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PHILEQUITY CORNER

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Warnings from Finance Titans

The titans of finance are sounding the alarm as Trump's trade war shakes the world:

- "Once in a lifetime collapse in economic and political order" - Ray Dalio, Founder of Bridgewater
- "America First is fine, as long as it doesn't end up being America alone" - Jamie Dimon of JP Morgan
- "Huge policy mistake" - Ken Griffin of Citadel
- "I don't support tariffs of more than 10%" - billionaire investor Stanley Druckenmiller
- "My bad. I presumed economic rationality would be paramount." - Bill Ackman of Pershing Square
- "I think we're very close, if not in, recession now" - Larry Fink of BlackRock

It's like watching a movie thriller unfold in real time - a high-stakes geopolitical and economic spectacle that has investors gripping their seats. Global financial markets reeled as Trump unveiled unprecedented trade measures that sent shockwaves through investment portfolios worldwide.

Worse than the worst forecasts

Investors knew Trump's second term would bring unpredictability and uncertainty, but few anticipated the dizzying escalation and volatility that has unfolded. What began as a 20% levy on Chinese imports before the April 2 "Liberation Day" announcement has now ballooned to 145%. China swiftly retaliated with escalating duties now reaching 125% on all American imports. China described this tit-for-tat exercise as a joke. It has however created a negative feedback loop threatening global supply chains and investment plans crafted for decades. What has transpired is worse than most investors' worst fears, with market reactions exceeding the most pessimistic forecasts.

Academe and Wall Street sound alarm

Leading academics and economists have broken their customary reserve, voicing grave criticism of the administration's approach. Wharton's Jeremy Siegel characterized the tariff regime as "the biggest policy mistake in 95 years," while Nobel laureate Paul Krugman labeled it "malignant stupidity." Past Harvard president and former Treasury Secretary Lawrence Summers stated that: "Never before has an hour of Presidential rhetoric cost so many people so much."

On Wall Street, Goldman Sachs, JP Morgan and other investment banks predict a growing certainty of recession if the trade war continues. Beyond traditional economic circles, even the Trump's close ally Elon Musk condemned trade advisor Peter Navaro, calling him "truly a moron" and "dumber than a sack of bricks" for pushing for such aggressive measures.

Trump's roller coaster ride

Market volatility following Trump's "Liberation Day" announcement has reached historic proportions. The S&P 500 plummeted 15% in just three days after the April 2 declaration, while intraday swings painted a picture of unprecedented instability:

- April 3 - 4: The S&P 500 nosedived 4.8% and 6% following the initial April 2 announcement.
- April 7: A 4.7% opening drop on China's retaliatory 34% tariffs followed by an 8.5% rally on postponement rumors, before crashing 6% when those reports proved false.
- April 8: A 4% morning gain evaporated as a 7% decline from morning highs ensued, turning green into red by closing bell.
- April 9: Trump's social media urging investors "This is a great time to buy" preceded an announcement of an immediate 90-day tariff pause for many countries even as he raises levies on Chinese imports to 125%, sending the S&P 500 surging 9.5%.
- April 10: S&P 500 declined 4.5% from the open after the White House confirmed that China's tariffs would actually total 145% (120% new + 20% rate levied in response to the fentanyl crisis).
- April 11: China strikes back with 125% tariffs on US goods as S&P 500 ended 1.8% higher

Echoes of 2020: A pandemic-scale selloff

Many analysts have drawn comparisons to the 2008 global financial crisis, the 1987 Black Monday crash, or even the 1929 Wall Street collapse, but the current market selloff most closely mirrors the COVID-19 market crash of 2020. During that crisis, the Nasdaq 100 fell 30.6% in just 23 trading days as pandemic fears triggered economic shutdowns worldwide. The present tariff-induced decline has seen the tech-heavy index drop 25.6% in 33 days - a slightly slower but comparatively severe correction.

Fight to the end

China has vowed to "fight to the end" and has matched US moves blow by blow. It raised tariffs on US goods to 125%, in addition to tightening export restrictions on critical rare earth metals that are vital for tech, defense and renewable technology. It has also sanctioned over a dozen US defense firms, cutting their access to Chinese markets and dual-use tech.

US trading like an emerging market

The US 10-year Treasury yield has soared, climbing from a low of 3.86% on April 4 to an intraday high of 4.59% last Friday. There are rumors that China is offloading US treasuries, favoring gold, German bunds, the euro and the Swiss franc. Meanwhile, the US dollar index (DXY) has slid below 100, marking its lowest level in nearly three years. Most strikingly, the US is trading like an emerging market. Historically, when global risk spikes, US bond yields go down, and the dollar rises as investors look for havens. But today, US stocks, bonds and the dollar are falling in unison.



Inconsistent and unpredictable policies have eroded investor confidence in US assets as the world's premier safe harbor. But while cracks in US exceptionalism are widening, many American corporates remain exceptional – such as Nvidia, Google, Amazon, Microsoft, Apple and Meta – boasting high margins and robust profitability

Self-inflicted

As trade tensions escalate, market participants are weighing the warnings from financial leaders. Until the tariff crisis resolves, heightened volatility will likely continue, with analysts warning of recession and stagflation, the combination of economic stagnation and inflation that plagued the 1970s. Unlike past crises, many economists describe this as a “self-inflicted” situation that could theoretically be reversed. Whatever unfolds, the titans’ alarms signal a critical shift: investors must brace for escalating risks as companies are forced to navigate a turbulent, protectionist, fragmented and deglobalizing world instigated by the US.