Trump tariff war exacerbates financial market fragility

Nick Beams
7 February 2025

Media coverage of the effect of US president Trump's global tariff war has so far focused mainly on issues such as trade balances, global supply chains and the inflationary effect of the hikes.

But there is another aspect which is no less important. That is what its effect will be on fragile global financial markets, bloated by record levels of debt and speculation, where unexpected developments and the uncertainty over what Trump might do next have the potential to set off a crisis.

The global tariff war, which started with the threat of a 25 percent tariff against Mexico and Canada, is being extended almost on a daily basis. Yesterday Trump warned that tariffs could be imposed on its nominal ally Japan and announced that next week he would be unveiling "reciprocal" tariffs against a series of so far unnamed countries. The European Union is directly in the firing line.

The kind of violent movement that can take place has already been seen on Wall Street. Last month's announcement by the Chinese AI company DeepSeek that it had developed a cheaper way of developing AI caused the US chipmaker Nvidia to lose nearly $600 billion in market capitalisation in a single day—the largest one-day fall by any company in history.

Currency markets, where as much as $7.5 trillion a day is traded, can also be subject to sharp movements. This has been seen in the shifts in the value of the dollar following Trump's threat to impose a 25 percent tariff on Mexico and Canada and then agreeing to a 30-day delay.

This week the *Financial Times* (FT) reported that Wall Street analysts have been "bombarding US companies with questions over how they will cope with Donald Trump's trade wars, in an early sign of how the president's policies are ripping through corporate America."

The global banking and financial firm UBS has a Trump Tariff Losers basket of companies. It tracks the performance of companies likely to be impacted either by US tariffs or those that are imposed in retaliation.

According to the FT, Goldman Sachs has said that hedge fund funds have "increasingly shorted" companies in Europe which are exposed to the Trump tariffs including big names in the auto industry such as BMW and Mercedes-Benz. Shorting a stock involves making a bet that its price will fall, bringing a profit. If it unexpectedly moves the other way, then a major loss can be incurred.

There is growing turmoil in the markets, as no one is sure what executive order will be invoked by Trump from one day to the next. It is reflected in a report that trading in so-called zero-day options—contracts that last for just a day and are used to bet on very short-term market moves—hit a record high of $1.4 trillion on January 31.

The uncertainty in currency markets was summed up in comments by Paul McNamara, investments director at the global financial firm GAM.

"The big question is whether [Trump's] got some master plan which involves taking things to the brink, or whether he's just making it up as he goes along. Trying to read that man's mind is just… It's just incredibly difficult. [You're] trying to trade on something which could go either way."

Therein lies the potential for extreme market turbulence if some significant bet goes wrong and sets off a chain reaction.

The growing uncertainty is also reflected in the price of gold which this week hit a new record high of nearly $2,900 per ounce after rising by 26 percent last year. It has already risen by 8 percent so far this year.

John Reade, chief market strategist at the World Gold Council, said the "unprecedented" level of political and economic uncertainty generated by Trump's policies was leading to increased demand for gold as a safe haven. Central banks have been among the biggest buyers, purchasing more than 1,000 tonnes for each of the past three years.

The increased potential for another financial crisis, triggered at least in part by the tariff war, comes on top of what is an already highly unstable situation in financial markets.

Last month in an interview with the FT, Nick Moakes, the chief investment officer at the large charitable foundation Wellcome Trust warned there were "accidents waiting to happen" because of the flood of money into the private credit market.

This market operates largely outside the regulated banking system—the International Monetary Fund and other global financial bodies have said they have relatively little knowledge of its activities and connections with the broader banking and financial system—and has expanded rapidly since the global financial crisis. In 2008 it was valued at around $2.5 trillion, quadrupling to $10 trillion by 2021 and is expected to reach $15 trillion this year.

"If the world gets a little bit more difficult economically, I think that there are some accidents waiting to happen in the private credit world," Moakes said. Some "quite high-profile investors," many of whom had some kind of "systemic importance," will be "quite badly damaged."

In an indication of the speed of events, the world has become significantly more difficult economically since mid-January when he gave the interview.

Aside from his tariff war, Trump's promotion of crypto currencies—he has said he wants to make the US "the bitcoin superpower of the world"—is causing concern in some financial circles, including from among his own supporters.

Last month in an investor note, cited by the FT, the hedge fund Elliott warned that the collapse of crypto could cause "havoc." Elliott was founded in 1977 by Paul Singer, a longtime Republican supporter who donated $56 million to the party's election campaign, including $5 million to the political action committee directly backing Trump.

Elliot criticised the Trump administration for its support for crypto assets that have soared in price but have "no substance," saying the fund had "never seen a market like this."

The speculative surge in markets was not only due to the increase in the size of crypto but also because of its "perceived proximity to the White House."

It said the "inevitable collapse" of the bubble "could wreak havoc in ways we cannot yet anticipate."

The note also questioned why the Trump administration would be promoting crypto, which its backers view as an alternative to the dollar, when the US enjoys "immense advantage" as the world's reserve currency.

As many economic analysts have pointed out, it is only the dollar's status which enables the US government to run up massive debts—now of the order of $36 trillion— in a way not possible for any other country.

How the havoc resulting from the collapse of the speculative bubble will play out it is not possible to precisely predict. Nor it is possible to directly ascertain what may trigger it—a crisis flowing from Trump's tariff war, a series of bad bets in the private equity sector, the collapse of the crypto market or some other, as yet unanticipated, immediate cause. But there is no doubt about the consequences for the working class.

It will bring massive attacks on the social position of workers for which the fascist Trump administration is preparing to meet with dictatorship.

The only way out of the madness of the capitalist crisis—tariff wars, the inevitable logic of which is military conflict, endless enrichment of the ultra-wealthy at the expense of the mass of the population, the slashing of social spending and dictatorship—is the overthrow of the entire profit system and the establishment of a planned socialist economy based on human need.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact