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Liberation Day becomes Liquidation Day

President Donald Trump's "Liberation Day" quickly transformed into what traders are calling "Liquidation Day" as US equities markets suffered consecutive meltdowns.

This represents the biggest two-day decline since the pandemic crash of March 2020. The sell-off began Thursday in the wake of Trump's announcement of sweeping reciprocal tariffs. Markets extended their historic losses on Friday after China retaliated with fresh duties on US goods, stoking fears that an escalating trade war could trigger a global recession.

Markets in free fall as trade war escalates

Trump's Liberation Day tariffs combined with subsequent tit-for-tat is the worst scenario investors had feared.

Wharton's Jeremy Seigel calls Trump's tariffs the "biggest policy mistake in 95 years."

The benchmark S&P 500 index dropped by 10.5 percent in two days, while the Dow Jones sank more than 3,900 points. The sell-off wiped out $5 trillion of market capitalization on the S&P.

The tech-heavy Nasdaq Composite fared even worse, plunging by 11.4 percent as semiconductor stocks and multinational tech firms with significant exposure to global supply chains bore the brunt of the sell-off.

What was intended as economic liberation has transformed into market liquidation as the magnitude and broad application of tariffs rippled through global markets.

Friends and foes alike

Trump's executive order has sent shockwaves worldwide as it imposes tariffs on all trading partners, friends and foes alike. The measure establishes a 10 percent baseline duty on all imports while targeting key economies with higher rates: China faces the steepest at 54 percent (including existing tariffs), followed by Vietnam at 46 percent, Taiwan at 32 percent and India at 26 percent.

Even long-standing allies aren't spared with South Korea and Japan hit by 25 percent and 24 percent duties, respectively while the European Union faces a 20 percent tariff.

The Philippines faces a 17 percent rate, the second lowest in Asia after Singapore's baseline 10 percent.

Nations rush to retaliate

Retaliation has been swift and decisive with China immediately matching the 34 percent increase and restricting exports of critical rare earth minerals.

Europe is preparing countermeasures with France and Germany pushing for a stronger response, including targeting US tech and services. Meanwhile, Japan and South Korea weigh responses while seeking dialogue.

Mag7 issue, not MAGA problem

US Treasury Secretary Scott Bessent downplayed concerns during an April 2 interview, characterizing the sell-off as “a Magnificent Seven issue, not a MAGA problem.”

He attributed the current market decline to the US tech sell-off rather than US policies. “If you look back, the stock market actually peaked on the DeepSeek Chinese AI announcement,” Bessent said.

The Magnificent Seven tech giants have plummeted an average of 15.1 percent since Trump’s election. Nvidia has been hardest hit, dropping by 32.6 percent while Apple and Amazon tumbled by 15.7 percent and 14.3 percent, respectively.

From their peaks, these Megacaps have now lost an average of 32.7 percent of their value.

US markets: The biggest losers in ‘America First’

In an ironic twist to the “America First” agenda, US markets have emerged as the biggest losers since Trump’s Nov. 5 election victory. The Nasdaq Composite has slumped by 15.5 percent, the S&P 500 has fallen by 6.7 percent and the Russell 2000 has collapsed by 19.5 percent since Trump’s win.

Both the Russell and the Nasdaq are now in bear market territory, falling by more than 20 percent from their respective peaks. Meanwhile, the S&P 500 and Dow are deep into correction territory.

In contrast, markets in countries targeted by Trump’s tariffs have shown resilience. The Hang Seng Tech index, whose top holdings include Chinese AI plays like Alibaba, Tencent and Xiaomi, is up by 13 percent since Trump’s election.

Germany’s DAX has jumped by 7.2 percent Hong Kong’s Hang Seng has risen by 8.8 percent and Mexico’s IPC has advanced by 2.1 percent. Even China’s CSI 300 and Canada’s TSX have contained their losses to just 4.5 percent and 4.9 percent, respectively.

Economic indicators flash red

Recession indicators are sounding alarms across markets as WTI crude plunged to near four-year lows while Treasury yields tumbled on flight-to-safety trades. JPMorgan has sharply raised its recession probability to 60 percent for both the US and global economies, as analysts scramble to revise forecasts.

The simultaneous oil crash and bond rally reflect growing conviction of a looming recession and that the Federal Reserve may need to cut rates aggressively to counter mounting trade war damage.

Markets search for strategic endgame

From DeepSeek AI's 'Sputnik Moment' to the momentous drop in US markets, investors are questioning the notion of US exceptionalism (see US exceptionalism falters as markets tumble, March 17, 2025). Beneath the chaos, market participants seek coherence and logic in Trump's aggressive tariff gambit.

Is Trump's tariff offensive a strategy to finally solve America's massive fiscal and trade deficits, ultimately making America great again?

Will this short-term market pain deliver Trump's promised economic realignment? Or will it trigger the next global recession?