

Implications of the Trump Tariffs Announced on April 2

Summary: It may take several months to know the effective (final) tariffs imposed by the U.S. on every major country. The Trump announcements were the worst case expected, injecting great uncertainty about future economic impacts. Stock markets hate uncertainty, and they are reacting in a negative manner. It seems improbable that the tariffs remain as announced in the end, and Trump will therefore probably declare some form(s) of victory. Hence, it would be reasonable to expect that markets will gradually stabilize and recover from their recent decrease in the months ahead.

First, some background.

Stock markets had been exuberant since the November 4 election of Donald Trump based upon expectations for the most pro-business incoming administration ever. The actions sponsored by Elon Musk's Department of Government Efficiency ("DOGE") acolytes to dramatically shrink government bureaucracy further excited bullish sentiment. In addition, U.S. stock markets had been in a two-year long period of enthusiasm around the world-changing possibilities for businesses (and humanity) implied by advances in artificial intelligence.

What changed? In late January, there was the Deepseek news. Deepseek is a China-based firm developing open-source large language models ("LLMs") whose AI ("Artificial Intelligence") training models were disclosed to be developed at a fraction of the cost of leading western firms like Open AI, Google, Anthropic, Meta, and Mistral. This shocked the AI world. Deepseek's incredible cost advantage caused stock prices of AI-related technology companies to drop from their recently inflated market valuations.

Another change was the negative implications of the chainsaw-like action from the DOGE, resulting in seemingly indiscriminate slashing of government employees. These negative consequences begun to worry consumers, and thus contributed to retrenching stock prices. On top of this, an almost daily equivocating by Trump about new tariff threats (or not) was also deflating confidence in the administration.