



The reciprocal tariff framework and continued uncertainty around trade negotiations are likely to fuel currency volatility, providing an opportunity to use volatility spikes to boost portfolio income. (UBS)

CIO's base case is a scenario of “selective tariffs”

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Equities and bonds both rallied on Thursday after US President Trump directed his administration to evaluate reciprocal tariffs, but he stopped short of imposing immediate measures.

The directive instructs the US Trade Representative and Commerce Department to develop country-specific import taxes, factoring in non-tariff barriers such as value-added taxes (VATs), subsidies, currency policies, and digital services taxes. However, the process could take weeks or months, with no set timeline for implementation.

Trump cited European VAT policies as an example of unfair trade practices, while a White House official pointed to Japan and South Korea as potential targets. Developing economies with higher tariffs on US products are also likely to be affected. Unlike his 2024 campaign proposal for a universal import tax, this approach appears more tailored but leaves room for broader action.

For now, the delay in implementation limits the immediate market impact, but the risk of retaliation remains. If negotiations stall, the EU, Japan, and South Korea could respond with countermeasures, adding to trade uncertainty, inflation pressures, and market volatility.

- **While these were just threats, threats lead to negotiation.** The EU preemptively offered to cut tariffs on US cars, hoping to avoid escalation and protect its struggling auto industry. Bernd Lange, head of the European Parliament’s trade committee, said the bloc could lower its 10% tariff closer to the US’s 2.5% rate as part of a broader deal that includes increased LNG and military equipment purchases. European automakers support the move, while EU officials believe that existing tariffs on Chinese EVs will prevent a flood of imports. If talks fail,

Brussels is prepared to retaliate against US tech and financial firms using new trade enforcement tools designed after Trump's first term. Following an in-person meeting with India's prime minister, Trump said the two countries would seek to reduce "very high" Indian tariffs on US goods and strike deals for the purchase of US oil, gas, and combat aircraft.

- **Our base case is a scenario of "selective tariffs."** We do not expect sustained blanket universal tariffs but rather targeted measures and negotiation-driven outcomes. Highly aggressive US tariffs would almost certainly trigger retaliation by US trading partners, and there are risks of a tit-for-tat ratcheting up of measures. Markets will be watching closely for any shifts toward full enforcement, as a broad implementation of tariffs would raise inflation risks and likely weigh on equities, and have the potential to dent, but not derail, US economic growth.

Stay up to date with the latest Trump 2.0 policy news and how it relates to your investments at ubs.com/potus47.

Original report - [Markets rebound as Trump outlines reciprocal tariffs, 14 February 2025](#).

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