

MACROCOSM

The China Not-Reset

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Donald Luskin

Don't let the grandiose be the enemy of the good. Stocks are now up year-to-date.



We made a commitment to give ourselves a real three day's vacation at [Blackberry Farm](#), and meet the newborn [Lagotto Romagnolo](#) puppy we've waited seven years for. Little did we know that on Sunday the US and China would announce a [trade-war cease-fire](#) and equity markets would jump for joy. We relied on the belief that you, our smart clients who have been following our research on all this, would know that this pulling back from the brink of mutual assured destruction has been in process ever since the bottom for US stocks on April 7 (see ["Video: What you're not hearing about how tariffs are taxes – and big new tariffs are big tax hikes"](#) April 8, 2025), and further *incremental moves away from insanity were pretty much to be expected.* (see, among others, ["On the April Jobs Report, and Liberation from 'Liberation Day'"](#) May 2, 2025).

- But this is nevertheless a landmark. As of yesterday's close, the S&P 500 is now up year-to-date – by a mere 0.1%, but nevertheless up – and up 4.5% without the Magnificent Seven – despite a seemingly world-historical trade crisis.
- *The resilience of the S&P 493 has been a comfort to us throughout this crisis. It was the tell that much of the volatility we've experienced this year was a speculative correction in just 7 stocks. The mass of equities was really never all that worried.*

That said, let's not exaggerate what Sunday's trade news meant. It was a welcome braking action, slowing down a runaway train speeding toward what [Treasury Secretary Scott Bessent admits](#) is a "strategic decoupling" of the US and China. It looked like it was going to get compressed into a few traumatic months. We ought to ease into such a far-reaching enterprise over a decade (assuming we really should be doing it at all). The idea that we were going to in-source strategic industries as rapidly as 145% tariffs were going to stop our out-sourcing them from China has always been logistically unfeasible and economically disastrous.

- The weekend's cease-fire was *not* the ["total reset"](#) that President Donald J. Trump claimed. *All that happened is the US and China have both retracted the worst of their tit-for-tat mutual tariff-hikes*

Update to strategic view

US MACRO, US STOCKS: Sunday's cease-fire in the US/China trade war was hardly the "total reset" Trump advertised, but neither was it a capitulation to China. It was merely a mutual-climb down from the tit-for-tat escalation of tariff retaliation that followed "Liberation Day." That's enough to drive US stocks to a marginal year-to-date game, but an appreciable one excluding the Magnificent Seven. Chinese tariffs are nevertheless 10% higher than before that day, and US tariffs are 30% higher, without even considering sectoral tariffs. If the "winner" is the one who raised tariffs the most, then the US won. But tariffs are taxes, and if the winner is the one who raised taxes the least, then China won. Building on the mere "framework" for a possible future trade deal with the UK, this sets the template for Trump claiming great victories and standing down from the worst tariff excesses, even when only very modest trade liberalization from other nations is actually achieved. But any little bit helps, and it allows the US to pull back from the most self-destructive tariff levels.

made in the immediate aftermath of “Liberation Day” in early April (see [“Are We Feeling Liberated Yet?”](#) April 2, 2025).

- For both nations, all the *legacy* tariffs before “Liberation Day” are still there. New tariffs added this year by China have been cut to 10%. This year’s 20% “fentanyl tariff” added by the US remains, as does this year’s “10% baseline tariff” and this year’s various 25% sectoral tariffs.
- *So if winning in the weekend’s negotiations means you get to walk away from the table with more new tariffs than the other guy, then the US was clearly the winner.* In this dimension, China backed down far further than the US did, so it’s the loser – putting the lie to the many nonsensical oppositional headlines like Bloomberg’s [“Xi Defiance Pays Off as Trump Meets Most China Trade Demands.”](#)
- But... *tariffs are taxes, and having more of them makes you a loser.* By deferring new tariffs, you are deferring taxes, which means you are cutting taxes – and *China deferred more tariffs than the US. So in this sense, we would judge China the winner.*
- As we keep saying about tariffs, “wait and see” (see [“Predictions for 2025: Tariffs”](#) January 3, 2025). Who knows what will eventually come from further trade talks with China – or with the UK, for that matter, as [last weeks “framework” for a trade deal](#) gets fleshed out. We said two weeks ago that these and other *trade deals would end up yielding small results, but would allow Trump to claim great victories* (the China pause is called [an “historic trade win”](#) and the UK framework for future negotiations is an [“historic trade deal”](#)) *and pull back from the worst tariff rates* (again, see [“On the April Jobs Report, and Liberation from ‘Liberation Day’”](#)). *That’s not a bad outcome, if it relegates new US tariffs to modest levels that are only a minor annoyance, and improves the terms of trade for US exports at least a little bit.* Don’t let Trump’s grandiose ambitions be the enemy of the good. *He won’t.*

Bottom line

Sunday’s cease-fire in the US/China trade war was hardly the “total reset” Trump advertised, but neither was it a capitulation to China. It was merely a mutual-climb down from the tit-for-tat escalation of tariff retaliation that followed “Liberation Day.” That’s enough to drive US stocks to a marginal year-to-date gain, but an appreciable one excluding the Magnificent Seven. Chinese tariffs are nevertheless 10% higher than before that day, and US tariffs are 30% higher, without even considering sectoral tariffs. If the “winner” is the one who raised tariffs the most, then the US won. But tariffs are taxes, and if the winner is the one who raised taxes the least, then China won. Building on the mere “framework” for a possible future trade deal with the UK, this sets the template for Trump claiming great victories and standing down from the worst tariff excesses, even when only very modest trade liberalization from other nations is actually achieved. But any little bit helps, and it allows the US to pull back from the most self-destructive tariff levels. ▶

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625

tdemas@trendmacro.com
Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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