The Big Read **Trump tariffs**

How the US economy lost its aura of invincibility

Tariffs and cuts to the federal workforce are raising uncertainty and sapping confidence, while investor exuberance has faded

Sam Fleming and **Harriet Agnew** in London and **Gregory Meyer** in New York

Published YESTERDAY

Donald Trump told a room full of executives on Tuesday that he senses a "renewed spirit" coursing through the US corporate world, as businesses unleash hundreds of billions of dollars of investment. "The tariffs," the president added in a meeting of the Business Roundtable, "are having a tremendously positive impact."

As he spoke, stock markets were delivering a very different verdict. The S&P 500 index closed down 0.8 per cent that day and continued falling in the following days before rebounding on Friday. The index has lost 4 per cent since the start of 2025.

Confidence has been shaken by the twists in the White House's belligerent and unpredictable trade policy, alongside fears that the shake-up of federal government machinery will sap growth.

It is a far cry from the prevailing mood early this year, when Trump's belief that corporate animal spirits would be unleashed by deregulation, tax cuts and hacking back bureaucracy was widely shared by many US executives.

In January, meetings at the World Economic Forum in Davos, Switzerland, buzzed with talk of American dominance over a sclerotic Europe and a stagnating China. "It's five minutes to midnight for Europe", said one top bank executive at the time, adding "everyone is all-in on America".

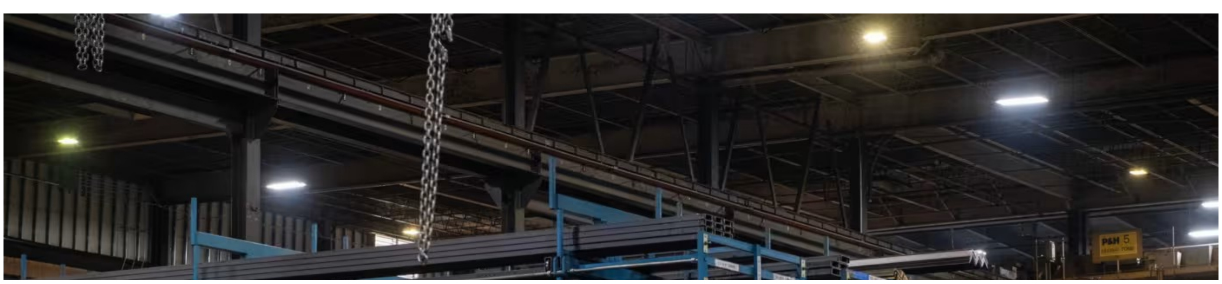
That ebullient mood has been rudely shattered by Trump's first weeks in office. The bewildering volatility of the president's policymaking — as tariffs are threatened, withdrawn, ratcheted up and then dialled back again — is raising corporate uncertainty, dampening sentiment, and prompting recession warnings.

"At Davos all the glib bankers were saying party time, here we go, deregulation, low taxes, M&A boom, IPO boom," says the chief executive of a global investor with $200bn in assets under management. "This has completely backfired in their faces."

The predicted slowdown is remarkable in that it is largely a self-inflicted wound driven by the administration's own policies, economists say, rather than the consequence of external shocks such as energy price surges, war, pandemics or banking implosions.

While Trump made it abundantly clear during his election campaign that he wanted to double down on the trade wars of his first term, his policies have proved far more wide-ranging and aggressive than most analysts expected.

Trump's decision to come out swinging as he clobbered America's three most important trading partners — Canada, Mexico and China — with punishing tariffs during his first two months has badly wrongfooted investors.



A worker moves a crane to lift a steel beam at Central Steel Supply Company in Massachusetts. The US imports around half the steel and aluminium used in the country, raising concerns about the impact of tariffs on prices © Joseph Prezioso/AFP/Getty Images

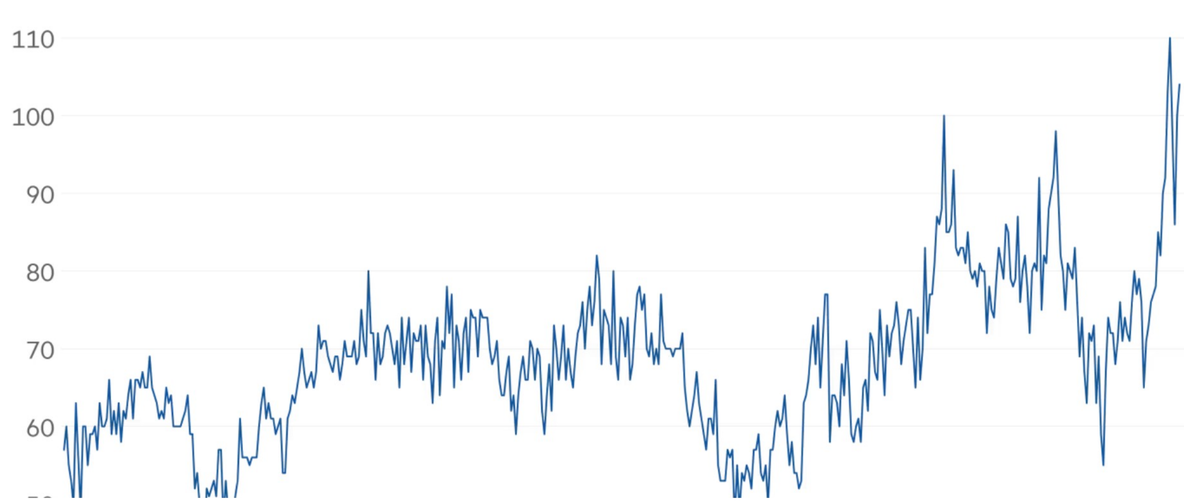
The first Trump administration imposed levies on imports valued at around $380bn in 2018 and 2019. The new tariffs affect $1tn worth of imports, estimates the Tax Foundation think-tank, rising to $1.4tn assuming exemptions covering some goods from Canada and Mexico expire on April 2, as was initially indicated.

Corporations say there is a lack of clarity over what the tariffs are meant to achieve — is it higher federal revenue, or the reshoring of production to the US, or specific objectives such as reducing drug trafficking or illegal migration? This has made it even more difficult for them to forge plans.

This results in rising business uncertainty and delays to investment decisions, hurting growth. An index of policy uncertainty among smaller enterprises compiled by the NFIB, a non-profit that represents small businesses, since the early 1970s is now approaching record highs.

Uncertainty among US small businesses is at a record high

NFIB small business survey uncertainty index*



* sum of 'uncertain' and 'don't know' answers on six questions
Sources: NFIB, LSEG

US companies that rely on imports of intermediate goods will be hit by higher costs, while American households could find their budgets crimped. A further blow is coming as US exporters are hit with retaliatory tariffs by US trading partners such as Canada, the EU and China.

"Everyone started off bullish, but given his policymaking, which has been erratic at best, people are saying maybe this isn't Trump 1.0," says Davide Serra, founder and chief executive of investment firm Algebris Investments. "To me there is nothing exceptional about the US. It looks like a circus."

Adding to the jarring impact of trade policy is the disruption being wrought by Elon Musk and his emissaries at the so-called Department of Government Efficiency (Doge), which has presided over the suspension or dismissal of tens of thousands of workers and the cancellation of thousands of government grants and contracts.

Musk's actions have triggered rifts within the Republican party, created widespread uncertainty within the federal workforce and anger in sections of the population. On Thursday two federal judges ordered the Trump administration to rehire tens of thousands of government employees sacked in recent weeks, in a legal setback to Musk's cost-cutting drive.

While investors have started fretting about the danger of a US recession, Wall Street forecasters are not ready to give up the ghost yet. The latest survey of forecasters by Consensus Economics still points to growth of 2 per cent this year — down from a prediction of 2.2 per cent a month ago and the IMF's 2.7 per cent forecast issued as recently as January.

This is still well above the 1 per cent growth forecast by the IMF for the Eurozone. While a GDP tracker from the Federal Reserve Bank of Atlanta points to a first-quarter contraction, this has been heavily distorted by trade data that are being influenced by large-scale gold imports.

Scott Bessent, the Treasury Secretary, has played down the market volatility and argued that signs of slower growth are a necessary part of a "detox period" in which the country's economy becomes less reliant on public spending.

Demonstrators in Washington protest earlier this week against staffing cuts at federal agencies instigated by Elon Musk's so-called Department of Government Efficiency. Advocates of the cuts say paring back the state will boost economic growth © Kayla Bartkowski/Getty Images

Some investors are willing to give the administration the benefit of the doubt. "Longer-term the US will be better off for this," says Joseph Amato, president and chief investment officer of equities at New York-based asset manager Neuberger Berman. "I don't think that 25 per cent of GDP flowing through the government is healthy for any economy."

But he acknowledges the disruption stemming from trade policy. "The speed and scope of the tariffs that have been proposed have jolted the market. Animal spirits were met with reality: it's much easier to cut spending than it is to drive growth."

Leading US companies are playing down the notion that the tariffs will drive them to build up domestic capacity — despite the president's aspirations.

California-based toymaker Mattel derives around half its sales from the US, but Ynon Kreiz, chief executive, says tariffs are not enough of an incentive to manufacture there.

This is despite the company's efforts over the past six years to diversify its manufacturing base — by 2027 no single country will provide more than a quarter of its output of Barbie dolls, Hot Wheels cars and other toys.

"It's about overall cost considerations," Kreiz says in an interview. "We don't see the economics of making products in the US, relative to other countries."

Kreiz, who attended this week's Business Roundtable meeting with Trump in Washington, says moving Mattel's manufacturing sites around was one way to offset tariffs, but another is to raise prices for customers. "Ultimately, when it comes to tariff impacts, we will take pricing up to mitigate for that where we need to do it," he says.

To me the Davos consensus is always wrong, but this year I've never seen the US people so much on drugs. It was surreal

Musk's electric-car maker Tesla has warned in a letter to US trade representative Jamieson Greer that the trade war could make it a target for retaliatory tariffs and increase the cost of making vehicles in America.

The prospect of rising prices as a result of tariff increases is beginning to play on consumers' minds. The University of Michigan's index of consumer sentiment slid another 11 per cent in March to 57.9, a bigger fall than economists expected. The index has now erased all gains posted in the aftermath of Trump's election victory in November. "Many consumers cited the high level of uncertainty around policy and other economic factors," the researchers noted.

Erica York, vice-president of federal tax policy at the Tax Foundation, says the lack of a clarifying strategy around Trump's widening trade war is hanging over the economy. "We hear conflicting goals from the Trump administration almost on a daily basis," she says.

Trump says his taxes on Canadian and Mexican products are needed to force action on fentanyl trafficking and undocumented immigration, for example, but he also wants the tariffs to force industries such as automaking to relocate to the US, and to raise vast quantities of federal revenue to help offset the impact of extensions to tax cuts.

York estimates the levies will, factoring in retaliation by US partners, lower the level of US GDP by 1 per cent compared with previous forecasts. That, she adds, is enough to wipe out any positive impact from extensions to Trump's first-term tax cuts.

Given the prospect of ongoing chaos, investors are betting that having offered a standout growth story in recent years, the US economy is now losing some of the lustre that so dazzled delegates at the WEF in January. “To me the Davos consensus is always wrong, but this year I’ve never seen the US people so much on drugs,” says Serra of Algebris. “It was surreal.”

A woman walks past the New York Stock Exchange building in lower Manhattan. European indices have outperformed the US so far in 2025 after years of underperformance, while the dollar has weakened © Michael Nagle/Bloomberg

The shifting US expectations are renewing interest in markets like Europe, where investors believe that Trump’s capriciousness may jolt the bloc into action. They point to Germany’s abrupt shift towards deficit-fuelled investment in defence and infrastructure, and are hopeful that the EU may also respond by accelerating progress towards the long-sought deepening of capital markets unification.

“Some initiatives this US administration is taking may spur Europe to do some of the things it’s been talking about but hasn’t done,” says Amato at Neuberger Berman. There’s a “realisation that Europe has got to drive growth and invest more in defence.”

Meanwhile recent innovations in China have reawakened questions about America’s technological supremacy. The emergence of a new AI model from start-up DeepSeek, comparable in ability to the best models from US leaders such as OpenAI, Anthropic and Meta but trained at a radically lower cost and using less sophisticated chips, has rattled shares in highly valued US tech companies. China is also planning satellite constellations that could challenge Musk’s Starlink system.

Declines in the dollar so far this year, along with US equity market underperformance, reflect the more pessimistic mood. By Friday afternoon, the MSCI USA index was down 4.4 per cent since the start of 2025, versus a 7.7 per cent rise in MSCI Europe in euro terms.

"People are realising that US exceptionalism might not be that exceptional," said Vincent Mortier, group chief investment officer of Amundi, Europe's largest asset manager. "It's a wake-up call."

Data visualisation by Ray Douglas and Keith Fray

Follow the topics in this article

Trump tariffs

US-China trade dispute

US politics & policy

FT Edit

Donald Trump