Swiss Re Institute

Trade talks: new perspectives on the global landscape

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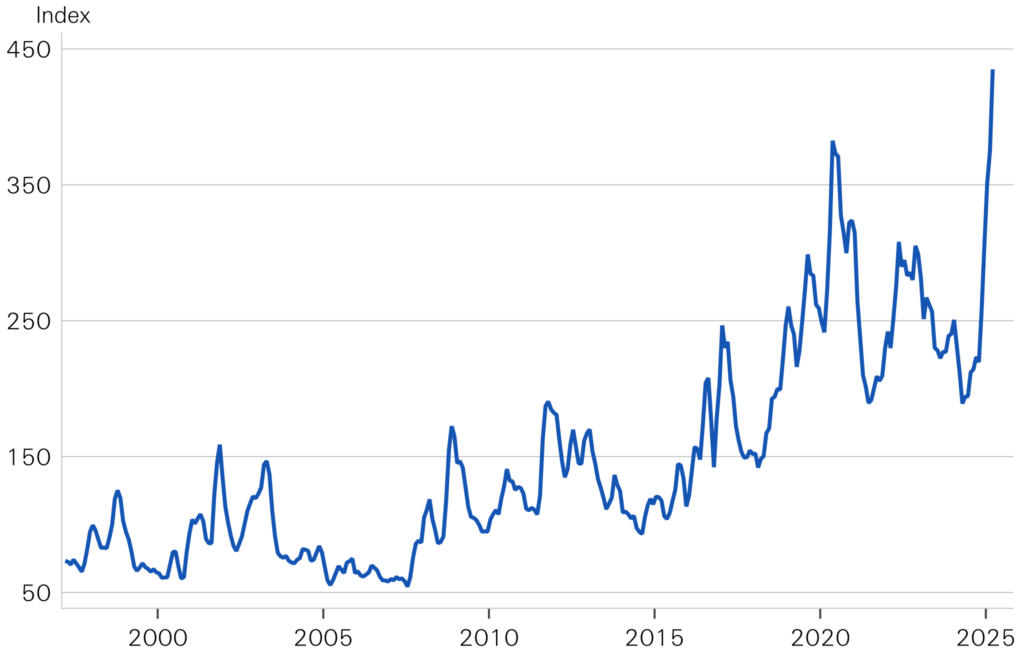
Patrick Saner, Head Macro Strategy

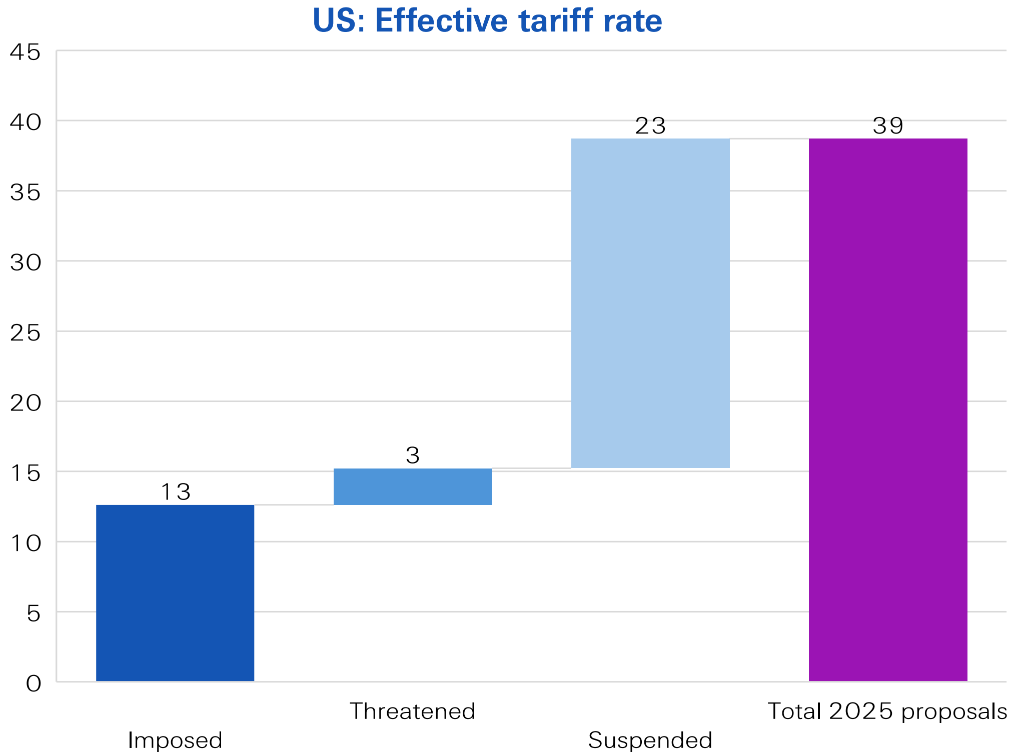
What is this and why does it matter?

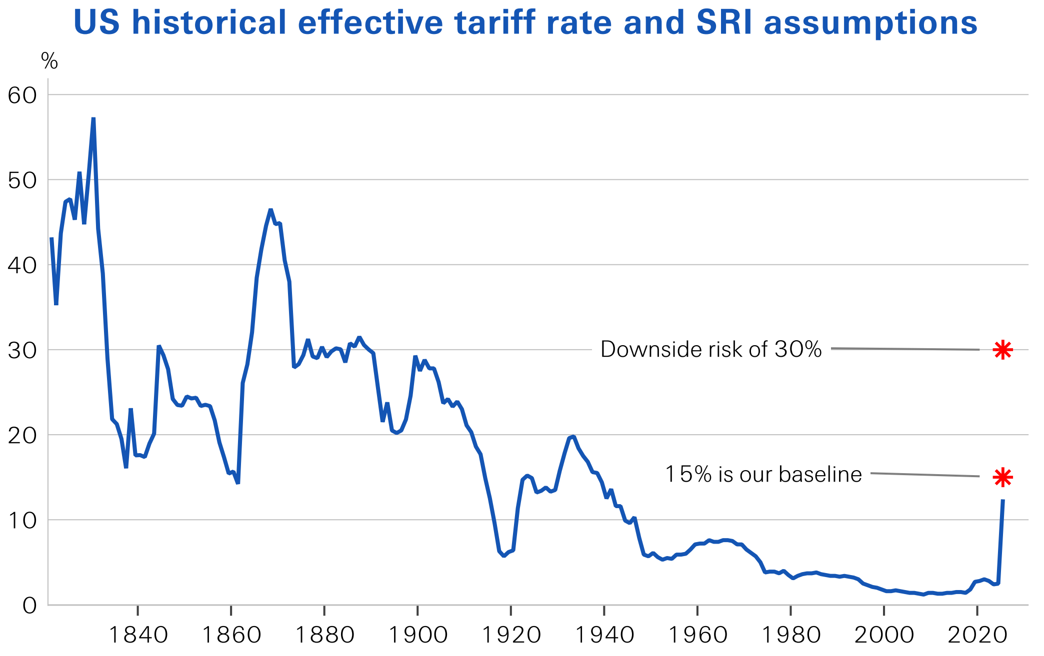


Source: Macrobond, Swiss Re Institute

Growth: The global economy is in uncharted waters following Liberation Day

- In early April the imposition of **sectoral and reciprocal tariffs raised the US effective tariff rate to 39%**. The subsequent suspensions, as well as the negotiated de-escalation with China, have brought the **rate down to 13%**.
- Despite tariff suspensions, the **increase in the effective tariff rate is a shock to the consumer and will slow economic growth**





Source: Macrobond, Swiss Re Institute

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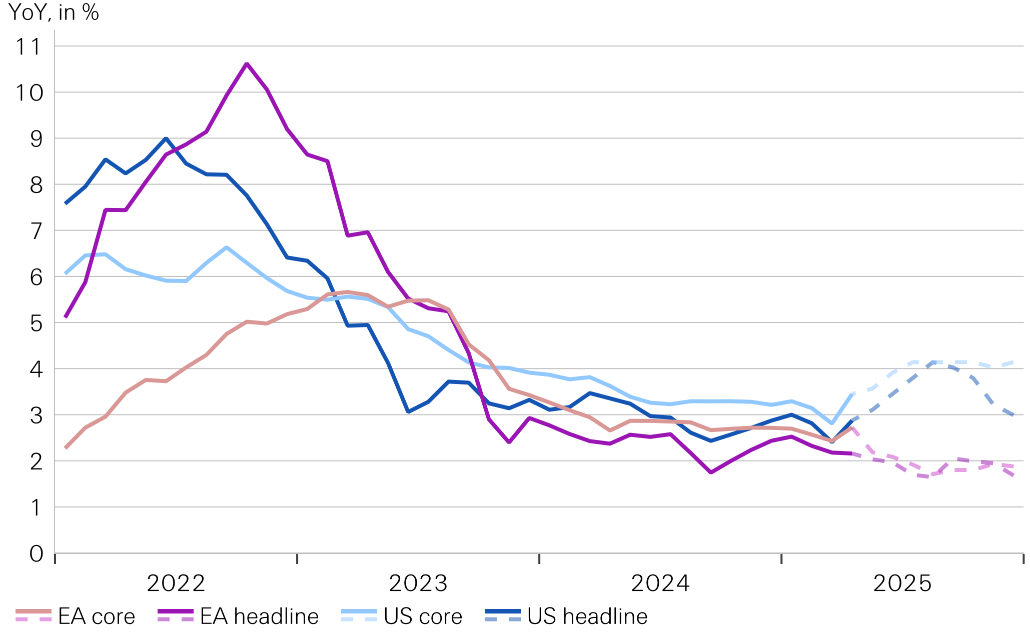
Inflation: Economic and tariff risks are fueling (again) stagflation risks

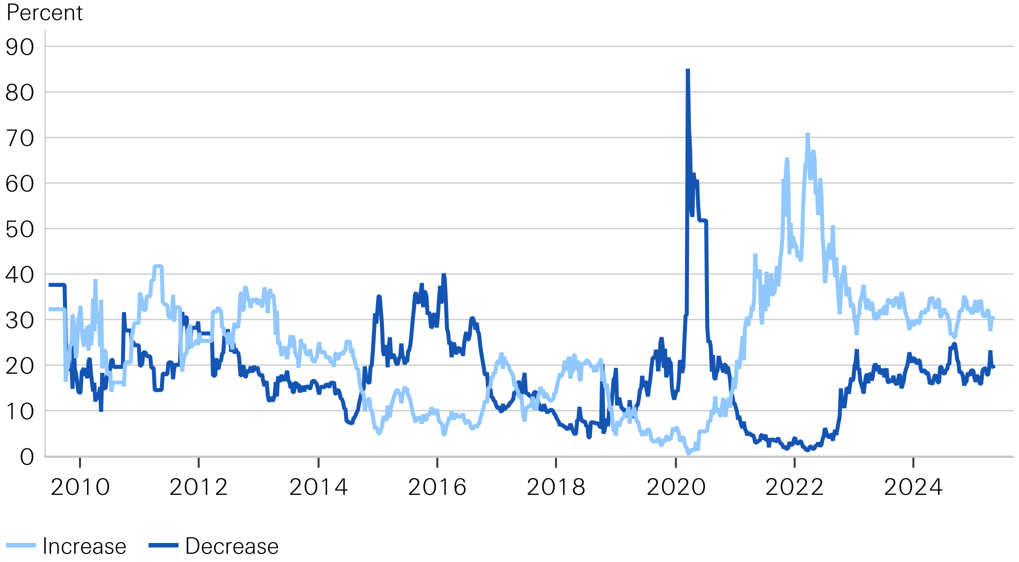
- **Expect US inflation to reaccelerate in 2025 as a result of the trade war**, whilst disinflation will likely continue in Europe and several other markets
- **Structurally, financial markets also price in higher inflation risks versus the low inflation era pre-Covid**

US and Euro Area inflation forecasts



Source: BLS, Eurostat, Macrobond, Swiss Re Institute

Option implied likelihood of higher/lower inflation expectations 5y ahead



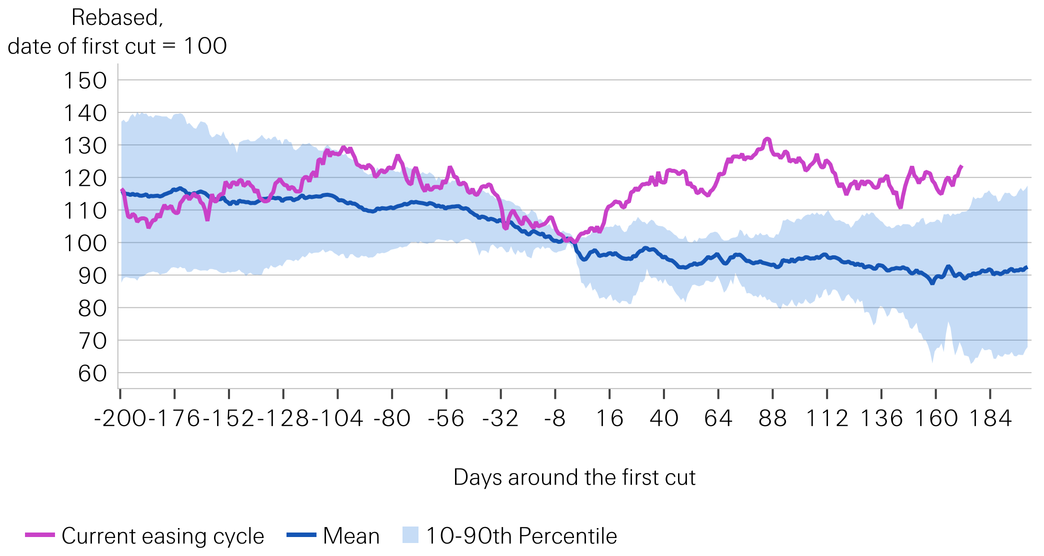
Source: Macrobond, Swiss Re Institute

Interest rates: Sovereign bond markets' focus is shifting away from tariff worries back toward fiscal concerns as markets might pressure the US administration

- **US 10-year yields have fallen on average 135 bps during past cutting cycles, but this cycle has so far seen as much as a 130bps *increase***
- **The recent divergence in US 10-year yields and the dollar foreshadows eroding confidence in US assets. An abrupt tightening in financial conditions** may necessitate Fed intervention if liquidity conditions become constrained

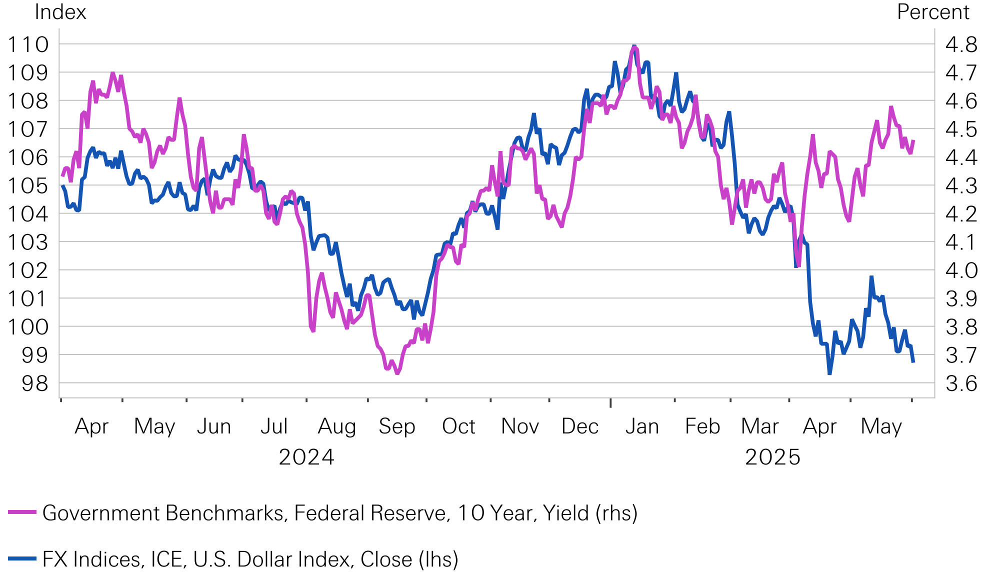
Long-end bond yields disconnected from Fed policy

Movement in US10y yield around the Fed's first rate cut



Source: U.S. Treasury, Macrobond, Swiss Re Institute

US: Dollar and 10y yield diverging



Source: ICE, U.S. Treasury, Macrobond, Swiss Re Institute

Any questions?

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