
MARKETS CONTINUE TO DISCOUNT TRUMP TARIFFS DESPITE LACK OF RESOLUTION

Quick comments:

- ❖ **Trump escalating trade war after only 3 deals struck** during the 90 day pause: Brazil threatened with 50% a 5-fold increase from 10% (2-Apr-25), Copper @ 50%, Philippines (a US ally) 20% v 17%. Japan & Vietnam's 25% and countries within BRICS realm will be levied with additional 10% tariffs. *Trump using tariffs as a multi prong weapon to target not just countries with trade surpluses with US but also proactively interfering in domestic politics (prosecution of former Trump-friendly president Bolsonaro).*
- ❖ **EU impasse:** Notably missing are tariffs for the EU which were set at 20% on 2-Apr. The EU is threatening retaliatory tariffs on US goods if Trump sticks to a double-digit baseline tariff on EU goods as the EU has already been hit hard by Trump's other tariffs viz 50% on steel + aluminium and 25% on cars.
- ❖ **Trade War with China continues:** Trump's earlier more favourable tariff deal struck with Vietnam of 25% (vs 46% on Apr 2) showed there are potential benefits for countries that negotiate with the US. However, the deal included a 40% tariff on Chinese goods trans-shipped through Vietnam to the US. This coupled with the 1-Aug tariffs of 35%+ on other SE Asian countries show that Trump is trying to shut down China's export engine¹.
- ❖ **Global markets seems OVERLY optimistic** on potential TACO tariffs come dateline (extended to 1-Aug-25). **We remain sellers into this rally.**
- ❖ **Strong June-25 jobs report helped S&P rallied to new highs**, which implies US Fed less likely to act on rate cuts in their upcoming meeting (Sept next benchmark).

George KOH

gk@ssre.ai

Research Analyst

Paul SCHYMYCK

pws@ssre.ai

Economist

¹ China was already not in a good spot in 2025 and deflation is a growing problem. Consumer prices have been falling this year. Producer prices have been on the decline for 3 years. This puts China in a conundrum. With households cash strapped by falling property prices and rising unemployment, what is China going to do with all the manufactured goods such as EVs that it makes if it can't export to the largest economy in the world anymore? There's a limit to how much of the goods originally bound for the US China can dump on other countries. Deflation is set to continue.

6Σ column

What we think

We believe upcoming 2Q25 results can only reflect more corporate caution given the uncertain geo-economic outlook and potentially escalating Ukraine war.

High risk of China forestalling the new trade agreement on resuming Rare Earth trading while US tries to roll back restrictive Chinese related trade conditions².

²Three chip-design software developers, California-based Synopsys, Cadence Design and Germany's Siemens, said Thursday (3-July-25) that they had been told by the U.S. Department of Commerce's Bureau of Industry and Security that recent curbs on China-bound exports of chip-design products had been lifted.

High risk of more growth forecasts being cut: Trump's Liberation Day 2.0 on Jul 9 turned about to be another of the President's TACO trades. Trump has now set a new Aug 1 deadline for tariffs to give countries more time to negotiate. However, he did announce tariffs for 14 mostly Asian countries viz 25% for Japan, Korea and Malaysia and a high of 40% for Laos and Myanmar which come into effect Aug 1. These were in line with those announced on Apr 2 and are well north of the current baseline of 10%. This doesn't augur well for tariffs for the remaining 70+ countries as it indicates a final baseline tariff of circa 30%.

Trade / Investment ideas

Airbus (EUR 183.9) with 32% (Helicopters, Defence & Space 1Q25 revenue) seems well placed to benefit from recent upgrade in EU defence spending while its commercial aircraft book has 10.4years backlog.

Impetus for **Intel (\$23.65)** to divest its "core" Foundry before it becomes obsolete by end of Trump's term. Despite current Intel CEO TAN Lip-Bu (*former CEO & Chariman of Cadence Design 2008-2023*) best efforts to revive Intel's flagging fortunes, its Foundry business will continue to handicap its CPU & GPU chip competitiveness given its limitations (10nm vs competitors' 3nm) while betting on Quantum Computing seems like a longshot as an effort to catch-up with **Nvidia** (**Intrinsic Value \$223: Once-in-a-Lifetime | Generational Opportunity**³ 20-Jun-25)

Deferred rate cuts to offset USD weakness: US Fed Chair Powell did put a rate cut in July on the table a week ago only for the strong June jobs data to eliminate any possibility that US rates will be cut this month. Powell warned that tariffs are preventing the Fed from cutting rates. We are now looking for a rate cut no earlier than September.

In the meantime, Trump will continue to undermine Powell and may announce a replacement ahead of Powell leaving in 2026. Candidates are already lining up including Fed doves like Waller, and with Treasury Sec Bessent also expressing an interest. Trump is likely to appoint a 'Yes Man' as Powell's replacement, putting Trump in charge of monetary policy from next year.

(3) *Nvidia: Once-in-a-Lifetime | Generational Opportunity 20-Jun-25: available upon request*

6Σ column

What we think

US Fiscal passage

Trump's recently enacted OBB-Bill which is expected to add \$3 trn to the US's already high debt of \$37 trn now puts the US on an unsustainable path and clears the way for more rating downgrades. US interest rates are unlikely to ever go back to the levels seen post the 2008 GFC or anywhere near the 1% that Trump wants and they may even go higher if the tariffs push up US inflation enough.



Source: usafacts.org

Trade / Investment ideas

Palantir (\$143.75) is likely a huge beneficiary of the new Defence spending bill given its high utility AI business model tailored for US DOD, CIA, Homeland Security and FAA.

Headline spending at **\$877bn** Defence budget [13% of \$6.8trn budget spending] or -12% yoy contraction [vs \$997bn Fy2024].

As Palantir has also been deployed in areas of Immigration and Border⁴ (**\$25.9 bn**) and Crime and Disaster⁴ (**\$32 bn**), the expected Budget TAM adjusts to \$934.9bn or only -6.2% yoy contraction.

Current consensus valuations may seem expensive with FY25F PE 235x and PEG of 4x (consensus +58% EPS FY25F).

However, with increasing AI rollout across industries, 6Σ believe Palantir is well placed to benefit from larger government contracts in defence, increased deployment for disasters, crime and border protection and aviation infrastructure overhaul⁵. An expected increase in market shares of 50-100% in these government segments will reduce PEG to circa 1 to 1.35x.

(4) **GEO Group (\$26.30)** with circa 25% market share in private prison industry is a key beneficiary.

(5) Source: Department of Transportation- under President Biden's Bipartisan Infrastructure Law's AIG program, part of the \$25 billion in total funding for airport improvements such as terminal expansions, baggage system upgrades, runway safety enhancements, and air traffic infrastructure improvements