Weekly commentary

April 14, 2025

BlackRock.

Our take on the U.S. tariff pause

- The consideration of some financial risks and costs of tariffs has put a check on the U.S. approach. We extend our tactical horizon to dial up risk-taking.
- Global markets endured extraordinary volatility last week. A spike in long-term U.S. Treasury yields was one factor seeming to drive a change in tactics.
- We expect the European Central Bank to cut interest rates this week. U.S. tariffs will likely lower growth in Europe, but greater fiscal spending may limit the drag.

The 90-day pause of tariffs on most countries and exemption of key tech imports suggest the U.S. administration is taking some account of financial risks and costs as well as a country's willingness to engage. It shows there are factors that could put a check on the administration's maximal tariff stance. As a result, late last week we extended our tactical horizon back to six to 12 months to dial up risk. Yet we still think tariffs can hurt growth and lift inflation, and major uncertainty remains.

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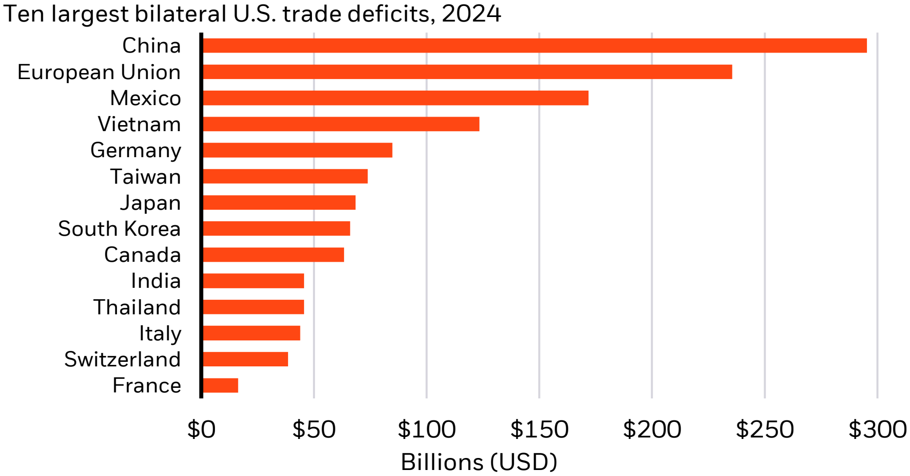
Targeting deficits

Ten largest bilateral U.S. trade deficits, 2024



Source: BlackRock Investment Institute and U.S. Census Bureau, with data from Haver Analytics, April 2025. Note: The chart shows the ten largest trade deficits – the difference between U.S. goods imports and exports with a country – in 2024. The trade deficit for the European Union (EU) is the sum of the trade deficits across all EU members.

The U.S. has paused country-specific "reciprocal" tariffs on all nations, except China, for 90 days and exempted some key tech imports. These tariffs are intended to create negotiating leverage on countries with which the U.S. runs goods trade deficits – and reduce imbalances. See the chart. Even with the pause, the U.S. average effective tariff rate is still around 20%, including 145% tariffs on select Chinese imports. We see U.S. tariffs adding to inflation. Prolonged uncertainty raises the risk of recession. It may drag on corporate investment and delay longer-term commitments. Consumer spending could be hurt by any erosion of wealth and real incomes. Dented confidence in the U.S. could curb foreign investor appetite for U.S. assets. Trade tensions with China are set to deepen. We see tariffs lowering growth in China, and potential policy stimulus only partly offsetting that drag.

Along with country-specific tariffs, we see two other primary types of U.S. tariffs. First, tariffs on strategic sectors to support reshoring of activity. Second, a universal 10% tariff on most imports to generate revenue and aid domestic production. Even with last week's pause – and subsequent exemption of some key tech imports such as smartphones – the U.S. is still facing much higher tariffs than we expected a few weeks ago. With uncertainty around where tariffs will land and unpredictable negotiations ahead, we aim to understand the factors that can prompt the administration to change course on policy. It appears to be taking some account of market volatility, financial risks and other sources of pushback, as well as a country's willingness to engage. That is putting a check on its maximal stance and could bind policy changes.

The implications? The near-term risk of a financial accident has eased. We cautiously leaned back into risk late last week by extending our tactical horizon back to six to 12 months from three months. We also renewed our overweight to U.S. and Japanese stocks. U.S. equities are supported by the AI theme, resilient corporate earnings and a so far solid economy. We see Japanese stocks still benefiting from stronger corporate profits and shareholder-friendly reforms. We recently upped Europe's stocks to neutral but focus on selective opportunities while looking for more progress on structural challenges.

Yet we expect ongoing risk asset volatility and potentially sharp reversals. Spiking yields in long-term U.S. Treasuries seemed to be a factor in the change in tariff tactics. We stay underweight long-term Treasuries, our highest conviction view: tariffs are likely to add to already sticky inflation, and congressional budget plans last week reinforce the outlook for persistent budget deficits. We favor gold instead as a portfolio diversifier. The broad-based equity selloff has created opportunities to tap into certain sectors, and selectivity is key. We still like U.S. technology benefitting from the AI buildout and adoption. We also favor global banks. That includes U.S. banks given the scope for deregulation even with some potential economic pain. We also like banks in Europe (higher rates versus pre-pandemic levels) and Japan (stronger loan growth).

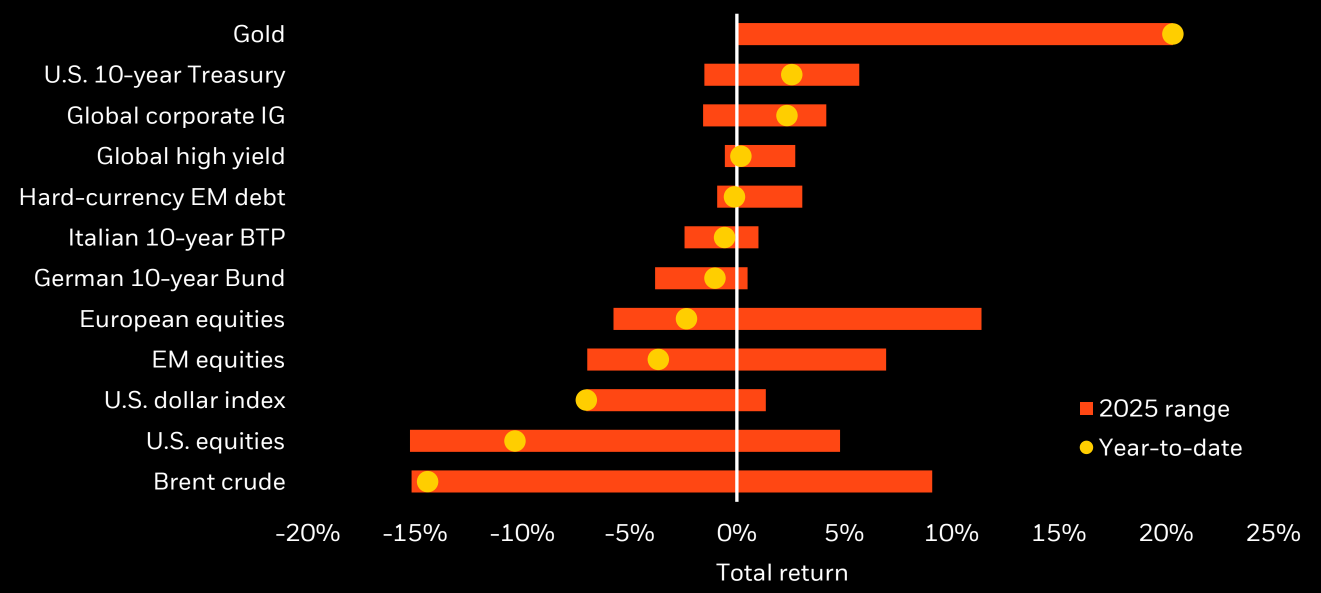
Bottom line: The U.S. paused most "reciprocal" tariffs even as U.S.-China trade tensions look set to deepen. Checks on policy allowed us to extend our tactical horizon back to six to 12 months and resume our positive view on U.S. and Japanese stocks.

Market backdrop

Markets have endured extraordinary volatility due to uncertainty over U.S. tariffs. The S&P 500 rebounded nearly 6% last week, with one of its largest daily jumps in its history after the pause on "reciprocal" tariffs. But the index remains 13% below its February record high. The U.S. dollar tumbled to three-year lows against major currencies even as both 10- and 30-year U.S. Treasury yields spiked about 50 basis points to 4.50% and 4.90% – on track for their largest weekly rise in four decades.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from LSEG Datastream as of April 10, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bank of America Merrill Lynch Global High Yield Index, J.P. Morgan EMBI Index, Bank of America Merrill Lynch Global Broad Corporate Index and MSCI USA Index.

Week ahead

April 15	UK unemployment	**April 17**	ECB policy decision
April 16	UK CPI	**April 18**	Japan CPI

We expect the European Central Bank (ECB) to cut interest rates at its policy meeting this week. What seemed to be a toss up between a cut and a hold before the announcement of additional U.S. tariffs on April 2 will most likely be a cut, as sweeping tariffs risk pushing the bloc towards recession. We expect tariffs to lower growth in Europe, yet greater fiscal spending could limit the drag from tariffs.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, April 2025

Tactical	Reasons
U.S. equities	Policy uncertainty may weigh on growth and stocks in the near term. Yet we think U.S. equities can regain their global leadership. We think the underlying economy and corporate earnings are still solid and supported by mega forces such as AI.
Japanese equities	We are overweight. Ongoing shareholder-friendly corporate reforms remain a positive. We prefer unhedged exposures given the yen's potential strength during bouts of market stress.
Selective in fixed income	Persistent deficits and sticky inflation in the U.S. make us underweight long-term U.S. Treasuries. We also prefer European credit – both investment grade and high yield – over the U.S. on more attractive spreads.

Strategic	Reasons
Infrastructure equity and private credit	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	We prefer DM government bonds over investment grade credit given tight spreads. Within DM government bonds, we favor short- and medium-term maturities in the U.S., and UK gilts acrossan maturities.
Equity granularity	We favor emerging over developed markets yet get selective in both. EMs at the cross current of mega forces – like India and Saudi Arabia – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, April 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our web hub for our research and related content on each mega force.

1. **Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
2. **Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
3. **Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
4. **Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
5. **Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, April 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

Underweight **Neutral** **Overweight** ● Previous view

	Asset	View	Commentary
Equities	**Developed markets**		
	United States	+1	We are overweight. Policy uncertainty may weigh on growth and stocks in the near term. Yet we think the underlying economy and corporate earnings are still solid and supported by mega forces such as AI.
	Europe	Neutral	We are neutral. We see room for more European Central Bank rate cuts, supporting an earnings recovery. Rising defense spending, as well as potential fiscal loosening and de-escalation in the Ukraine war are other positives.
	UK	Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan	+1	We are overweight given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposure as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. The growth and earnings outlook is mixed.
	China	Neutral	We are neutral. The uncertainty of tariffs and trade barriers makes us more cautious. Structural challenges to China's growth and tariff risks also weigh on our outlook.
Fixed Income	Short U.S. Treasuries	+1	We are overweight. We view short-term Treasuries as akin to cash in our tactical views. We also like medium-maturities to lean against the market pricing of multiple Fed rate cuts this year.
	Long U.S. Treasuries	-2	We are underweight. Persistent budget deficits and geopolitical fragmentation could drive term premium up over the near term. We prefer intermediate maturities less vulnerable to investors demanding more term premium.
	Global inflation-linked bonds	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds	-1	We are underweight. We see room for yields to climb more as Europe moves to ramp up defense and infrastructure spending. The European Central Bank is also nearing the end of rate cuts.
	UK gilts	Neutral	We are neutral. Gilt yields are off their highs, but the risk of higher U.S. yields having a knock-on impact and reducing the UK's fiscal space has risen. We are monitoring the UK fiscal situation.
	Japanese govt bonds	-1	We are underweight. Yields have surged, yet stock returns still look more attractive to us.
	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS	Neutral	We are neutral. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
	Short-term IG credit	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit	-1	We are underweight. Spreads are tight, so we prefer taking risk in equities from a whole portfolio perspective. We prefer Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but the total income makes it more attractive than IG. We prefer Europe.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	Neutral	We are neutral. The asset class has performed well due to its quality, attractive yields and EM central bank rate cuts. We think those rate cuts may soon be paused.
	Emerging local currency	-1	We are underweight. We see emerging market currencies as especially sensitive to trade uncertainty and global risk sentiment.

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