



CIO's economic forecast does not call for a recession, but poor sentiment amid elevated uncertainty is likely to weigh on market performance in the near term. (UBS)

Volatility could pick up following the latest automotive sector tariff headlines

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US stocks fell on Wednesday, as anxiety over trade returned ahead of an announcement on auto tariffs from President Donald Trump.

During Wednesday's press conference, President Trump said he would impose a 25% tariff on all imported passenger vehicles, light trucks, and key auto parts, effective 2 April. An accompanying factsheet claims the 25% tariff will eventually be applied to the non-US content of USMCA-compliant auto production, once a process is established to do so.

Stocks fell leading up to Trump's press conference, as Federal Reserve Bank of St. Louis President Alberto Musalem cautioned that inflation might continue to exceed the central bank's 2% target owing to tariff changes, and EU trade commissioner Maroš Šefčovič warned that the anticipated US tariffs could be as high as 20%, affecting all member states equally.

What do we think?

While recent media reports have suggested the upcoming reciprocal tariff announcement on 2 April, dubbed "Liberation Day" by Trump, may not be as severe as initially feared, we think market volatility could pick up again following the latest automotive sector tariff headlines. Trump claimed the latest tariffs would foster growth in the automotive industry by encouraging companies to establish more factories in the US. While some domestic plants may have space to modestly

lift capacity, this is limited in scope against the context of the roughly 16mn new vehicles sold in the US annually. Building and bringing new auto production facilities online in the US takes close to three years, limiting the medium-term ability of the US domestic supply chain to ramp up production.

We believe the proposed tariffs as announced would deliver a big hit to the auto industry, stoking higher costs, higher prices, and a sharp decline in US sales. The tariffs could also disrupt supply chains, deter investments, and significantly raise consumer prices. They may also ignite trade disputes with Europe, Japan, and South Korea. In terms of the broader impact, although the US auto sector, excluding Tesla, accounts for only 0.25% of the US market, the bigger question is what these aggressive automotive tariffs signal for next week's announcement on both reciprocal and ex-auto sector tariffs. We believe bilateral deals can be reached to mitigate the breadth and scale of the coming tariffs on 2 April, with EU trade commissioner Maroš Šefčovič meeting US trade officials, India expressing openness to cutting tariffs on US imports, and Vietnam proposing preferential tariff cuts. However, investors will also need to consider the risk of a sharper response from US trade partners affected by this action. We advise investors to prepare for a wide range of selective tariffs and retaliatory measures that could increase market swings.

The geopolitical tensions between Russia and Ukraine, while showing signs of easing, remain a factor weighing on market sentiment. The ambiguity in the maritime ceasefire terms suggests geopolitical risks are likely to linger, with Russia demanding conditions for the Black Sea agreements to take effect, while Ukraine insists the truce should proceed without sanctions relief. Our base case remains that a full ceasefire is unlikely to be reached imminently.

US consumer confidence slid further amid a poor economic outlook, marking the lowest level in over four years. Households are concerned about higher prices and a downbeat economic outlook, as indicated by the Conference Board survey and the University of Michigan's sentiment reading. Additionally, credit card issuer Synchrony reported that US consumers are curbing spending, with higher delinquencies in auto loans, credit cards, and home credit lines suggesting financial strains. Although our economic forecast does not call for a recession, poor sentiment amid elevated uncertainty is likely to weigh on market performance in the near term.

In light of the current market volatility and uncertainty surrounding trade policies, investors may find opportunities in equity exposure. Our analysis suggests that buying the S&P 500 after a 10% drawdown can potentially yield higher returns compared to waiting for larger declines. Historical performance, while not a guarantee of future results, indicates that waiting for more significant drawdowns risks missing out on rapid market recoveries. Our back-testing analysis of the S&P 500 since 1990 supports this strategy, showing that increasing equity exposure after a 10% correction has historically delivered the highest return and Sharpe ratio, which measures the risk adjusted returns of a portfolio, compared to those waiting for a 15% or 20% drop. Although losses can be substantial at a -10% entry, they have typically been offset by periods of swift equity rebounds.

The threat of further tariff escalation remains a key concern, but our economic forecasts do not call for a recession in the US. In our base case, a wide range of selective tariffs and counteractions are likely to lead to slower economic growth compared to last year, but they should not prevent the US economy from expanding by around 2%—its historical trend rate—this year.

Original report: [Market volatility reignited by auto tariffs, 27 March 2025.](#)

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