at 60%.

Inflation is also set to accelerate. Goldman Sachs and JP Morgan forecast inflation rates of 3.5% and 4.33%, respectively. Labor markets are expected to weaken as well, with JP Morgan projecting a rise in the unemployment rate to 5.3% by year-end (up from the current 4.2%).



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