The Day Ahead: Wait... So Tariffs Are Good or Bad For Bonds Now?

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The most notable development on what might otherwise have been a sleepy half-day ahead of a holiday weekend was Trump's "recommendation" of a 50% tariff on the EU, effective June 1st. It's not clear what "recommendation" means in a context where previous tariffs have been announced by executive order, but markets nonetheless reacted with a risk-off trade (stocks and bond yields dropped). This is generally in line with the prevailing correlation, but could also be confusing if we think back to April when super high tariffs were bad for bonds, and the 90 day pause provided some relief. Since then, the reaction function has returned to a more logical stance where higher tariffs (within reason) are good for bonds and bad for stocks. Last week's temporary trade deal with China was the latest evidence (i.e. lower tariffs hurt bonds and helped stocks).