DAX back in record territory – everything fine again?

Dr. Jörg Krämer [AC]

Following Trump's backtracking on tariff policy, the DAX has now reached a new all-time high. Even if Trump continues to roll back the announced tariff increases in the coming weeks, considerable economic damage will remain. The stock markets have come a long way.

On 2 April, Donald Trump announced the level of additional tariffs ('reciprocal tariffs') he planned to impose – 20% in the case of the EU, for example. The announcements sent shock waves through the financial markets. The S&P 500 fell by almost 5% on 3 April alone. Trump was clearly impressed by this and backtracked. He reduced the additional tariffs to 10% for 90 days. After falling by almost 15% overall, the S&P 500 recovered rapidly. Like the DAX, for example, it is now trading higher than before Trump's announcement at the beginning of April (chart on title page).

Deals with the UK and China boost investor confidence

The financial markets were also buoyed by trade agreements concluded by Trump with the UK and China:

- The **agreement with the UK** does not change the fact that imports from the UK will be subject to an additional 10% tariff. However, the British will be allowed to export 100,000 cars per year to the US at a tariff rate of 10%, even though a sector-specific tariff of 25% actually applies to car imports into the US. In addition, the US has reduced tariffs on imports of British steel and aluminum from 25% to 0%. Imports of aircraft engines and parts from the UK will be duty-free. As the volume of trade affected by the tariff cuts is small and the imbalance in foreign trade is limited, the agreements cannot be described as a major coup. But it fired the imagination of investors that Trump would continue to back down with other countries.

- The **agreement with China** reached over the weekend was indeed a positive surprise. The US is reducing the additional tariffs imposed on China for 90 days from 34% to 10%. With the exception of the 20% tariffs imposed in connection with fentanyl allegations, all other general tariffs imposed since Trump took office will be suspended. Overall, US import duties on Chinese goods will fall from 145% to 30%. In return, China will reduce its tariffs on US goods from 125% to 10%. Further details are to be clarified within 90 days.

How high US tariffs could ultimately be

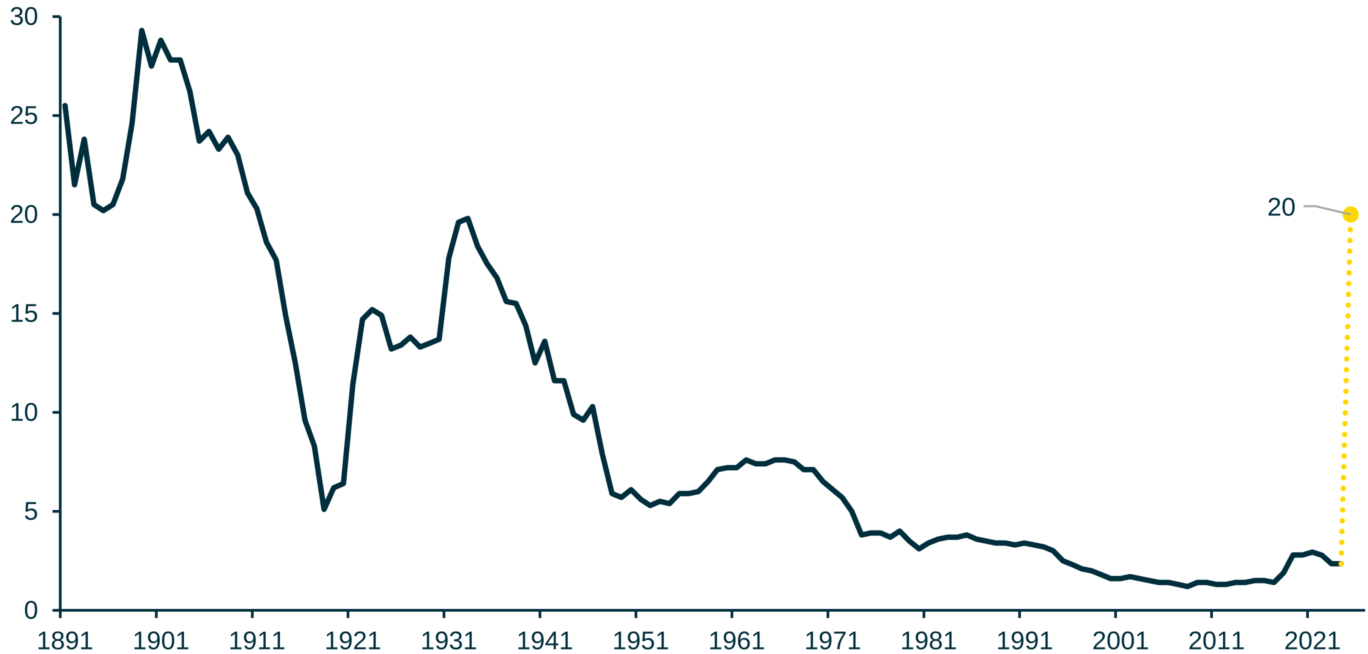
In the course of further negotiations, US import tariffs on goods from China could fall slightly, to around 25%. However, because there is cross-party support in the US for slowing down the economic and military rise of its rival China, including through protectionism, tariffs on China are likely to end up higher than those on many other countries.

Currently, the additional US tariff on affected goods from the EU is 10%, with sector-specific tariffs of 25% applying to cars, steel and aluminium. The average tariff rate is likely to remain at around 15% in the end. On the one hand, Trump harbours a dislike for the supranational institution of the EU and its representatives. On the other hand, following the agreements with the United Kingdom and China, a general additional tariff of 10% is emerging, with sector-specific tariffs on top of that.

Overall, the average tariff on American imports could ultimately rise to around 20%. That is eight times higher than before Trump's first term in office and corresponds to the rates prevailing in the 1930s (Chart 1).

Chart 1 - It is still a tariff shock

Effective tariff rate (tariff income in % of total imports), annual data. 2025: forecast



Source: US International Trade Commission, Commerzbank Research

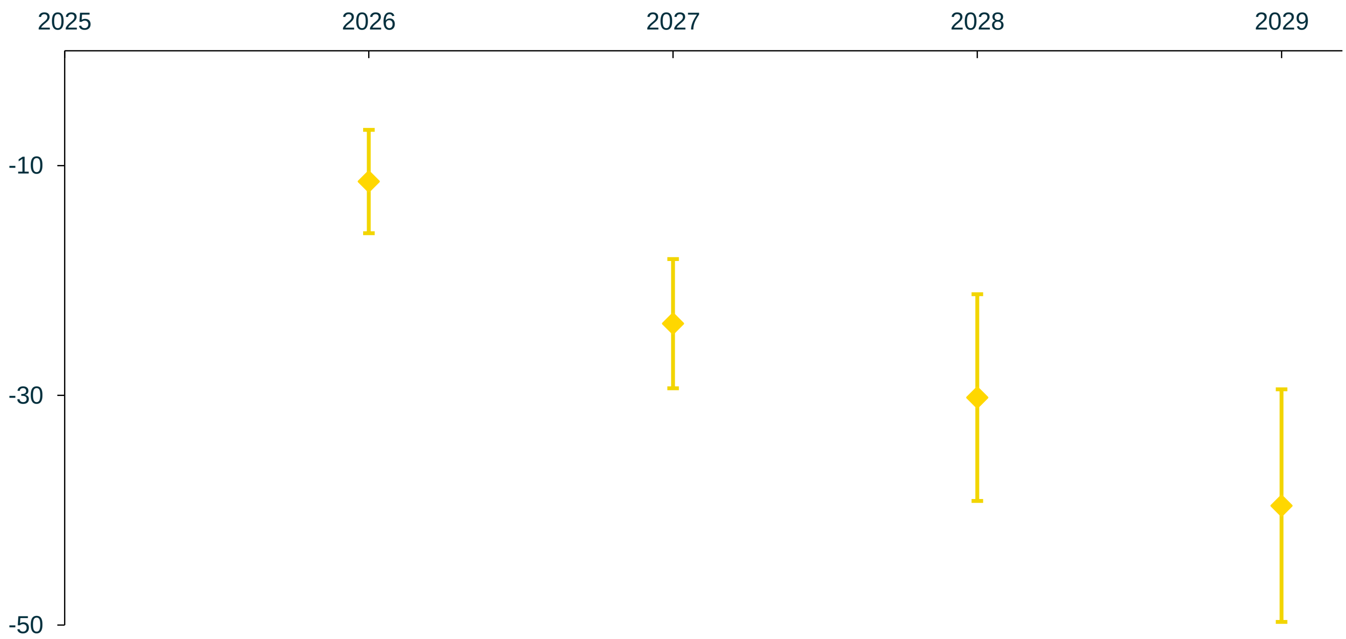
USA: Growth slowdown, but no recession

An average tariff rate of around 20% is likely to significantly slow down US imports from the rest of the world – by around 40% within four years, according to our estimates (Chart 2, see also box below).

All in all, this confirms our **assessment** that US economic growth will slow significantly to 1.7% this year (2024: 2.8%). The tariffs will cause considerable damage to the US economy. However, a recession is not the most likely scenario because the underlying momentum of the US economy is strong and household and corporate balance sheets are fairly solid. Otherwise, we continue to expect the Fed to cut its key interest rates for the first time in September and to limit itself to three steps due to latent inflation problems. The upper limit of the key interest rate band will then fall from the current 4.5% to 3.75% in the first quarter of 2026.

Chart 2 - Additional tariffs are putting a massive brake on US imports

The effect of a 17 percentage point increase in US tariffs to around 20 percent on nominal US imports (in %), compared with US imports without higher tariffs, see explanations in the box below.



Source: Federal Reserve, Commerzbank-Research

Eurozone: Tariffs another argument for anaemic recovery

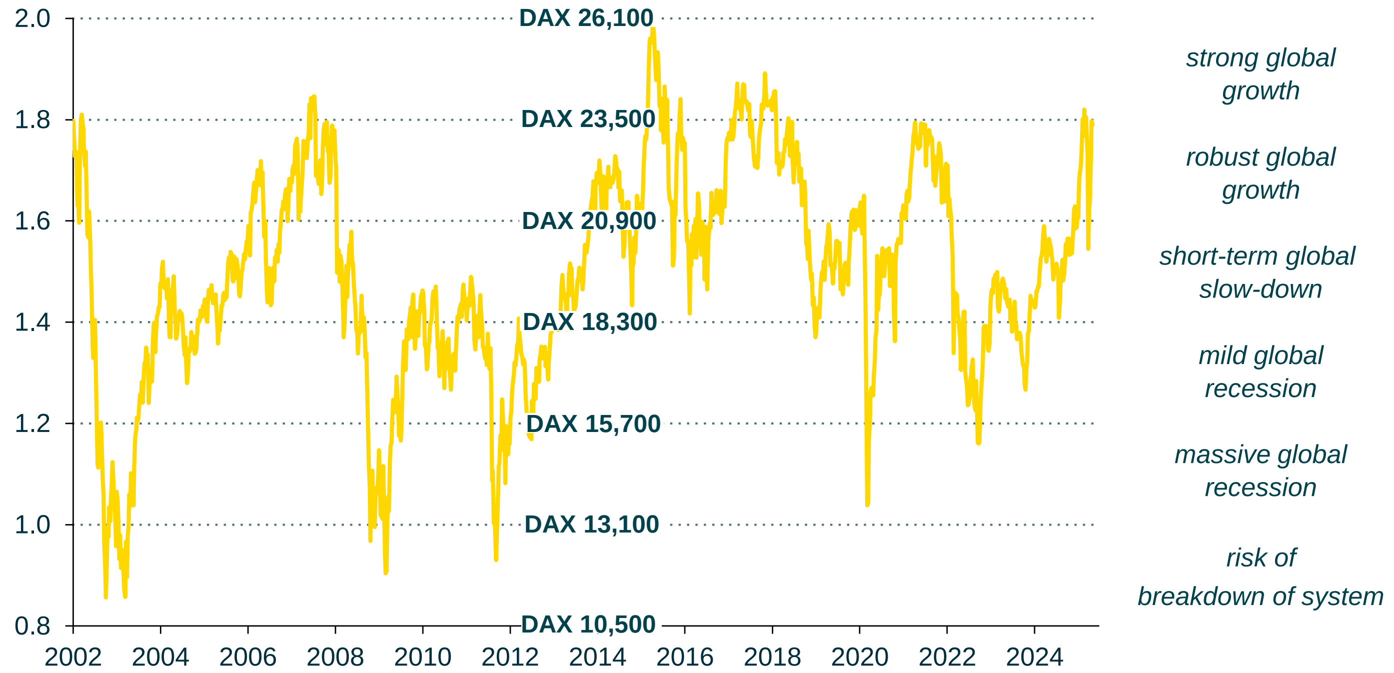
If the average US import tariff on goods from the EU were to remain at 15% in the end, EU exports to the US would fall by an estimated one-third within two years. At the end of those two years, gross domestic product would be 0.3% lower than without additional tariffs. This slowdown would be noticeable. That is why we lowered our growth forecast for the eurozone some time ago to 0.7% for 2025 and 1.2% for 2026. The slight uptick in growth is mainly due to the ECB's interest rate cuts and Germany's large fiscal package. This should boost German gross domestic product growth to 1.4% in 2026 (2025: 0.0%). However, we expect this to be a flash in the pan, as the long-term growth outlook is unlikely to improve significantly due to the lack of a new economic policy.

What does this mean for the stock markets?

The DAX reached a new all-time high this week. At 1.8, the price-to-book ratio is back in a range that has historically been associated with robust global economic growth (Chart 3). This economic outlook is optimistic because Trump's tariffs will ultimately hit global trade and growth in the US, for example, hard. The profits of the companies included in the DAX for 2025 could ultimately stagnate, while analysts are still expecting an increase of 4%. Further price gains would therefore have to be triggered by higher valuations, even though these are already rather high. In this respect, the DAX's recovery has come a long way; temporary setbacks are likely during the summer months.

Chart 3 - Hopes for trade deals push DAX price-to-book ratio back to 1.8

DAX: Price-to-book ratio based on analysts' forecasts of book value 12 months ahead, currently 13,100 index points



Source: Factset, Commerzbank Research

Box: How do we assess the impact of higher tariffs on trade?

It is difficult to predict the impact of Trump's massive tariff increases on US imports because there is no precedent for them in developed economies in recent decades. The closest comparison is the tariff increases that Trump imposed on US imports from China during his first term in office. At that time, tariffs on some US imports from China were raised significantly in several steps. Based on the change in US imports of these goods following these tariff increases, the US Federal Reserve (Fed) calculated the reaction of US imports from China to additional tariffs (see **link**).

Based on these elasticities determined by the Fed, we have now estimated the impact of the new tariffs imposed by Trump. We take into account that the Fed's analysis cannot be applied 1:1 to the current situation. During Trump's first term, importers were able to switch to other suppliers, such as Vietnam or other Asian countries, whose deliveries to the US were not subject to tariff increases. Today, however, all trading partners are affected by additional tariffs, so more importers are likely to be forced to accept the tariffs. We have taken this into account by reducing the effect of the tariff increases on US imports by one-third compared to the Fed's calculations.

The effects calculated in this way should be interpreted as dampening effects and do not represent a separate forecast. For example, the 40% dampening effect on imports in 2029 does not mean that US imports will be 40% lower in four years than they are today, but rather that they are likely to be 40% lower than they would have been without the tariff increases. (back to text)

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