Roses and thorns

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"I never promised you a rose garden" – *Lynn Anderson (singer)*

An exhausting month has just concluded, the centrepiece for which proved President Trump's use of the immaculately manicured White House Rose Garden to unleash a giant surprise on the world and its financial markets. It's not as if investors weren't warned, nor households and businesses for that matter. Ever since his 20 January inauguration, President Trump had let it be known that trade would be a key plot line in his drive to put America first.

The rollout of US trade tariffs against imported goods from around the world started prior to the 2 April so-called 'Liberation Day', with initial waves targeting Canada, Mexico and China with particular focus on halting the importation of fentanyl. But the programme was greatly expanded, far beyond anything financial markets had previously thought likely, and the kneejerk reaction was immediate. Global stock markets fell sharply, interest costs on government debt spiked higher (notably in the US) and the dollar, already under pressure, plunged on the foreign exchanges.

The first issue investors must assess is what are the levies trying to achieve? If the imposition of trade tariffs were simply about achieving an improved bargaining position aimed at giving the United States the upper hand in negotiation, that might imply that they're temporary. Indeed, the fact that many stock markets have recovered their poise following President Trump's 90-day 'reciprocal' tariff reprieve is an indication of just that. The UK's index of 100 leading companies has revived strongly to deliver its longest run of consecutive daily gains since 2017. The additional negotiating time provided by a back-tracking White House just one week after tariff implementation is a reflection of just how powerful an influence on policymaking financial markets can be.

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It's likely, however, that the Trump administration has more on its mind than simply using a sledgehammer to extract better terms from its trading partners. Putting America first means, critically, increasing sales of 'Made in USA' products. Imported goods would increase in cost relative to the cost of domestically produced goods, which should result in an increase in domestic sales. Alternatively, were overseas tariffs against US exports reduced or eliminated, then US-made goods would be cheaper to import. This would suggest that the awaited trade deals, once they are struck, might be less temporary and more permanent.

Not to be overlooked, and hugely important in the context of the US economic outlook, the much anticipated passage of 'One Big Beautiful Bill' through Congress. President Trump desires that the additional revenue garnered by higher tariffs might be used as a bargaining chip with the ultra-conservative wing of his own Republican Party in order to push through lowered taxes and business-friendly deregulation. This is sure to be a key focus in coming months and the outcome hugely important both in terms of the evolution of US politics and financial markets.

One does not need to be a gardener to know that roses carry as many thorns as they do aromatic blooms. A gigantic reversal of trade policies that have evolved over more than a century carries far-reaching consequences and highly unpredictable outcomes. The IMF and World Bank used the latest World Economic Outlook publication to lower global growth forecasts against a backdrop of profound uncertainty. The US has not escaped unscathed and financial markets, having assessed the policy, must now attempt to price for the outcome. It may be in politicians' DNA to lash out and retaliate and some, notably in China, have. But the more prudent (and less economically costly) approach is to recognise that imposing higher trade barriers carries a higher cost, both in terms of near-term economic activity and inflation for the protagonist than the recipient.

The initiation of what amounts to a global trade war adds layers of uncertainty on top of already weak foundations. Neither the UK nor European economies are strong at present and both would very much benefit from further assistance from respective central banks. Under the guidance of President Lagarde, the European Central Bank has cut regional interest rates to just 2.5% and has signalled that disinflationary forces unleashed by US trade policy might encourage it to go further. The Bank of England has so far been more circumspect. But if senior officials' signalling is any guide, the rate-setting Monetary Policy Committee appears increasingly willing to see beyond the temporary near-term inflationary consequences of higher business costs and utility bills. It's also thought likely to lower domestic interest rates before too long.

It was Lenin who once observed that, "There are decades where nothing happens, and there are weeks when decades happen". The experience gleaned by events unfolding over April should serve as an important reminder to investors of the importance of holding a broadly diversified portfolio of financial assets. Seldom are the occasions when everything performs strongly simultaneously. But sometimes the capital preservation inherent in spreading risk is more important than capital appreciation, particularly if that diversification encompasses a good smattering of exposure to reliable cash-generating and dividend-paying assets. Raymond James' wealth managers are well versed in distinguishing between the blooms and thorns throughout the financial rose garden in pursuit of the delivery of positive investment returns, not just for now, but more importantly for the longer-term too.