

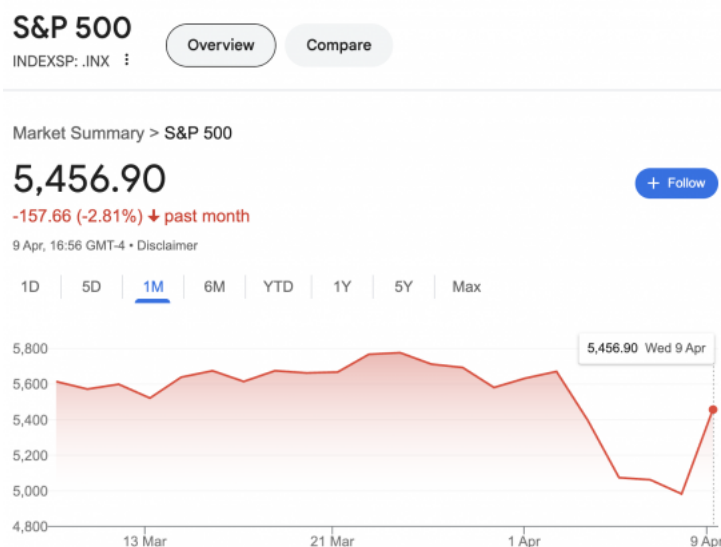
Why are markets so stupid?

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Donald Trump announced yet another massive increase in China yesterday, and at the same time reduced the tariffs on every other country in the world to his ten per cent default rate, which is exactly the rate that the UK was already on, proving that nothing that Keir Starmer and Rachel Reeves had tried to negotiate achieve anything at all.

The consequence of this cut was that a week after Donald Trump had announced what he called Liberation Day, he backtracked massively on his demand that every country with a trade deficit with the USA supposedly pay massive tax liabilities in the USA. Ignore the fact that they were never going to do so. For the purposes of his domestic market political agenda, where he had claimed these tariffs would make America rich again, he has had to abandon that claim, at least for the time being.

But the consequence was that the US stock markets, which were still open at the time that the announcement was made, rose by approximately 9%, although they did not recover all the losses that Trump inflicted upon them despite doing so.



I cannot help but stand back and think about how lacking in foresight these markets

are.

Do they really think that Trump's economic warfare is over?

Do they actually think that the 90-day call is as he describes it when he appears incapable of holding any position for very long?

Have they not noticed [that the bond markets](#) were sending out the message that the US government was not to be trusted?

Alternatively, have they not noticed that those markets were emitting signals that higher interest rates are expected because of the inflation?

And have they not noticed that even if Trump scales back on tariffs, it is clear that he intends to undertake a trade war on the basis of regulation, taxation (and European VAT in particular), labour rights and market access issues? All of these could be at least as destructive as anything tariffs could create.

There is also the battle that looks as though it is looming between the US Federal Reserve and Trump to consider.

All these factors should have complicated and reduced market euphoria last night. It appears that they did not. For anyone who claims that markets are efficient and take all factors into account when pricing because they are possessed of a large amount of information about future actions, all of which they can accurately price, yesterday was the clearest indication that such an idea is complete and utter nonsense. Markets did no such thing. They took one piece of information and reacted to it without ever seeking to contextualise what might be happening.

The trouble is, there are real-world consequences of their stupidity, whichever way markets move, and this stupidity is a long way from being over as yet.