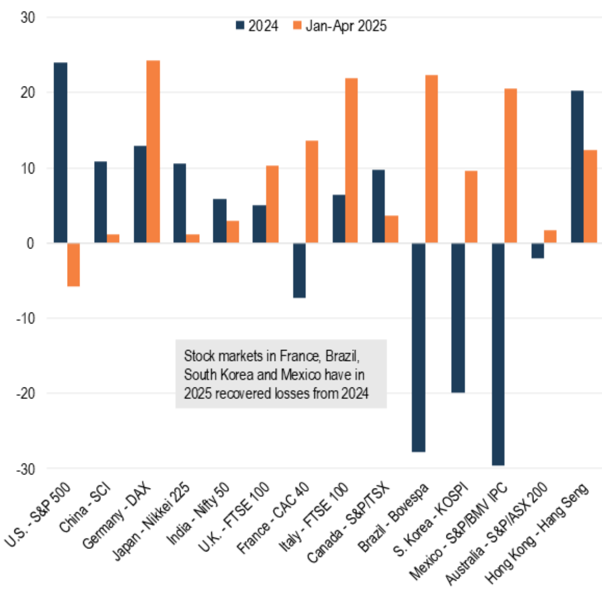
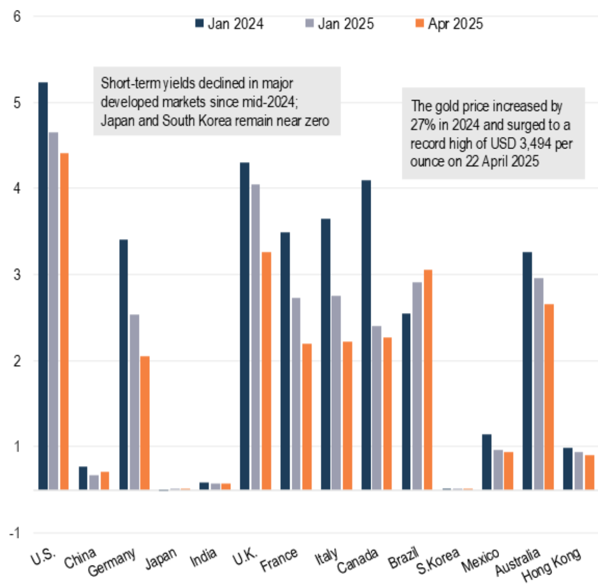
Turbulence in the Stock and Bond Markets Is Impacting Real Economies

Amid trade war threats, U.S. and Chinese stock markets have lagged in 2025, while those in Europe, Brazil, South Korea and Mexico are on the rise. Bond yields are down, and the gold price is up, illustrating how the threat of tariffs and trade wars is impacting real economies.

Stock Indices Returns, Selected Economies, % (2024-April 2025)



1-Year Bond Yields, Selected Economies, % (Jan. & Jun. 2024 vs Jan. & Apr. 2025)



Source: Investing.com, ANDAMAN PARTNERS Analysis. Note: Data as of 30 April 2025. All data U.S. dollar-adjusted.

Of all the major stock markets, the S&P 500 has experienced the sharpest decline in 2025, and as of May 23, the index remains below its 2024 close. Much of the S&P 500's recent losses occurred directly after U.S. President Trump's several announcements on the imposition of tariffs and after China announced retaliatory tariffs. China's Shanghai Composite Index (SCI) has not made any gains either on its 2024 close.

In April, the U.S. and China's spate of tit-for-tat tariff impositions dramatically raised the stakes in an evolving trade war that could ignite a global recession. The threat of a tariff glut injects uncertainty into global trade patterns, which could become more complex, fragmented and regionalised in 2025.

In contrast to the U.S. and Chinese markets, many other markets have performed substantially better in 2025. In Europe, as of May 23, Germany's DAX is up just under 20% and France's CAC 40 is up more than 5%, boosted by attractive valuations and increased defence spending and infrastructure investments.

Brazil, Mexico and South Korea seem to benefit from the trade war between the U.S. and China. As of May 23, Brazil's Bovespa is up by around 14%, boosted by a robust banking sector and the country's strong commodity exports. Mexico's S&P/BMV IPC is up 18% due to the country's status as a nearshoring destination, causing companies relocating manufacturing closer to the U.S. to boost investments in real estate and construction. South Korea's KOSPI is up by over 8%, driven by a significant increase in the country's semiconductor exports.

Bonds and Gold

Amid the market uncertainty, bond yields in the major economies, except Brazil, generally declined from early 2024 to May 2025 as investors sought safety in government bonds. This trend tells a clear story: The growth outlook is deteriorating, investors expect central banks to cut interest rates and market volatility is causing investors to seek out low-risk assets.

Brazil is the one exception to this trend, as the country's central bank still takes a more cautious approach to reining in inflation.

In this context of increasing market volatility and uncertainty, the international price of gold, traditionally considered a safe-haven asset, reached a record high of nearly USD 3,494 per ounce on 22 April. This reinforces the reality that investors are increasingly risk-averse in a global economy marked by elevated risk and uncertainty.

These trends in the stock and bond markets and gold point to an inescapable reality: Tariffs and the threat of trade wars are impacting real economies. Global supply chains are shifting, and the real economy is under pressure from hesitant investors, cautious consumers and fragmented global trade patterns.

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