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WS Global CIO Office
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Market Watch

Trump Pauses

Summary

Event: US equities soared after President Trump announced a 90-day pause on higher reciprocal tariffs on over 75 countries that have not put retaliatory tariffs in place. However, he also announced an increase in tariffs on China to 125%. Previously, bond yields rebounded sharply on fears of leveraged trades being unwound and fears of foreign investor selling.

Market reaction: The S&P500 jumped 9.5% following Trump's announcement. The JPY and CHF eased to 147.5 and 0.855 vs. the US Dollar. The 10-year US government bond yield eased to 4.35% after previously spiking above 4.50%.

Investment strategy: We would add to our preferred equity sectors across regions on pullbacks and to bonds as yields test key resistance. However, stay well-diversified; sentiment has improved, but macro and volatility risks remain elevated.

First down, then up

Tariff pause helps equity markets soar: Overnight, President Trump announced he has placed a 90-day pause on higher reciprocal tariffs on 'over 75 countries' which did not retaliate to US tariffs and had reached out to negotiate. Equities and other risky asset class rallied strongly, and safe-havens fell, from oversold and overbought conditions, respectively.

However, US tariffs on China were raised further to 125% after it raised its own reciprocal tariffs. USD/CNH rose briefly above 7.40.

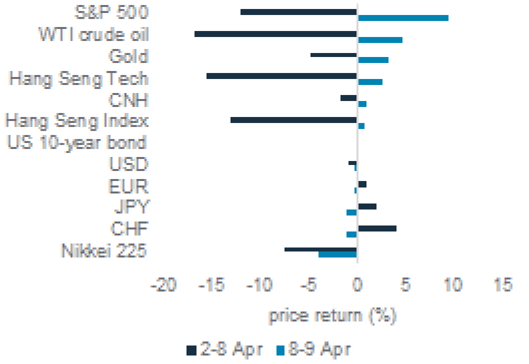
Leveraged trade worries raise bond yields: Prior to the tariff announcement, much focus was on volatility in US bond markets. Worries here were led by a reversal of highly leveraged so-called 'arbitrage' trades (there are 3 main trades – basis, swap spreads and off-the-run government bonds), resulting in forced selling of US government bonds. This is likely why yields rose despite inflation expectations and Fed cut expectations remaining largely unchanged.

There were also concerns that the fall in bond prices was exacerbated by foreign investor selling. We see less evidence of this being a key driver, though some selling would be reasonable as major EM central banks sought to maintain stability in their currencies via USD sales.

What to watch: Key events to watch from here include (i) how trade negotiations are likely to impact the average US tariff rate, (ii) whether US bond market worries subside without Fed intervention, (iii) signals from the US earnings season, and (iv) how China responds to spiraling US tariffs, particularly in terms of domestic growth policy and direction of USD/CNY.

Equities jumped after Trump's announcement, but this only partly reverses prior weakness

2-8 and 9 April asset class returns; as of 09:30 hrs SGT



Source: Bloomberg, Standard Chartered

USD/CNH has risen above prior highs

USD/CNH

Source: Standard Chartered

US 10-year bond yield has strong resistance at 4.45%

US 10-year government bond yield

Source: Bloomberg, Standard Chartered

What does this mean for investors?

Bonds

In our base case scenario, we expect a gradual calming of 'basis trade' worries to help cap US government bond yields, with positivity from Trump's tariff pause announcement likely to offer additional support. This is because the Fed could use existing repo facilities to ease the pressure. An easing of balance sheet constraints at primary bond dealers could also help.

Of course, it is likely the US 10-year bond yield first tests key technical resistance levels before the yield either turns lower from buyers aiming to take advantage of yields, or due to the Fed ultimately stepping in. Initially resistance levels sit at 4.45% and 4.62%. Only if yields rise in a disorderly way to 4.8-5.0% would the Fed be likely to react. In our view, such tests of resistance would represent buying opportunities because addressing specific 'basis trade' concerns, whether organically or via Fed action, would likely result in the focus once again returning to growth risks.

One key assumption behind this view is that long-term inflation expectations remain capped. Any rise in shorter-maturity 2-year US government bond yields is thus likely to be limited to 4.05% unless inflation causes markets to reassess room for Fed rate cuts.

Action: Add to Developed Market investment grade bonds and tactically lengthen maturity profiles as the 10-year US government bond yield approaches resistance levels. Reduce maturity profiles once the 10-year yield falls towards 4.0%.

We would add to Developed Market Investment Grade bonds as the US 10-year yield approaches 4.5%

US 10-year government bond yield and 10-year TIPS yield

Source: Bloomberg, Standard Chartered

Equities

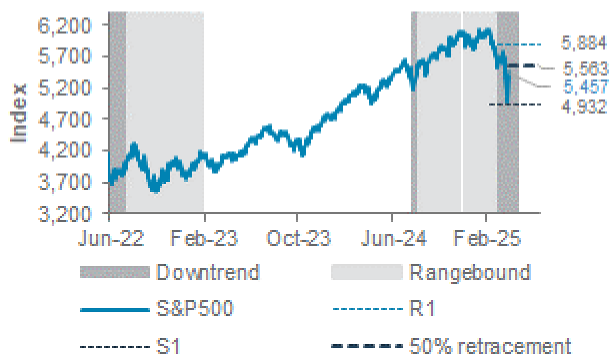
US equities have now reversed about three-quarters of their post 2nd April losses. It is likely most major markets across Asia and Europe will follow suit through the trading day, with the possible exception of Chinese equities. The scale of the rebound was undoubtedly helped by oversold conditions in equities, but the path forward from here likely depends on progress in trade negotiations. A significant reduction in average tariff levels would help reduce, though not eliminate, recession worries.

We remain comfortable with our approach to use market volatility to add to a diversified equity allocation as well as our preferred sectors, though the speed of today's rebound suggests adding on pullbacks.

Action: Add on pullbacks to US technology software, European industrial and financial and Chinese high dividend state-owned enterprises and Hang Seng Technology sectors.

The S&P500 index technical chart indicates 4,800 as a possible bottom, but volatility continues to persist, with near-term support at 4,932

US S&P500 equity index



Source: Bloomberg, Standard Chartered

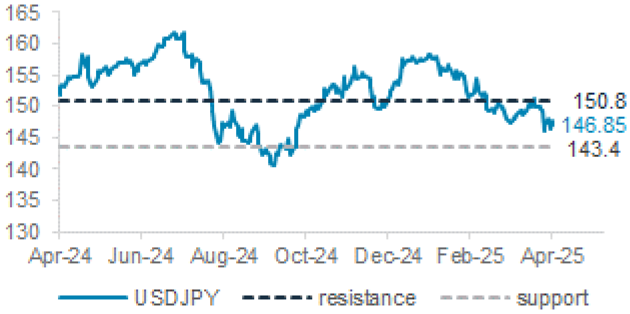
FX

Prior to Trump's tariff pause announcement, the JPY and CHF gained the most from safe-haven demand. The rebound in risk appetite following his 'pause' announcement has caused USD/JPY to rebound to resistance near 150.8. We would use the opportunity to sell USD/JPY, with a renewed test of the March low at 143.40 likely. Meanwhile, USD/CHF's rebound has some room to extend as safe-haven demand unwinds, with resistance at 0.8760, while support stays at 0.8330.

Action: Continue looking for opportunities to sell USD/JPY on rebounds.

We would turn bearish USD/JPY on any rebound towards 150.8

USD/JPY



Source: Bloomberg, Standard Chartered

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