WELLS FARGO

Weekly — April 4, 2025

# Weekly Economic & Financial Commentary

United States: **Liberation Day**

- The echoes of reciprocal tariffs are reverberating through markets, raising expectations for Fed cuts and driving down yields. Tariff anticipation also drove an expansive U.S. trade deficit in February and increased price pressures in the manufacturing and services sector. Although risks to the outlook are elevated, the labor market remains solid at present, adding 228K jobs on net in March.
- Next week: NFIB (Tue.), CPI (Thu.), Consumer Sentiment (Fri.)

International: **Meanwhile Everywhere Else...**

- While new U.S. tariffs were the primary talk of the town in recent days, we also got a read on economic sentiment and monetary policy in several foreign economies. Sentiment data from China and Japan were somewhat encouraging, while the Reserve Bank of Australia and Colombia's central bank, BanRep, both opted to hold rates steady. Eurozone inflation data were generally favorable.
- Next week: Mexico CPI (Wed.), Reserve Bank of India Policy Rate (Thu.), Norway CPI (Thu.)

Credit Market Insights: **The Widening Gyre**

- Corporate bond spreads widened substantially Thursday in a repricing of recession risk following President Trump's tariff announcements. Spreads on investment grade corporate bonds widened by 8 bps to 102 bps and spreads for riskier high yield bonds increased more than 50 bps to 387 bps. The widening in the spreads was the worst one-day move for investment grade bonds since the bank failures in March 2023, and the worst one-day move for high yield bonds since the onset of the pandemic in the spring of 2020.

Topic of the Week: **A User's Guide to Reciprocal Tariffs**

- The Trump administration announced sweeping new tariffs on many U.S. trading partners this week. The administration utilized a formula primarily based on each nation's trade balance to derive the new tariff rates. By our estimates, the overall U.S. effective tariff rate now stands at 23%, the highest in many decades.

**Wells Fargo U.S. Economic Forecast**

| | Actual 2024 | | | | Forecast 2025 | | | | Actual | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 2023 | 2024 | 2025 | 2026 |
| Real Gross Domestic Product [1] | 1.6 | 3.0 | 3.1 | 2.4 | 1.0 | 2.1 | 1.3 | 1.2 | 2.9 | 2.8 | 1.9 | 2.3 |
| Personal Consumption | 1.9 | 2.8 | 3.7 | 4.0 | 1.7 | 2.0 | 1.6 | 1.6 | 2.5 | 2.8 | 2.5 | 2.2 |
| Consumer Price Index [2] | 3.2 | 3.2 | 2.7 | 2.7 | 2.8 | 2.7 | 3.0 | 2.9 | 4.1 | 3.0 | 2.8 | 2.6 |
| "Core" Consumer Price Index [2] | 3.8 | 3.4 | 3.3 | 3.3 | 3.1 | 3.1 | 3.2 | 3.1 | 4.8 | 3.4 | 3.1 | 2.8 |
| Quarter-End Interest Rates [3] | | | | | | | | | | | | |
| Federal Funds Target Rate[4] | 5.50 | 5.50 | 5.00 | 4.50 | 4.50 | 4.25 | 4.00 | 3.75 | 5.23 | 5.27 | 4.13 | 3.75 |
| Conventional Mortgage Rate | 6.82 | 6.92 | 6.18 | 6.72 | 6.70 | 6.55 | 6.45 | 6.40 | 6.80 | 6.72 | 6.53 | 6.46 |
| 10 Year Note | 4.20 | 4.36 | 3.81 | 4.58 | 4.30 | 4.20 | 4.15 | 4.15 | 3.96 | 4.21 | 4.20 | 4.33 |

Forecast as of: March 13, 2025 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

**Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.**

## U.S. Review

### Liberation Day

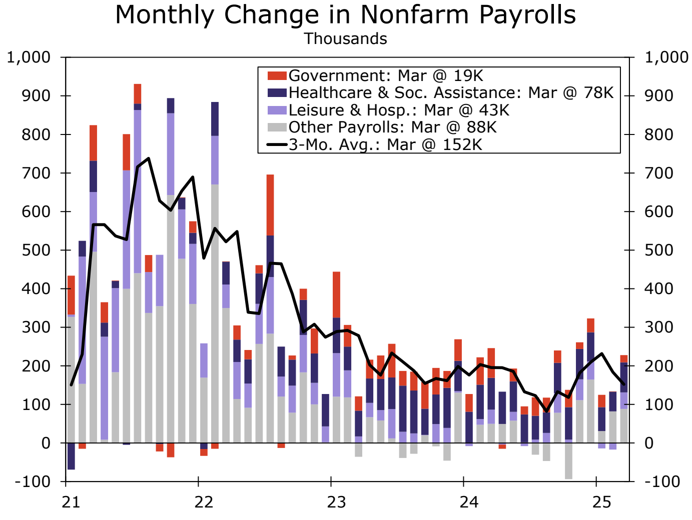
Liberation day has arrived, and so have substantial new tariffs on U.S. imports. President Trump announced this week that all countries will be subject to a minimum 10% tariff rate starting on Saturday, April 5. As detailed in Topic of The Week, beginning on April 9, nations with which the United States has larger trade deficits will be subject to relatively larger levies. For example, the European Union will face a 20% tariff and South Korea, China, Taiwan and Vietnam will face duties ranging from 25% to 45%. The North American block will instead face a flat 25% tariff rate to combat the national security risks from fentanyl and unauthorized migration, effective immediately.

Some carve-outs were included. All goods that enter the United States through the U.S.-Mexico-Canada Agreement (USMCA) are exempt. There are also exclusions covering steel, aluminum, lumber, semiconductors, copper and other select goods; however, many of these goods are either already subject to product-specific tariffs or currently undergoing investigations, which could lead to the imposition of tariffs. If sustained, the implications of these "reciprocal" tariffs would be quite substantial. We estimate that these actions would lift the effective U.S. tariff rate from less than 3% to 23%.

A lot can happen in the coming days and weeks, and it remains to be seen which tariffs will remain in their current form and which may be negotiated away. But the downside risks to the economy are real. Investors bid Treasury prices higher on the announcement of U.S. tariffs and foreign retaliation, driving the 10-year yield down below 4%. As of this writing the market is also pricing in ~113 bps of rate cuts this year, reflecting expectations that the Fed will be compelled to cut interest rates in response to economic deterioration. We will be updating our expectations for U.S. economic growth and monetary policy in a fresh Monthly Economic Outlook next week, so stay tuned.

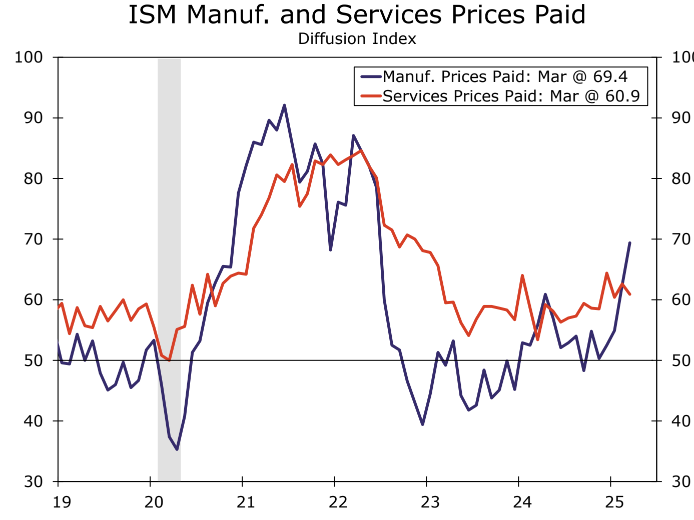
In the meantime, tariff risk continued to drive expansive trade deficits. The trade deficit narrowed slightly in February but remained highly elevated at $122.7B. This marked the second consecutive month of overinflated imports as a result of firms' efforts to stockpile intermediate and capital goods. Imports of industrial supplies, specifically, registered its highest levels on record in the first two months of the year. Although the net effect on GDP should eventually be minimal once these imports find their way into business inventories, the recent import surge will likely blow a hole in Q1's GDP print.

Monthly Change in Nonfarm Payrolls




Source: U.S. Department of Labor and Wells Fargo Economics

ISM Manuf. and Services Prices Paid




Source: Institute for Supply Management and Wells Fargo Economics

Despite risks to the outlook, the labor market remains solid at present. Nonfarm payrolls printed at a better-than-expected 228K in March. Household employment similarly expanded by 201K and the unemployment rate remained low at 4.2%. But the underlying details were not as dazzling. Roughly one-third of the overall payroll increase in March was concentrated in health care & social assistance. Additional gains in leisure & hospitality bring that share above 50%. Elsewhere, a pickup in state and local government hiring offset a 4K decline in federal workers, while payrolls contracted in temporary help services, information and wholesale trade. Average hourly wages advanced a solid 0.3% over the month, but the year-over-year rate slipped to 3.8%, its lowest reading since July.

Construction spending was also broadly positive in February. Overall outlays advanced 0.7%, driven by a 1.3% uptick in residential spending. Most of February's gain was owed to a step up in home improvement outlays and resilient single-family building, which has been aided by a structural shortfall of home inventory. Multifamily construction, while no longer deteriorating, was flat over the month. Public spending on infrastructure projects also remains a tailwind for nonresidential construction. However, a sharp decline in new project inquiries at architecture firms highlights the likelihood that tighter immigration and trade policies will weigh on the construction industry. A weaker macroeconomic environment certainly would not help.

Recent ISM surveys suggest that the business sector is teetering. The manufacturing and services indices each slipped in March, with the manufacturing sector falling back into contraction (49.0) and the services sector barely registering expansion (50.8). The manufacturing index worsened across nearly every subcategory, including new orders, employment and production. The services new orders and employment components also weakened. As conditions broadly deteriorated, industry comments were riddled with concerns over U.S. tariffs and potential retaliation. The pull-forward in import demand also firmed price pressures, lifting the prices paid subindex for manufacturing to its highest level since June 2022 and keeping the services sector counterpart firmly in expansion.

In the near term, heightened economic risk is apt to keep labor demand stuck in a holding pattern. JOLTS job openings slipped to 7.57 million in February in a continuation of what has essentially been a sideways movement in openings and hires over the past six months. If a silver lining can be found, it is that stockpiling efforts appear to have prompted an uptick in labor demand in transportation & warehousing and wholesale trade. Job openings also rose for manufacturing. Yet the overall drop in openings corroborates recent downtrends in Indeed job postings, small business hiring plans and consumer perceptions of job availability, each of which foreshadow a slower pace of job growth this year.

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## U.S. Outlook

**Weekly Indicator Forecasts**

**Domestic**

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|---|---|---|---|---|---|
| 10-Apr | CPI (MoM) | Mar | 0.1% | 0.0% | 0.2% |
| 10-Apr | CPI (YoY) | Mar | 2.6% | 2.5% | 2.8% |
| 10-Apr | Core CPI (MoM) | Mar | 0.3% | 0.2% | 0.2% |
| 10-Apr | Core CPI (YoY) | Mar | 3.0% | 3.0% | 3.1% |
| 10-Apr | CPI Index NSA | Mar | — | 320.127 | 319.082 |
| 11-Apr | PPI Final Demand (MoM) | Mar | 0.2% | 0.2% | 0.0% |
| 11-Apr | PPI Final Demand (YoY) | Mar | — | 3.3% | 3.2% |
| 11-Apr | Core PPI (MoM) | Mar | 0.3% | 0.3% | -0.1% |
| 11-Apr | Core PPI (YoY) | Mar | — | 3.6% | 3.4% |

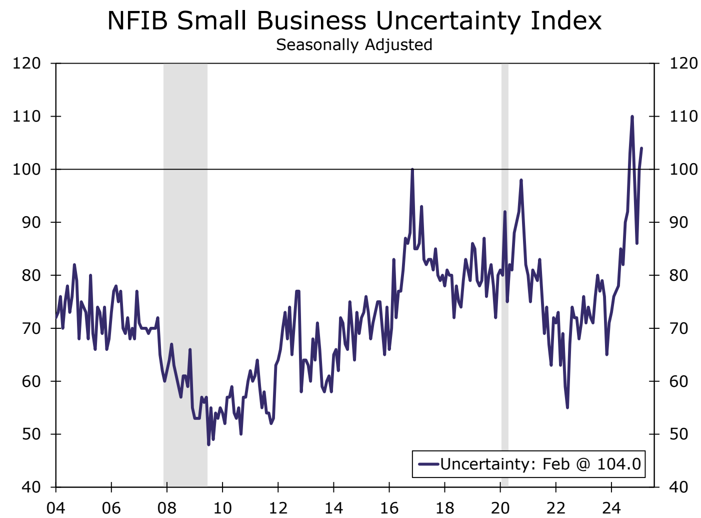
Forecast as of April 04, 2025

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### NFIB Small Business Optimism • Tuesday

Small business optimism moderated for a second straight month in February, falling to 100.7. The uncertainty index recorded its second-highest level on record, as policy questions continued to leave small businesses with more questions than answers. Tariff policy appeared to preemptively affect pricing as well, with the net share of firms noting that they were raising prices over the month rising 10 percentage points up to 32%. On the labor market front, small businesses continued to relay issues with hiring qualified candidates. Labor quality ranked the biggest challenge, even outpacing inflation in February. On the upside, the labor market has not been a major source of inflationary pressure for small firms. The proportion of small firms raising compensation remained flat in February.

Looking to March, small businesses are likely to note further uncertainty in their outlook. The specter of tariffs continued to hang over the economy throughout the month, and uncertainty over input costs has the potential to affect everything from hiring plans to the short-term outlook on the economy.

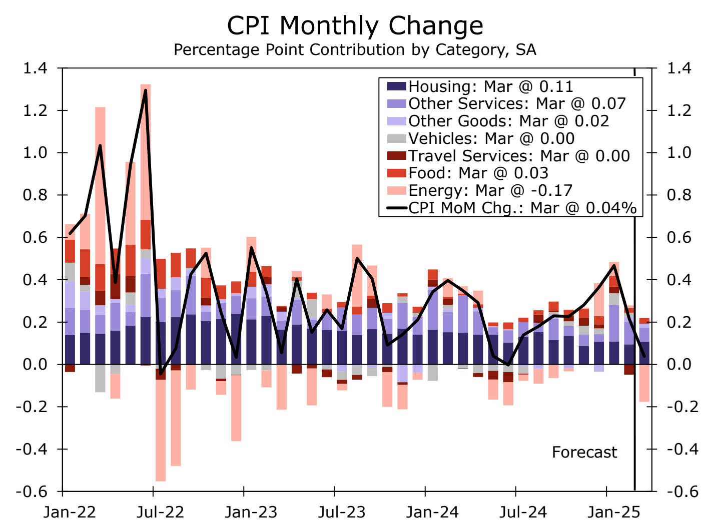



Source: NFIB and Wells Fargo Economics

### CPI • Thursday

The abrupt change in U.S. trade policy this week will make the March CPI feel like old news when it is released on Thursday. We estimate the headline CPI was unchanged in March, leading the year-ago rate to sink to a six-month low of 2.5%. The details are likely to prove less encouraging than the headline as the drag from energy goods was fanned by growth concerns. Core goods inflation was already on the upswing and services disinflation remains frustratingly slow. We estimate core CPI advanced 0.2% again last month, bringing the year-over-year rate to nearly a four-year low of 3.0%.

Digging into the details, a drop in energy good prices will be the biggest relief to headline inflation. The drop in energy goods prices looks to be the largest month-over-month drop in over two years, with the drop being fueled by concerns over growth and favorable seasonal adjustment factors. Some household food staples, including egg prices, retreated over the month, but any reprieve for overall food-at-home inflation was likely more than offset by gains in other grocery categories. Even as we forecast headline CPI to come in flat month-over-month in March, the looming effects of

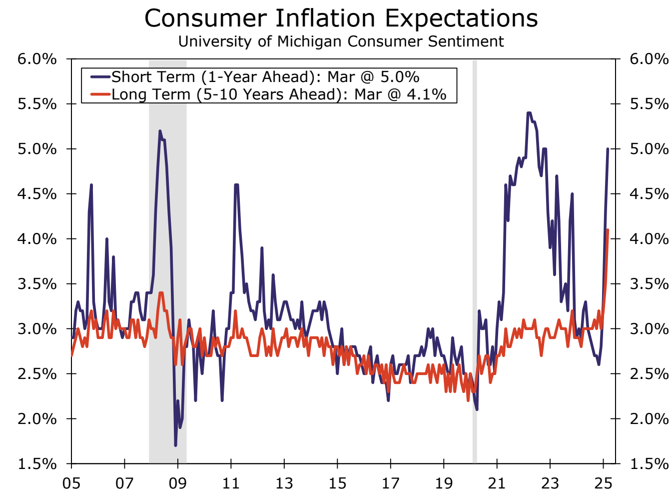



Source: U.S. Department of Labor and Wells Fargo Economics higher tariffs looks to throw a wrench in the fight against inflation. For more information, please read our March CPI Preview.

**Consumer Sentiment • Friday**

The final revision for consumer sentiment in March fell to 57.0, the lowest mark since the high-inflation days of 2022. In data going back over 40 years, sentiment has only been lower a handful of times during the height of the financial crisis and during the bout of high inflation in 2022. Renewed expectations for high inflation are driving the sour mood. Short-term year-ahead median inflation expectations rose to 5.0% in March, up a stark 1.7 percentage points from the 3.3% that they started the year at in January. Long-term (5–10 years ahead) inflation expectations rose to 4.1%, the highest reading for this measure since 1993.

Consumer expectations for their household finances declined in tow, as the index for household finance expectations over the coming year fell to 86.0, the lowest on record. Furthermore, sentiment declines were broad-based and fell across the political spectrum in March. Looking ahead, it is unlikely that the University of Michigan's headline sentiment measure has found a floor. The survey dates for the preliminary release run from March 25 through April 7, coinciding with the recent flurry of tariff-related headlines.



Source: University of Michigan and Wells Fargo Economics

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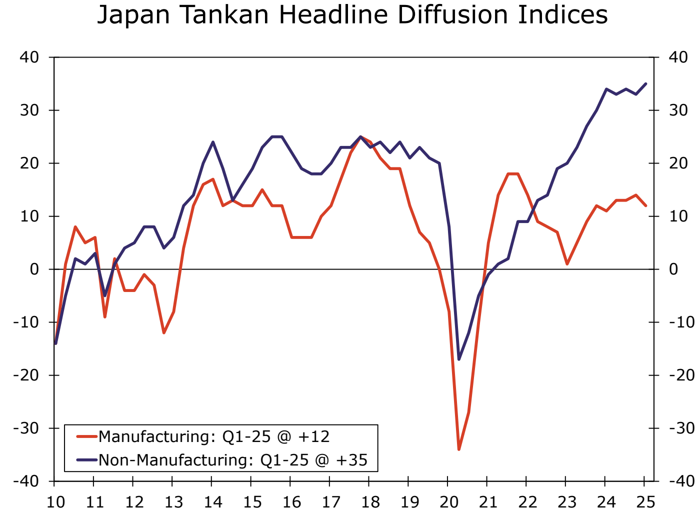
## International Review

### Meanwhile Everywhere Else...

While new U.S. tariffs were the primary talk of the town in recent days, we also got a read on economic sentiment and monetary policy in several foreign economies. China and Japan both released data on sentiment this week. To start with China, the March official PMI figures were somewhat better than expected, though we remain cautious overall on the prospects for the country's economy. The manufacturing PMI ticked up slightly more than expected to 50.5 and the non-manufacturing PMI did the same, rising to 50.8. These improvements brought the composite PMI reading to 51.4. We do note, however, that these values are still somewhat unimpressive by historical standards. In terms of our broader outlook for China's economy, we have become a bit more constructive in recent weeks in light of hints of new stimulus that were announced in early March, and as officials expressed a desire to focus on supporting domestic demand. However, by no means would we characterize our view as optimistic on the Chinese economy. We see the country's economy as still facing a variety of challenges to growth, not least including ratcheted-up tariffs from the United States. We believe that these tariffs can noticeably dampen the possible positive effects of expansionary efforts by Chinese authorities. We look for the Chinese economy to grow by 4.7% this year, an upgrade from our previous forecast, but still a slight slowdown from 2024. Moreover, in the wake of the latest tariff announcements, the risks appear tilted toward a faster slowdown.

Turning to Japan, the results of the first quarter Tankan survey—which measures firms' expectations for business conditions—were somewhat mixed, but overall favorable, in our view. The index of sentiment among large manufacturing companies slipped slightly to +12, as expected, while the index for large non-manufacturing companies—which cover a larger share of Japan's economy—increased to +35 against expectations for it to hold steady at +33. The other most relevant parts of the survey for market participants and policymakers alike are businesses' capital spending plans and inflation expectations. Expectations for capital spending growth came in broadly as expected at 3.1% for the current fiscal year, and these figures are typically revised higher as the year continues. In terms of inflation expectations among the surveyed firms, there was an increase in the average expected rate of annual inflation for one, three and five years ahead. Surveyed firms expect an average annual inflation rate of 2.3% five years from now, above the Bank of Japan's (BoJ) 2% inflation target and a notch above the previous reading of 2.2% from the survey. Overall, we still think the economic case for further BoJ tightening remains relatively solid. Our base case is currently for BoJ to next lift rates by 25 bps in May; however, uncertainty around U.S. tariff policy could introduce a new element of caution for the country's central bank policymakers, and there's an increasing risk that the next rate move is pushed back.

Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

This week saw a couple of foreign central bank monetary policy decisions. To start, the Reserve Bank of Australia (RBA) kept its policy rate on hold at 4.10% and offered a cautious tone in the press release. Policymakers noted that while underlying inflation has continued to ease, they remain watchful as to whether inflation can sustainably return to the 2%-3% target. The statement also highlighted continued tightness in the labor market and notable uncertainties around the domestic economic outlook and globally, regarding tariffs. Officials stated that changes to global trade policy could weigh on global growth but that the impact on inflation could go either way. Wrapping up their press release, the Board summarized its views in stating: "The continued decline in underlying inflation is welcome, but there are nevertheless risks on both sides and the Board is cautious about the outlook." Between now and their next meeting in late May, we will get to see the March and Q1 inflation reports and the March employment report, among other economic data releases. Overall, our view is for the RBA to deliver a 25 bps rate cut in May in light of disinflation progress and amid concerns that new U.S. tariff policy can hurt foreign economic growth. While we do see further RBA easing this year, some of the caution from policymakers suggests, to us, that the RBA will take a gradual approach. We look for the RBA to lower rates at a 25 bps per quarter pace this year.

On Monday, policymakers from Colombia's central bank, BanRep, opted to keep rates on hold at 9.50% for the second consecutive meeting. We view the statement as somewhat mixed in terms of hawkish and dovish elements. On the more hawkish side, officials provided rationale for this week's decision by citing an uptick in headline inflation, inflation expectations that are above the central bank's 3% target over the medium term and possible inflationary pressures from heightened global economic uncertainty and local fiscal challenges. The report also mentioned that policymakers lifted their 2025 GDP growth forecast to 2.8% from 2.6% previously. On the other hand, the vote split revealed a bit of a more dovish tilt. Four officials favored a hold, while three voted for a 50 bps reduction. This was a noticeable shift from the previous decision in January, in which only one policymaker voted for a 50 bps cut. In another less-hawkish aspect of the press release, officials noted that when excluding energy and regulated items, inflation has continued its downward trend. When we look at Colombia's recent economic data, we can see that economic growth is still recovering, with the latest quarter-over-quarter and year-over-year data from Q4-2024 coming in below pre-pandemic (2010-2019) averages. In addition, underlying inflation has continued to ease. In consideration of the dovish elements of this week's statement and some recent trends in economic activity and price data, we see BanRep policymakers re-starting monetary easing in the near term and lowering the policy rate to 8.75% by around the middle of this year.

We also got March price data from the Eurozone this week, and the result was generally favorable. Headline inflation came in as expected, ticking down to 2.2% year-over-year. Core inflation slowed slightly more than expected, to 2.4%. Another area of particular interest to European Central Bank

(ECB) policymakers is services inflation, which slowed more noticeably last month to 3.4%. The measure also slowed in February, but before that, it had been hovering around ~4.0% more or less since late 2023. This slowdown in services inflation will certainly come as welcome news to ECB policymakers. In terms of our outlook for ECB policy, we maintain our overall view that officials will take a more gradual and cautious approach to monetary easing going forward, most likely at a 25 bps rate cut per quarter pace. Given our recent, and somewhat meaningful, growth forecast upgrade for the Eurozone region for the medium term, our base case is for a monetary policy pause in April. However, given the encouraging nature of this week's inflation data and elevated global economic uncertainty, we cannot rule out another rate cut in April. Our current forecast looks for two more rate cuts this year, to a low of 2.00%.

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## International Outlook

**Weekly International Indicator Forecasts**

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|---|---|---|---|---|---|
| 9-Apr | Mexico CPI (YoY) | Mar | 3.79% | — | 3.77% |
| 10-Apr | Reserve Bank of India Policy Rate | 10-Apr | 6.00% | 6.00% | 6.25% |
| 10-Apr | Norway CPI (YoY) | Mar | 3.0% | — | 3.6% |

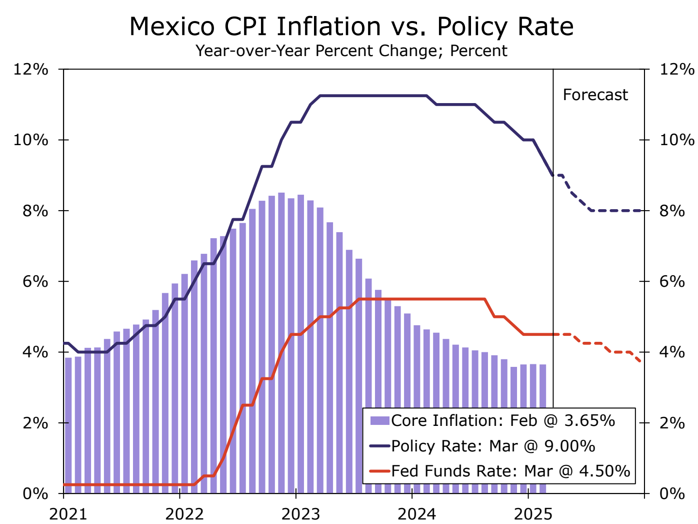
Forecast as of April 04, 2025

Source: Bloomberg Finance L.P and Wells Fargo Economics

### Mexico CPI • Wednesday

Next week will see the release of Mexico CPI inflation data for March. The consensus expectation among economists is for the headline and core inflation to each hold broadly steady at 3.79% and 3.65% year-over-year, respectively.

These inflation figures will be a key input into Banxico's next policy rate decision on May 15. Disinflation progress in Mexico has been quite steady in recent months, and GDP contracted on a quarterly basis in the final quarter of last year. At their last meeting at the end of March, the central bank cut rates by 50 bps for the second consecutive meeting. While this was the same magnitude of easing as delivered in February, this time the decision was unanimous, which in our view marks a slight dovish shift. We look for Banxico to deliver another 50 bps rate cut at the May meeting. Looking ahead to June, while we currently forecast a 25 bps rate cut for that meeting, we acknowledge that the risks may be tilted toward another 50 bps rate cut, given the apparent dovish-leaning stance of policymakers and concerns around Mexico's economic growth in light of heightened tariffs from the United States. We currently forecast Mexico's economy to enter recession in 2025.

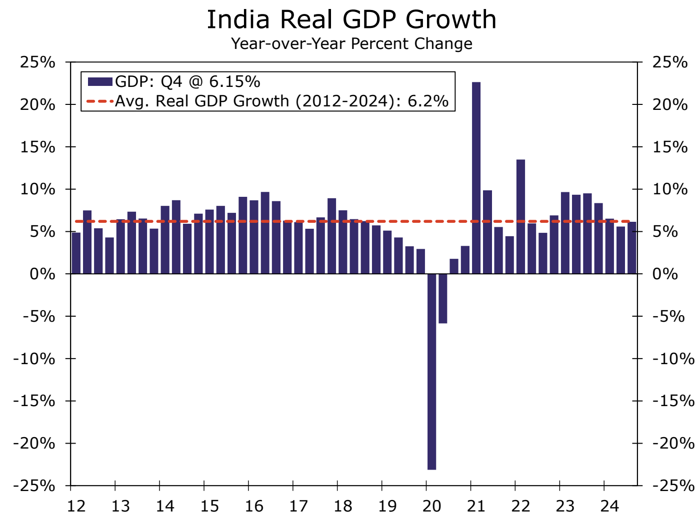



Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Reserve Bank of India Policy Rate • Thursday

Reserve Bank of India (RBI) policymakers will meet next week, and —in our view as well as the consensus—are likely to deliver a 25 bps rate cut to the repurchase rate to reach 6.00%.

We see a rate cut next week as likely due to somewhat unimpressive recent economic growth data and meaningful disinflation progress. Since the RBI delivered an initial 25 bps rate cut in February, we have gotten Q4-2024 GDP growth data as well as the January and February inflation reports. Fourth quarter GDP growth came in as expected at 6.2% year-over-year, though as seen in the nearby chart, India's economic growth has been easing somewhat in recent quarters. Turning to price pressures, headline inflation surprised to the downside, and somewhat meaningfully so, in both of the first two months of this year. Headline inflation came in at 3.61% in February, which is below the RBI's target of 4%. Given lackluster economic growth, meaningful disinflation progress and the potential for new U.S. tariffs to weigh on foreign economic activity, we see the RBI lowering rates at its meeting next week. Beyond that, we see two more 25 bps rate reductions by the third quarter of this year to reach a policy rate of 5.50%.

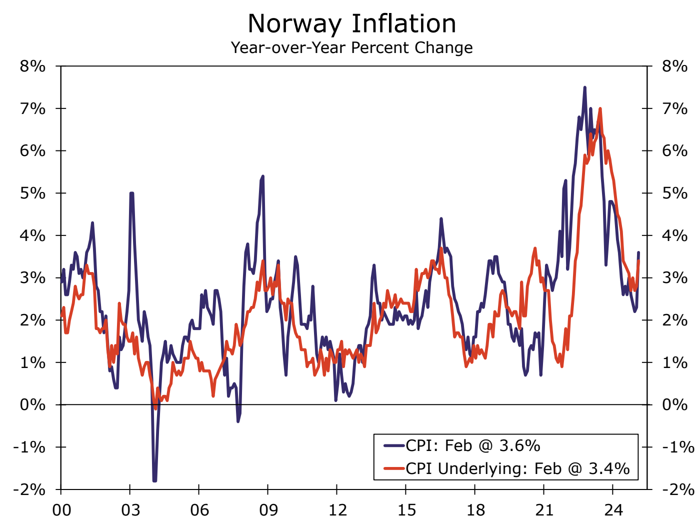


Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Norway Inflation • Thursday

Next week, March inflation data for Norway will be released. Consensus economists expect headline inflation to ease to 3.0% year-over-year and underlying inflation to hold steady at 3.4%. If realized, these readings would be considered somewhat elevated, especially for underlying inflation.

This release will be of special interest to market participants following recent economic developments in Norway. Although in late 2024 and early this year the central bank had signaled it could deliver an initial rate cut in March, a much higher-than-expected reading of price pressures in February ultimately prompted Norges Bank policymakers to instead keep rates on hold at their latest meeting. The Norges Bank is the only G10 central bank that has not begun an easing cycle (with the exception of the Bank of Japan, which is shifting policy in the opposite direction). Following the recent Norges Bank rate hold announcement, market participants currently expect very little in the way of monetary easing from the Norges Bank this year. Getting our hands on new inflation data will help us to discern how much longer the Norwegian central bank may stay on hold, or when it could be in a position to initiate an easing cycle. In our view, price pressures are likely to recede a bit in March, which should help to encourage the delivery of an initial rate cut this quarter. Our recently revised forecast is for the Norges Bank to deliver an initial 25 bps rate cut at its June announcement.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

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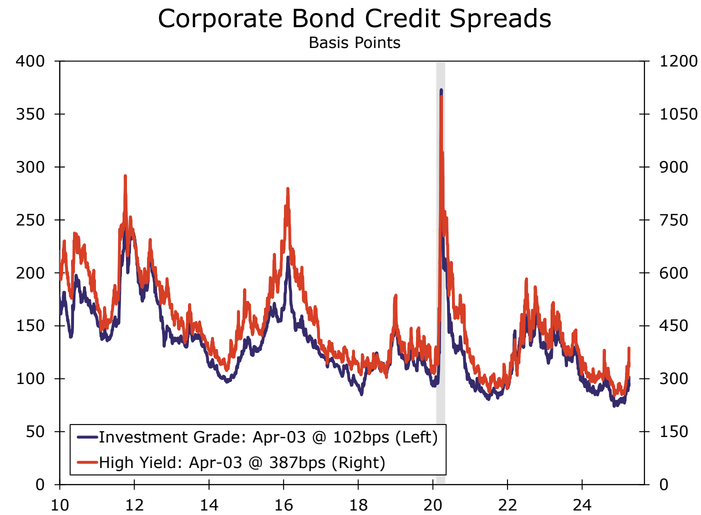
## Credit Market Insights

### The Widening Gyre

Corporate bond spreads widened substantially Thursday in a repricing of recession risk following President Trump's tariff announcements. Credit spreads, which measure the risk premium associated with holding corporate debt over U.S. government debt of a similar maturity, tend to fall (or tighten) when investors feel optimistic about the U.S. economy and its momentum. Conversely, increasing (or widening) spreads denote growth concerns since corporate debt default presents a larger risk during periods of downturn, and thus, investors demand a greater yield to hold corporate debt when the economy is on shakier ground.

After Wednesday's sea change in trade policy was announced, spreads on investment grade (IG) corporate bonds widened by 8 bps to 102 bps and spreads for riskier high yield (HY) bonds increased more than 50 bps to 387 bps. The widening in the spreads was the worst one-day move for investment grade bonds since the bank failures in March 2023, and the worst one-day move for high yield bonds since the onset of the pandemic in the spring of 2020. The jump in both comes after a quarter of already widening spreads amid a souring in sentiment on the momentum and stability of the U.S. economy, particularly over the past six weeks. As recently as the middle of February, spreads were priced at ~78 bps for IG bonds and ~260 bps for HY bonds—both of which were roughly in line with the post-Great Recession lows.

As we go to print, risk assets are having another challenging day, and spreads are widening further today. Still, at close on Thursday, IG spreads were still a bit *tighter* than their peak during last summer's labor market swoon as well as many of the growth scares from the 2010s. Investors may be holding out hope that tariffs will be shaved down during negotiations and waiting to price in the full stagflationary risks of an all-out trade war. Furthermore, for now the moderation in the hard data has not yet matched the severity of deterioration in soft data and survey measures of activity (think Consumer Confidence, ISM Manufacturing and ISM Services). Economic data have generally printed close to expectations in recent weeks, and the negative surprises are nowhere near the scale seen last summer, when spreads were priced at 111 bps for IG bonds and 381 bps for HY bonds after July's employment situation report spooked markets by tripping the Sahm Rule recession indicator.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Ultimately, markets are still digesting the larger-than-expected and broader-than-expected tariff announcements, making yesterday's move not yet a full read of the repricing of recessions risks. More broadly, we don't think it will be long before the hard data start to also reflect downward momentum, in which case we would not be surprised to see credit spreads widen further.

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## Topic of the Week

### A User's Guide to Reciprocal Tariffs

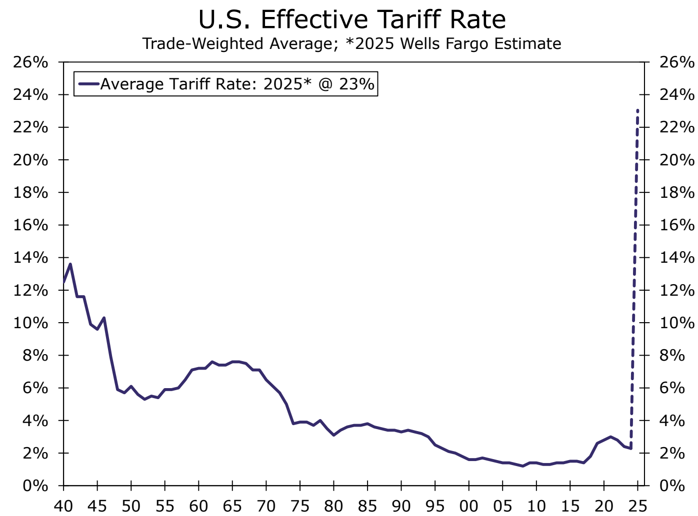
The Trump administration announced sweeping new tariffs on many U.S. trading partners this week. A flat 10% import duty was applied to all countries, while a long list of trading partners were targeted for reciprocal tariffs ranging from 11%-50%. By our estimates, the new tariffs boost the overall U.S. effective tariff rate to 23%, the highest in decades. For more on details on the current list of tariffs, please see the U.S. review section as well as our Tariff Tracker.

Not surprising, the targets of this week's trade announcements largely were countries that run a significant trade surplus with the United States. According to Trump administration, the rationale behind the latest round of tariffs is to reduce such trade imbalances by addressing tariff disparities and non-tariff barriers imposed by other countries. At Wednesday's press conference following the announcement, President Trump stated that the new tariffs on imports would amount to roughly half of the tariffs currently applied by each individual country on U.S. products.

Several countries targeted for new levies currently operate under a free trade agreement with the United States and either do not apply tariffs directly to U.S. goods and services or apply only low duties. According to the Trump administration, however, many countries utilize non-tariff barriers such as currency manipulation and overly restrictive regulations in order to discourage imports and exports.

As such, the "reciprocal" tariffs announced this week look to be more of a function of each nation's trade balance with the U.S., which the Trump administration argues implicitly capture both tariffs and non-tariff barriers. According to the Office of the United State Trade Representative (USTR), the below formula was applied to each nation to derive a new tariff rate:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$



Source: U.S. Department of Commerce and Wells Fargo Economics

To explain, the tariff rate (t) imposed on each country (i) depends on four main parameters: imports (m), exports (x), an estimate of the pass-through from tariffs to import prices (ϕ) and elasticity of imports with respect to import prices (ε). Based on research cited by USTR, the values for ε and ϕ were selected to be 4 and 0.25, respectively. These two terms multiply to one and cancel out of the equation. What's left is the trade balance (exports minus imports) divided by the value of U.S. imports from that country, which is then halved to get the "reciprocal" tariff rate. The Trump administration hopes that the new tariff rates derived by the above formula will help narrow the wide trade deficits which currently prevail with many nations. Considering Treasury Secretary Bessent reportedly informed lawmakers that these reciprocal tariffs will not be raised higher and can be potentially negotiated lower, we suspect the list of new duties is not final and subject to change.

(Return to Summary)

## Market Data • Mid-Day Friday

### U.S. Interest Rates

| | Friday 4/4/2025 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| SOFR | 4.39 | 4.36 | 5.32 |
| Effective Fed Funds Rate | 4.33 | 4.33 | 5.33 |
| 3-Month T-Bill | 4.24 | 4.29 | 5.35 |
| 1-Year Treasury | 3.79 | 3.98 | 5.12 |
| 2-Year Treasury | 3.51 | 3.91 | 4.65 |
| 5-Year Treasury | 3.57 | 3.98 | 4.30 |
| 10-Year Treasury | 3.89 | 4.25 | 4.31 |
| 30-Year Treasury | 4.35 | 4.63 | 4.48 |
| Bond Buyer Index | 4.34 | 4.45 | 3.68 |

### Foreign Exchange Rates

| | Friday 4/4/2025 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| Euro ($/€) | 1.097 | 1.083 | 1.084 |
| British Pound ($/£) | 1.293 | 1.294 | 1.264 |
| British Pound (£/€) | 0.848 | 0.837 | 0.857 |
| Japanese Yen (¥/$) | 145.150 | 149.840 | 151.340 |
| Canadian Dollar (C$/$) | 1.423 | 1.431 | 1.354 |
| Swiss Franc (CHF/$) | 0.855 | 0.881 | 0.901 |
| Australian Dollar (US$/A$) | 0.603 | 0.629 | 0.659 |
| Mexican Peso (MXN/$) | 20.530 | 20.375 | 16.588 |
| Chinese Yuan (CNY/$) | 7.282 | 7.262 | 7.233 |
| Indian Rupee (INR/$) | 85.235 | 85.463 | 83.445 |
| Brazilian Real (BRL/$) | 5.814 | 5.761 | 5.056 |
| U.S. Dollar Index | 102.612 | 104.044 | 104.121 |

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Foreign Interest Rates

| | Friday 4/4/2025 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| 3-Month German Govt Bill Yield | 2.06 | 2.09 | 3.69 |
| 3-Month U.K. Govt Bill Yield | 4.48 | 4.46 | 5.18 |
| 3-Month Canadian Govt Bill Yield | 2.54 | 2.63 | 4.98 |
| 3-Month Japanese Govt Bill Yield | 0.40 | 0.34 | 0.02 |
| 2-Year German Note Yield | 1.77 | 2.02 | 2.86 |
| 2-Year U.K. Note Yield | 3.88 | 4.20 | 4.19 |
| 2-Year Canadian Note Yield | 2.26 | 2.50 | 4.19 |
| 2-Year Japanese Note Yield | 0.64 | 0.87 | 0.20 |
| 10-Year German Bond Yield | 2.54 | 2.73 | 2.36 |
| 10-Year U.K. Bond Yield | 4.40 | 4.69 | 4.02 |
| 10-Year Canadian Bond Yield | 2.80 | 3.01 | 3.55 |
| 10-Year Japanese Bond Yield | 1.22 | 1.54 | 0.79 |

### Commodity Prices

| | Friday 4/4/2025 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| WTI Crude ($/Barrel) | 61.08 | 69.36 | 86.59 |
| Brent Crude ($/Barrel) | 64.61 | 73.63 | 90.65 |
| Gold ($/Ounce) | 3037.50 | 3085.12 | 2290.94 |
| Hot-Rolled Steel ($/S.Ton) | 906.00 | 890.00 | 853.00 |
| Copper (¢/Pound) | 444.65 | 513.00 | 424.90 |
| Soybeans ($/Bushel) | 10.17 | 10.25 | 11.84 |
| Natural Gas ($/MMBTU) | 3.88 | 4.07 | 1.77 |
| Nickel ($/Metric Ton) | 15,521 | 16,023 | 17,163 |
| CRB Spot Inds. | 571.29 | 573.46 | 547.57 |

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