Market Views: Is this market meltdown signalling a recession?

Heather Ng
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As markets plunge and tariff tensions escalate, the recession question looms larger than ever. Leading strategists weigh in on whether this is the beginning of a downturn or merely market overreaction to policy uncertainty.

The financial landscape has been upended as global markets experience their worst selloff since the 2008 financial crisis.

Monday's trading saw the MSCI Asia Pacific Index plummet nearly 8%, while a key gauge of Chinese stocks in Hong Kong dropped more than 9% after reopening from a holiday.

US markets remain under pressure following last week's staggering $5 trillion global wipeout, with Nasdaq futures slumping more than 4% in early trading.

At the heart of this market meltdown lies President Trump's unwavering commitment to his tariff policy, scheduled to take effect April 9th.

"I don't want anything to go down, but sometimes you have to take medicine to fix something," Trump told reporters Sunday, showing little concern for market reaction.

China's announcement of retaliatory 34% tariffs has only intensified concerns, with speculation growing about potential yuan devaluation as a countermeasure.

Meanwhile, investors appear to be fleeing to safe havens, sending the yen surging and driving the yield on two-year Treasuries to 3.43%, its lowest since 2022.

The severity of the market reaction is leading many to conclude a recessionary outcome is on the horizon for the US economy and also accelerating expectations for Fed rate cuts.

Yet Treasury Secretary Scott Bessent maintains there is "no reason" to price in a recession, dismissing market turmoil as merely "short-term reactions."

AsianInvestor gathered exclusive insights from leading market strategists and economists who offer their perspectives on whether these market twists truly signal an impending recession or represent a temporary adjustment to shifting policy landscapes.

The following responses have been edited for clarity and brevity.

Recommended Order of Expert Commentary:

Luke Bartholomew, deputy chief economist
Aberdeen Investments

The tariffs announced by the Trump administration last week represent a huge shock to the US economy, and mean that the chance of recession is around 50%.

The exact impacts are sensitive to behavioural and financial market responses. But a rule-of-thumb is that every 1 percentage point increase in the US weighted average tariff rate translates into a 0.1 percentage point rise in the price level and knocks 0.05-0.1 percent from GDP.

Luke Bartholomew
Aberdeen Investments

This would suggest the full increase in US could add 2% to the price level and push GDP down by 1-2%, representing a significant stagflationary impulse to the economy.

But these estimates are highly uncertain, in part because they have been estimated in more stable macroeconomic regimes. There is a risk of non-linearities in the economic response as confidence effects lead to a bigger downturn, while unanchored inflation expectations result in much sharper price increases.

Much will depend on where the so-called Trump and Fed 'puts' sit. The administration has so far signalled it is comfortable with market weakness as part of its strategy of short term pain for supposed long term gain. The Trump put still seems well out of the money.

Meanwhile, the market is pricing around 100bps of cuts from the Fed this year to support the economy. However, with inflation expectations moving higher, it may be difficult for the Fed to deliver this degree of easing unless the economy tips into an outright recession.

Mahmood Pradhan, head of global macro
Amundi Investment Institute

The US economy is slowing faster than markets had expected only 3 months ago, and primarily because of extreme policy uncertainty. The impending tariffs are likely to be set much higher than expected, and especially on the US's larger trading partners.

Pradhan Moyenne
Amundi Investment Institute

All indicators of uncertainty are elevated and consumer sentiment appears to have taken a nose dive, together with heightened fears of higher unemployment. Tariffs will undoubtedly increase inflation in the short term, but we believe their medium term impact will be more adverse for growth. Tariffs are a bigger concern for growth than inflation

While fears of a US recession are increasing in the markets, we do not see a recession materializing this year. Fiscal policy is still strongly accommodative, the Fed will continue cutting rates later this year and oil prices remain subdued. And household and corporate balance sheets are not overly stretched. In short the typical triggers of a recession are missing. But we would expect to see a material slowdown this year, to less than potential growth (about 2 percent), with inflation ending the year closer to 3 percent. The main risk to our forecasts stem from continuing policy uncertainty.

Idanna Appio, Portfolio manager and senior research analyst
First Eagle Investments

Risks of a recession are increasing in the United States though it is not yet my base case. At First Eagle Investments, we believe our crystal ball is foggy at best and prefer to invest with a “margin of safety” to cope with an uncertain future.

Idanna Appio
First Eagle Investments

This year, however, US policy uncertainty is exceptionally high, especially on the trade front. For instance, announced and threatened tariffs would bring effective rates back to levels last seen in the 1930s.Tariffs are likely to weigh on growth and boost inflation, but the extent will depend on tariffs' magnitude and duration, as well as potential retaliation from trading partners—all factors that remain unknown.

Policy uncertainty is already hurting consumer and business sentiment and thus the US economy is likely to slow substantially from its solid, above potential pace. Inflation is likely to remain sticky above the Federal Reserve's 2% inflation target, which could delay Fed rate cuts until evidence of the US economy slowing surfaces. US fiscal policy also faces unknowns with the 2017 tax cuts expiring at the end of this year.

Our expectation is for only modest changes to fiscal policy—keeping fiscal deficits large—but with little impulse to the economy. That said, the noise surrounding fiscal policy is likely to increase as Congress addresses the debt ceiling and tax policy this summer.

David Chao, Global market strategist
Invesco

David Chao
Invesco

Gone are the days when investors cheered Trump 2.0 in expectation that corporate tax cuts, deregulation and a reignition of animal spirits would lead to exceptional US growth.

Instead, the new administration is proving much more willing to enact steep tariffs and government spending cuts with potentially disruptive effects.

Market fears over recession have risen accordingly, with University of Michigan data showing households expecting the worst of both worlds: higher inflation coupled with lower growth.

Asian markets plunged today as investors reacted to Trump's tariff announcements, with selloffs intensifying after weekend comments that reciprocal tariffs would remain until bilateral trade deficits are eliminated.

This stance created significant uncertainty, especially since even countries with US trade surpluses received baseline 10% tariffs. The HSI and TAIEX experienced near 10% declines, while TOPIX dropped over 7%, with Asian markets suffering disproportionately due to their export-oriented economies.

Even though US GDP could turn negative in Q1 due to stronger imports as retailers front-run new tariffs, I still forecast the economy to narrowly escape recession. Growth in Q2 is likely to normalise after some tariff uncertainties dissipate. Employment data and business surveys suggest underlying growth fundamentals aren't severely compromised. The wild card remains domestic consumption, which has been soft—concerning since consumption fuels 70% of the US economy.

Despite current volatility, Asian markets offer attractive valuations and stronger relative growth prospects. Asian policymakers will likely increase fiscal and monetary stimulus to shield local economies.

However, the longer economic policy uncertainty remains elevated, the higher the downside risk to growth globally, with growing concerns that US tariffs could backfire and potentially lead to stagflationary conditions.

Charlotte Daughtery, Equity investment specialist Federated Hermes

The recent sell-off in the US stock market has led to increasing worries of a US recession but, the US stock market is not the US economy. The S&P 500 entering correction territory has not changed this. Whilst the current bout of volatility is unnerving, it is common for intra-year declines to be reversed by the end of the year.

Since the inception of the Russell 2500 Index (which contains US small and mid-cap companies) in 2004, we have experience average intra-year drops of 17.8% (median 13.0%). But importantly, annual returns have been positive over 15 of the last 21 years.

Charlotte Daughtery
Federated Hermes

Whilst we have seen a softening of economic data, the US economy doesn't appear to be nearing an imminent recession. The uncertainty created by the flurry of executive orders; policy announcements and ever-changing tariffs (and responses) has led to a cooling of business and consumer confidence. However, both household and corporate balance sheets remain relatively healthy, and the consumer is experiencing real wage growth.

Unemployment remains low at 4.1% and February was the 50th consecutive month of jobs added. Manufacturing and services PMIs are above 50 and therefore in expansionary mode, and with inflation moving in the right direction it provides flexibility to the Federal Reserve. We believe that the short-term behaviour of the market will settle over the course of the coming weeks as a clearer understanding of the policy backdrop materialises

Whilst causing a lot of uncertainty, and therefore market volatility, tariffs are likely to be short-lived, allowing Trump to win concessions given that the balance of power lies within the US. The new administration's pro-economy and pro-growth agenda will be supportive to US companies and in particular US small and mid-cap stocks who are the economic backbone of the US. Revenues of small and mid-cap companies are more domestically focused than their large cap peer (70-80% versus 50%).

We remain constructive on the outlook for the US and in particular, US small and mid-cap companies. Valuations for small and mid-cap companies are attractive; trading below their 10-year average and at a 30% discount to large caps. The administration's policies are net supportive for US small and mid-cap companies and our portfolio is positioned to benefit from a number of these.

The largest overweights in our US SMID portfolio are in Industrials and Materials due to the supportive tailwinds from the America First policy. Notwithstanding this current short-term volatility, we remain confident in the underlying domestic economy and of our companies' ability to generate exciting earnings growth over the next several quarters. In uncertain times, having a portfolio of cash generative companies with strong balance sheets seems to us like a good way to be positioned.

Steve Alain Lawrence, CIO
Balfour Capital Group

Steve Alain Lawrence
Balfour Capital Group

Forget the noise. Despite headlines of geopolitical tension, rate debates, and tech decoupling, the U.S. economy isn't just holding—it's poised for a breakout. The structural foundation remains intact as capital rotates into the next supercycle.

The economy is experiencing a soft landing with strategic momentum. GDP growth is projected to cool slightly to 1.8% in 2025, while inflation continues moderating with Core PCE at 2.6% YoY. The Fed has shifted from hawkish to data-dependent, with markets anticipating 1-2 rate cuts by Q4.

Labor markets remain resilient, with February nonfarm payrolls at +275K. Unemployment is forecast to rise modestly to 4.4%—a manageable uptick, not a crisis signal. Real wage growth remains positive, supporting consumption even in a higher-for-longer rate environment.

Capital continues flowing to America. Q1 2025 saw $149B in net foreign Treasury inflows, while the Dollar Index remains strong above 104. Private equity dry powder has reached $2.59T, with major players deploying aggressively in U.S. infrastructure, defense, and real estate.

The next supercycle is already underway. Nvidia posted +126% YoY revenue growth in 2024. Supermicro returned over 800% in the last year while trading at just 15x forward earnings. Defense contractors like Lockheed Martin and Northrop Grumman benefit from increased defense budgets, while energy companies like Schlumberger confirm that real energy demand persists.

Geopolitical tension is driving rotation, not risk-off behavior. TSMC's $65 billion investment in Arizona shows supply chains are diversifying rather than collapsing. The market isn't breaking—it's rebuilding the launchpad for the next growth phase driven by AI, energy realism, and defense industrialization.

Smart money isn't waiting for confirmation—they're buying now. Ignore the noise and follow the structure. We go higher.

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Heather Ng
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