

Economic Situation and Strategy

17 April 2025

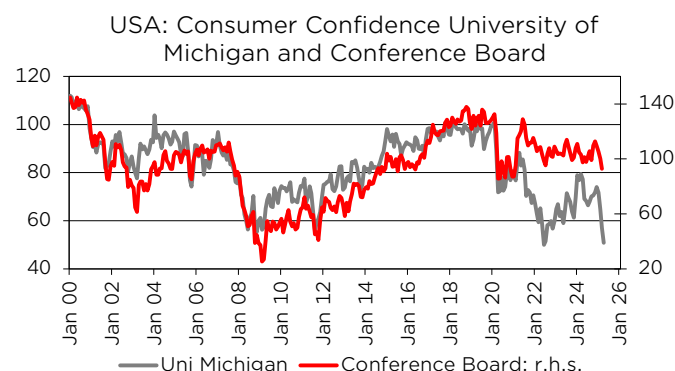
Is a US recession looming? The real impact of the tariff carousel

We don't know if Donald Trump is a fan of Herbert Grönemeyer. But his 2006 World Cup anthem, "Zeit, dass sich was dreht" describes the current political style in the White House quite aptly. Trump appears to think it's wise to do everything possible. The rest of the world, on the other hand, would prefer a different political style, more along the lines of "Time for something to stand firm." Apart from the beginning of the coronavirus pandemic in February and March 2020, economic uncertainty in recent years has rarely been greater than it is today. This has not only led to significant price losses on the US stock markets since the end of February, but economic forecasts for the US have also been significantly downgraded. According to Consensus Economics, the average economic growth forecast for 2025 has declined from 2.2 percent in February to 1.4 percent most recently. In addition, there are now banks that are even expecting an even more significant slowdown, even a US recession, this year.

The swan song for the USA comes too soon

The skeptical assessments of the future development of the US economy are based primarily on the currently high level of uncertainty facing consumers and businesses. For example, consumer confidence, as measured by the University of Michigan, has fallen by 25 points since December 2024; a more significant decline in such a short period of time has only been seen during the coronavirus pandemic. The worsening consumer sentiment is attributable to various factors: assessments of the future development of personal finances, income

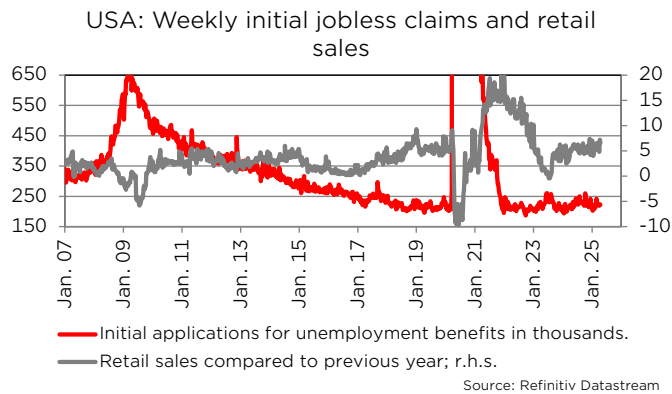
and labor market developments, and inflation prospects all play a significant role. It is striking that sentiment has recently deteriorated significantly, especially among Democratic voters (-57 points since October and -36 points since December), while sentiment among Republicans has barely changed (+28 points since October and -4 points since December).



Does the decline in consumer confidence mean that consumption, which accounts for around 70 percent of economic output, will also shrink, thus inevitably pushing the entire US economy into recession? No—at least not yet. The correlation between consumer confidence and consumer spending is rather weak. Even between 2022 and 2024, many US citizens were in a low mood—yet private consumption increased by almost three percent per year during this period. There are other, more important factors that directly impact consumer behavior in the US. The US labor market plays the biggest role here: As long as unemployment is low and incomes are rising, the overall wage bill increases. Since little is saved in the US (the savings rate is less than five percent), this means that most of the money earned is spent immediately. Two important indicators that quickly

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measure the pulse of US consumers are the weekly statistics on initial jobless claims and the weekly Red Book retail sales. Both time series have remained virtually unchanged since Donald Trump's inauguration, signaling that consumption remains the most important growth driver of the US economy.



But of course, this doesn't have to stay that way. The longer the uncertainty persists (or even increases), the greater the likelihood that companies will lay off their employees. Since there are no long notice periods in the US, such a development would be quickly identified in the weekly labor market statistics – as was the case, for example, during the 2020 coronavirus recession or the 2008/2009 financial and economic crisis. If stock prices continue to fall, consumption could also be affected by the associated negative wealth effects. In this case, there is real danger.

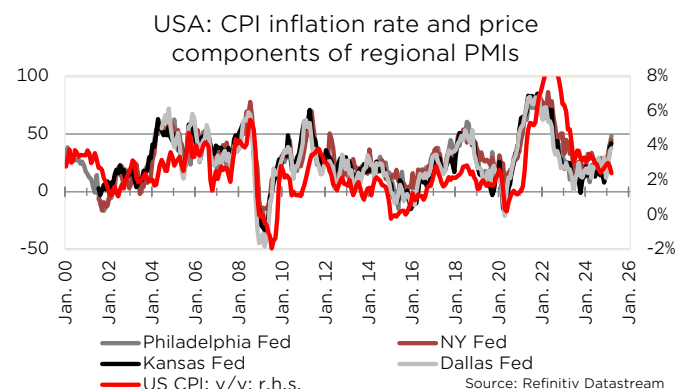
Is the US facing an inflation problem?

The answer to this question from almost all experts is "yes". Indeed, tariffs are fundamentally no different from taxes in their macroeconomic effects, as they are added to the domestic price of imported goods, thus making them more expensive. The reduced purchasing power also leads to a reduction in consumption, which slows economic growth. That's the theory. In practice, however, the causal chains can look different if companies absorb the higher import prices by bearing the tariffs themselves, in whole or in part – at the expense of their profit margins. Substitution effects can also occur if consumers buy more domestic goods that are not subject to tariffs. Foreign

companies can also try to increase their production domestically (reshoring) to avoid paying tariffs.

Whether the tariffs will actually lead to a significant increase in inflation in the USA is therefore by no means certain. Inflation is a macroeconomic and monetary phenomenon influenced by many factors. For example, changes in supply and demand conditions can dampen or neutralize the theoretically clear effects of higher tariffs on price developments. Various empirical studies on the introduction of US tariffs during Trump's first term in office conclude that the inflationary effects were small, temporary, or even immeasurable. However, since higher tariffs are to be imposed on significantly more goods this time, other outcomes cannot be completely ruled out.

An important point to keep in mind when considering inflation concerns the composition of the basket of goods. In the US Consumer Price Index (CPI), services account for a significantly higher weighting than goods prices, at almost 64 percent. While service prices can also rise due to higher tariffs, if this happens, it does so with a time lag. In addition, inflation in the "housing" (shelter) component, which accounts for approximately 36 percent of the CPI and is independent of tariffs, has fallen from more than eight percent to four percent recently. This trend is likely to continue, thus dampening overall inflation. The surprisingly low price pressure evident in the March price statistics may have provided a small foretaste, as it was in clear contradiction to what the price components of the purchasing managers' indices would suggest. Let's see if it stays that way.



Carsten Klude

Market data

	As of 17.04.2025 15:19	10.04.2025 -1 week	14.03.2025 -1 month	Change versus 16.01.2025 -3 months	16.04.2024 -1 year	31.12.2024 YTD
Stock markets						
Dow Jones	39669	0,2%	-4,4%	-8,1%	4,9%	-6,8%
S&P 500	5321	1,0%	-5,6%	-10,4%	5,3%	-9,5%
Nasdaq	16307	-0,5%	-8,1%	-15,7%	2,8%	-15,6%
DAX	21215	3,2%	-7,7%	2,7%	19,4%	6,6%
MDAX	27012	5,1%	-7,4%	5,9%	4,0%	5,6%
TecDAX	3416	3,1%	-9,5%	-3,8%	3,8%	0,0%
EuroStoxx 50	4936	2,4%	-8,7%	-3,3%	0,4%	0,8%
Stoxx 50	4225	2,9%	-8,9%	-5,1%	-2,4%	-1,9%
SMI (Swiss Market Index)	11599	3,2%	-10,2%	-2,9%	3,6%	0,0%
Nikkei 225	34378	-0,7%	-7,2%	-10,9%	-10,6%	-13,8%
Brasilien BOVESPA	128244	1,5%	-0,6%	5,8%	3,1%	6,6%
Indien BSE 30	78553	6,4%	6,4%	2,0%	7,7%	0,5%
China CSI 300	3772	1,0%	-5,8%	-0,7%	7,4%	-4,1%
MSCI Welt	3468	1,4%	-5,4%	-7,4%	5,2%	-6,5%
MSCI Emerging Markets	1059	2,9%	-5,4%	-0,7%	4,9%	-1,5%
Bond markets						
Bund-Future	131,26	90	403	-25	5	-218
Bobl-Future	119,58	74	277	265	236	172
Schatz-Future	107,61	25	94	97	215	63
3 Monats Euribor	2,24	-3	-24	-51	-167	-48
3M Euribor Future, Dec 2025	1,71	-8	-37	-36	-94	-19
3 Monats \$ Libor	4,33	-1	0	-1	-112	-4
Fed Funds Future, Dec 2025	3,48	-1	-23	-44	-102	-43
10 year US Treasuries	4,29	-11	-2	-32	-37	-28
10 year Bunds	2,46	-9	-39	-6	-1	10
10 year JGB	1,31	-4	-20	13	47	23
10 year Swiss Government	0,43	-5	-40	1	-32	15
US Treas 10Y Performance	613,14	1,0%	0,6%	3,7%	7,5%	3,6%
Bund 10Y Performance	562,66	0,7%	3,3%	0,9%	2,5%	-0,3%
REX Performance Index	457,38	0,5%	2,1%	1,7%	3,7%	1,0%
IBOXX AA, €	3,07	-10	-23	-9	-37	3
IBOXX BBB, €	3,60	-11	-13	0	-43	14
ML US High Yield	8,33	-32	62	83	-8	68
Commodities						
MG Base Metal Index	400,44	0,7%	-9,1%	-4,3%	-5,8%	-1,3%
Crude oil Brent	66,83	4,5%	-5,9%	-17,2%	-26,0%	-10,6%
Gold	3326,29	5,3%	11,3%	22,4%	39,4%	26,7%
Silver	32,93	6,7%	-2,1%	6,7%	16,6%	11,0%
Aluminium	2345,00	0,6%	-13,2%	-10,7%	-8,0%	-7,2%
Copper	9171,28	1,9%	-5,8%	0,5%	-2,0%	6,0%
Iron ore	100,08	0,2%	-2,7%	-0,4%	-5,6%	-3,4%
Freight rates Baltic Dry Index	1241	-2,2%	-25,6%	21,3%	-30,2%	24,5%
Currencies						
EUR/ USD	1,1360	2,5%	4,3%	10,6%	6,8%	9,3%
EUR/ GBP	0,8570	-0,7%	1,8%	1,8%	0,3%	3,7%
EUR/ JPY	161,62	0,2%	-0,2%	0,7%	-1,8%	-0,9%
EUR/ CHF	0,9285	-0,2%	-3,7%	-1,0%	-4,4%	-1,3%
USD/ CNY	7,2986	-0,3%	0,8%	-0,5%	0,8%	-0,1%
USD/ JPY	141,85	-1,8%	-4,6%	-8,6%	-8,3%	-9,8%
USD/ GBP	0,75	-2,2%	-2,5%	-7,7%	-6,1%	-5,5%

Source: Refinitiv Datastream

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