To the point!

Cross-Asset- and Strategy-Research

The next act in the trade drama unfolds

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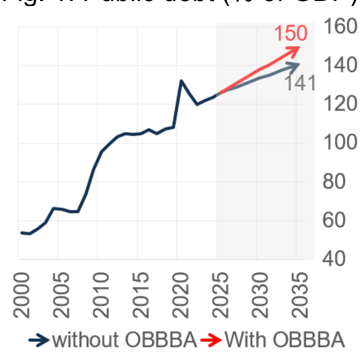
Trump's One Big Beautiful High

Last week, the United States shot itself in the foot with the passage of Donald Trump's "One Big Beautiful Bill Act" (OBBBA). If investors now begin seriously doubting the sustainability of America's soaring national debt (see Fig. 1), the consequences could be impossible to predict. But count on them being severe.

The U.S. is harming itself

Fig. 1: Public debt (% of GDP)



Source: LSEG, Federal Reserve, LBBW Research

Buoyed by his legislative "victory", Trump has stepped up his aggressive tariff campaign. The 90-day moratorium on his so-called "reciprocal" tariffs – a name that was misleading to begin with – expired on Wednesday, reigniting tensions that had rattled markets back in early April. With this, the U.S. seems set to shoot itself in the other foot. If you're in a hole, stop digging! But Trump doesn't see himself in a hole – he imagines he's on top of a mountain, proclaiming that the "Golden Age" of "growth in record numbers" has just begun. In reality, however, the U.S. economy could slow by as much as 0.8% as a direct result of these tariffs.

The tariff saga drags on

The idea that a comprehensive trade deal could be hammered out in 90 days – especially with dozens of trading partners at once – was always wildly unrealistic. Such negotiations usually span years. Predictably, no viable agreements have been reached this week. While Trump will inevitably tout "historic" outcomes – he doesn't settle for anything less than superlatives when it comes to his rhetoric – the reality is that even the arrangements slated for the new August 1 deadline will amount to little more than vague statements of intent.

U.S. trade policy increasingly resembles Washington's years-long TikTok saga. After bold threats and promises to ban the Chinese app, the U.S. keeps extending the deadline for action, pushing the issue indefinitely. Procrastination also rules in the tariff conflict. It’s becoming clear that Trump isn’t aiming at real solutions. What he craves is headline-grabbing "successes" and the ability to wield power and instill fear in others.

Regardless of where U.S. tariffs will settle after August 1 (or whenever…), one thing is all but certain: they will climb to levels unseen in modern memory (see Fig. 2). And let’s not kid ourselves: if a firm deal were to miraculously materialize, it will probably not stick. Trump would simply rewrite the rules again if it failed to deliver the outcomes he wants. This fundamental lack of reliability or stable parameters is the key challenge for businesses trying to navigate supply chains and production strategies.

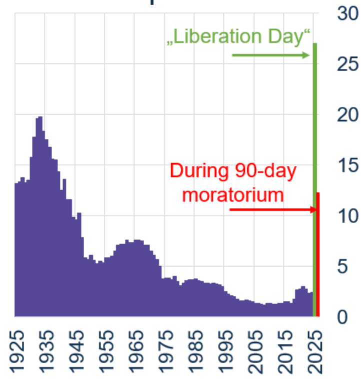
Europe must stand united

A better approach would have been for governments around the world to refuse to engage with the tantrum-prone "Rumpelstiltskin" in the White House from the very beginning. Yes, that would have meant economic sacrifices. But nowhere would the damage have been as severe as in the U.S. itself. While we are confronting a trade spat with one, albeit important player, Washington is squabbling with just about everyone.

Had the global community stood firm and followed the wisdom of the saying often attributed to George Bernard Shaw, "Don't wrestle with pigs. You both get dirty, and the pig likes it", the U.S. would likely have caved, and Trump’s bravado would have been exposed for what it is: empty and self-aggrandizing posturing.

Instead, even the European Union is struggling to act united. Germany and Italy, both heavily reliant on exports, are pushing for concessions to Washington, while France, Spain, and Denmark warn of selling out European interests. Sadly, Trump’s “divide and conquer” tactics appear to be working.

Fig. 2: Average tariff rate on U.S. imports



Source: Tax Foundation, LBBW Research

Trump tests European unity

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