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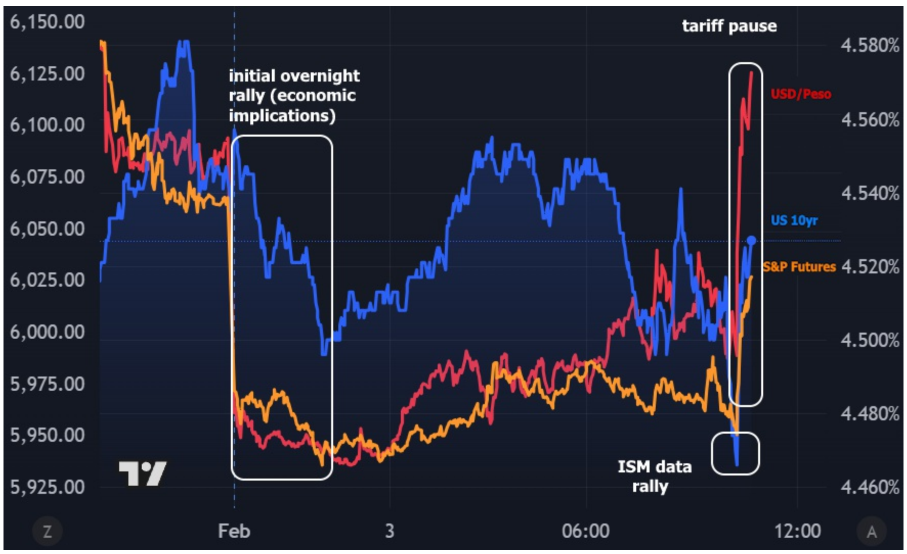
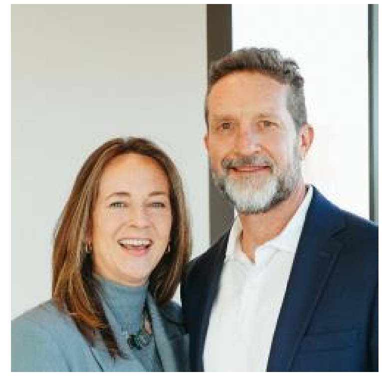
The Day Ahead: Making Sense of Bond Market Reaction to Tariffs

As we discussed heading into the weekend (and the likely official tariff announcement), the only recent, conclusive track record the market has for tariffs is that they cause enough economic contraction to offset any inflationary implications. True, the bond market traded with some caution as tariff plans came into focus, but tariff-driven selling was always a very small drop in the bucket compared to data-driven selling and speculation over other impacts of fiscal policy (i.e. pro-growth and lower revenue). With all that in mind, don't be surprised to see bonds paying more attention to the economic implications of big tariffs. This is easiest to visualize on days where the stock market is tanking hard and bonds are benefiting from a flight to safety. Similarly, don't be surprised when the overnight bond rally reverses on reports of fruitful talks between Trump and Mexico's president (which included a 1 month pause on US/Mexico tariffs). No surprise that the bounce bounce aligns with a bounce in equities as well...





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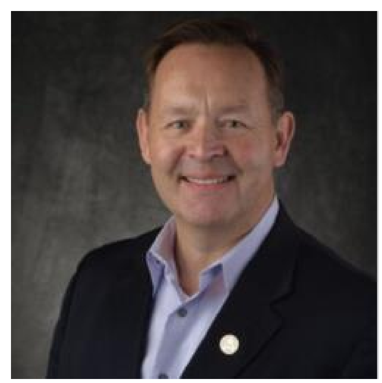

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