TARIFF INDUCED CONFLICTS | CONTAGION

Tariff trade war uncertainty reinforced by Trump's potential "subsidies for Inland Tax Revenues". Substantial downside market risk remains

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Increasing risk of global conflicts [fig 3 & 4] (Arctic, Latin America, Eastern Europe) & Tactical Nuclear deployment. Scale of market correction [fig 2 highlights] reinforce SELL INTO RALLY

Singapore's general election (GE25 3-May), risk of PM WONG becoming 1-term Prime Minister if he loses more than 1 GRC[a]

6Σ AI Research (SSRE) recommends defence plays in Airbus, Palantir

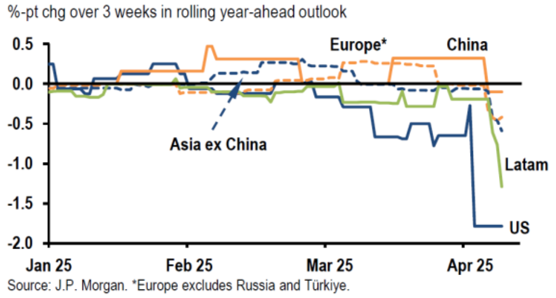
a: Group Representation Constituency (GRC) a type of electoral division or constituency in Singapore whereby voting district decides on collective Group of 4-5 candidates instead of Single candidate in Single Member Constituencies (SMC). The implied leverage within the voting system allows ruling party outsize control of Parliamentary seats (80%) despite consistently registering circa 60+% of votes (source: Wikipedia.org).

Feedback from SELL INTO RALLY

- Majority agreed economic outlook (US & Global) has deteriorated significantly, but not yet in recession given fluidity of Tariff situation.
- Bear market rally (fig 2) as risks to remain elevated (& likely to worsen) going into 2H25 as markets pricing 60% Fed cut in May and 5 (up from 2) Fed cuts to come in FY25

- Consensus trying to catchup on adjusting forecasts, strategies and valuations (see chart on right by JPM). Risks of more downward revisions should Tariff escalation continues.

JPM GDP forecasts revision index



Source: J.P. Morgan. *Europe excludes Russia and Türkiye.

- Platonic shift in global trade to benefit China (although unlikely in near term to offset US tariff impact). Similar to Covid supply chain disruption, reshoring could take many quarters/years.
- Pushback on UST hitting 7% as it ignores US Fed's (QE) Put option (strike circa 6%). Our assumption is premise on proliferation of global conflicts, Trump's inability to stop Ukraine war, potential China Bretton Woods.
- Pushback on Palantir's high valuations & overcrowded AI trade

- Pushback on small caps play (lower beta vs large caps during market volatility) TKO (consumer discretionary) & SCI not on investors' radar

Macro comments

- Two months into Trump's presidency and the US economy is in a precarious position. While the labour market is still showing strength, the economy is facing a stagflationary shock from the US trade war.

- The Fed's Jerome Powell has said tariffs might be bad for the US economy - leading to weaker growth, higher unemployment (fig 6) and faster inflation.

- Consumer confidence has already collapsed (Univ of Michigan consumer survey). Short-term inflation expectations in the US have also de-anchored. The Atlanta sees the economy contracting -2.2% in 1Q.

- Trump might have u-turned on reciprocal tariffs for now but he has imposed a 10% tariff on most imports, with more on cars and steel, and US tariffs are at their highest level since the 1930s (fig 3).

- The last time the US experienced stagflation in the 1970s the Fed prioritized fighting inflation. We expect the Fed to stick to the same playbook. Cutting rates also doesn't do much to ease supply chains.

- In contrast, ECB has cut rates for a 7th time by 25 bps. Lagarde cited deteriorating growth outlook due to trade tensions. And the market is pricing in 3 further 25 bps rate cuts. However, ECB is at opposite end of spectrum to the Fed as inflation in the Eurozone is on a sustainable path to 2%.

- Trump has said trade talks with Japan and Italy have been productive. However, it is unlikely trade negotiations between the US and Rest of World will be solved in 90 days.

- Meanwhile, China is matching the US on retaliatory tariffs. 145% tariffs on most US imports from China and 125% tariffs on Chinese imports from the US mean trade volumes are going to collapse (fig 5 US China's imports).

- ❖ The US is still studying tariffs on chips, pharmaceuticals, copper and lumber (fig 5). The smartphone exemption is also temporary. That's a lot of tariffs in the pipeline for the markets to digest.

- ❖ The $ plunged in April despite higher bond yields. Investors are concerned over whether the tariffs and Trump's erratic economic policies are eroding credibility in the US, and question can the $ remain the world's reserve currency? The US is becoming more like an emerging market.

- ❖ Fed independence (the ability of the Fed to conduct monetary policy independent of political interference) and Powell's position are in doubt. Trump has said Powell's "termination can't come fast enough".

- ❖ Overseas investors hold 30% of US treasuries and 20% of US equities. If Trump fires Powell it would trigger a selloff in US assets.

- ❖ The €, which is at a 3 year high against the $, is seen as the leading candidate to replace the $ if the $ loses its status. Gold, SFR and ¥ are all also likely to continue to go higher.

<u>Our watch list (upcoming 1Q25 results)</u>

i. Quanta Services (1-May): dominant US infrastructure contractor whose supply chain is expected to be hit by tariffs on imported heavy machinery & supplies.
ii. Airbus (30-Apr), 60% civil 40% defense portfolio, beneficiary of China's Boeing cancellation. China projected demand of 8,560 new commercial aircraft through 2042 *(source: Boeing IR 19-Sep-23)*

Figure 1: Defence related equities

Equities	Mkt Cap US bn	Last Price $
Palantir Technologies (PLTR:NYSE) $^{\alpha}$	230	98.40
Airbus (AIR:FP) $^{\alpha}$	EUR 112	EUR 140.94

Entry & Exit Strategies / Valuation$^{\alpha}$ only available for clients
Source: 6Σ Research, CNBC

Figure 2: US market correction above 10% vs other markets

Start	End	SPX Return	MXAPJ ($) Return	MSCI Japan Return	HSI Return	SXXP Return	FTSE 100 Return
02-Jan-90	30-Jan-90	-10%	-2%	-5%	-3%	-3%	-5%
16-Jul-90	11-Oct-90	-20%	-26%	-29%	-17%	-20%	-13%
07-Oct-97	27-Oct-97	-11%	-17%	-5%	-29%	-7%	-9%
17-Jul-98	31-Aug-98	-19%	-21%	-14%	-16%	-17%	-15%
16-Jul-99	15-Oct-99	-12%	-6%	-4%	-9%	-7%	-10%
24-Mar-00	09-Oct-02	-49%	-49%	-46%	-50%	-53%	-44%
27-Nov-02	11-Mar-03	-15%	-13%	-13%	-11%	-24%	-17%
09-Oct-07	09-Mar-09	-57%	-62%	-59%	-60%	-59%	-46%
23-Apr-10	02-Jul-10	-16%	-9%	-15%	-6%	-11%	-15%
29-Apr-11	03-Oct-11	-19%	-27%	-14%	-29%	-21%	-16%
21-May-15	25-Aug-15	-12%	-23%	-14%	-22%	-13%	-13%
03-Nov-15	11-Feb-16	-13%	-15%	-18%	-18%	-20%	-13%
26-Jan-18	08-Feb-18	-10%	-8%	-6%	-8%	-7%	-6%
20-Sep-18	24-Dec-18	-20%	-9%	-16%	-7%	-12%	-9%
19-Feb-20	18-Mar-20	-29%	-24%	-24%	-19%	-36%	-32%
03-Jan-22	12-Oct-22	-25%	-31%	-8%	-28%	-21%	-8%
31-Jul-23	27-Oct-23	-10%	-12%	-3%	-13%	-9%	-5%
19-Feb-25	04-Apr-25	-17%	-4%	-11%	0%	-10%	-8%
Average		**-20%**	**-20%**	**-17%**	**-19%**	**-19%**	**-16%**
Median		**-17%**	**-16%**	**-14%**	**-17%**	**-15%**	**-13%**

Source: Goldman Sachs Global Investment Research

Referring to figure 2, assuming current Tariff induced market contagion to persist, current market correction still short of comparative to Internet Bubble (2000-02), GFC (2007-2009) and Covid (2020-2022).

Figure 3 shows the average US Tariff Rates, enacted pre-World War 1 & 2 vs current Trump tariffs from 10% to 145%.

Figure 3: US Tariff Rates & Global Conflicts

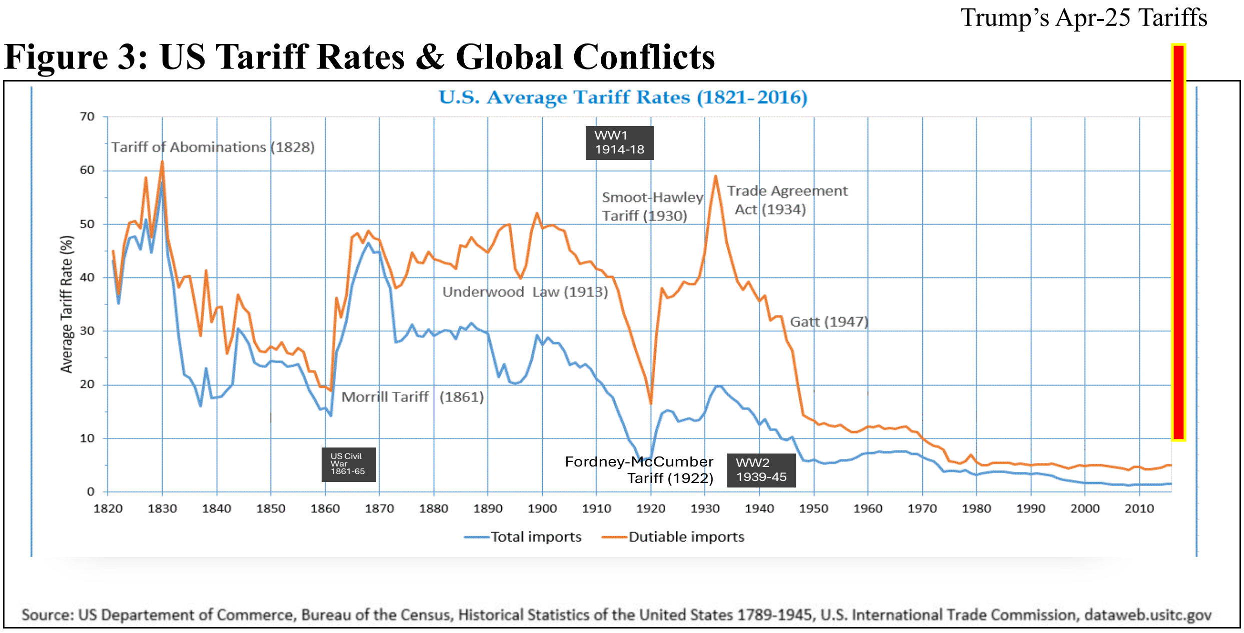


Figure 4: US market correction during conflicts

	Start	End	Duration (mths)	% correction	Time to recover
US Civil War	Oct-1860	Jul-1861	9	-32	15
Apr-1861 to May-1865	Apr-1864	Apr-1865	12	-26	48
WW 1	Dec-09	Dec-14	60	-29	121
Jul-1914 to Nov-18	Nov-16	Dec-17	13	-33	85
Great Depression 29-39	Sept-29	Jun-32	33	-85	266
WW2 Sep-39 to Sep-45	Mar-37	Apr-42	62	-59	49
	May-46	Mar-48	21	-28	27

Source: Goldman Sachs Global Investment Research, 6Σ Research

Trump's inability to close the Ukraine-war deal with Russia undermines his administration's abilities in reversing/negotiating Tariff levies in our view. Reiterate our SELL INTO RALLY stance.

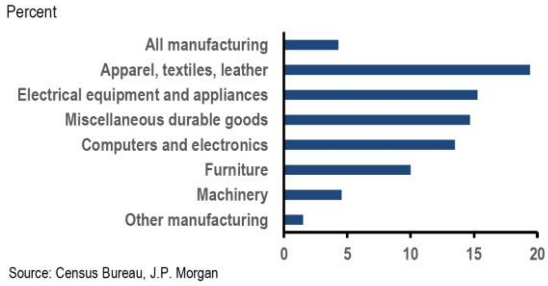
Figure 5: Historical Tariffs background vs Trump's 2025

<table>
<tr><th>Selected background on US Tariffs (circa WW2) – Europe was US largest trade partner</th><th>Trump's 2025 tariffs (China* is currently largest US Trading partner)</th></tr>
<tr><td>The Fordney–McCumber Tariff of 1922 raised American tariff on many imported goods to protect factories and farms.</td><td>2-Apr-25 Tariff levies on all US trading partners; 10%-54% (later increased to 145% on China)</td></tr>
<tr><td>Smoot-Hawley act raised tariffs on over 20,000 imported goods. Dutiable tariff rate peak of 1932 was 59.1%</td><td>Across the board except Semicon chips, Pharmaceuticals, Cooper, Lumber. However, these are likely to be hit after 90 days pause.</td></tr>
<tr><td>

- U.S. imports decreased 66% from $4.4 billion (1929) to $1.5 billion (1933).
- Exports decreased 61% from $5.4 billion to $2.1 billion.
- US gross national product fell from $103.1 billion in 1929 to $75.8 billion in 1931 and bottomed out at $55.6 billion in 1933.
- Imports from Europe decreased from a 1929 high of $1.3 billion, to $390 million in 1932.
- U.S. exports to Europe decreased from $2.3 billion in 1929 to $784 million in 1932. Overall, world trade decreased by some 66% between 1929 and 1934.

</td><td>

***Chinese imports as % US shipments + all US imports**



US imports of Chinese manufactured goods were $425bn Fy24 or 4% of total ROW ($3trn) + US domestic ($7trn)

</td></tr>
<tr><td>Unemployment was 8% in 1930 when the Smoot–Hawley Act was passed but the new law failed to lower it. The rate jumped to 16% in 1931 and to 25% in 1932–1933</td><td>Current unemployment rate 4.2% (Mar-25). Using historical US recession periods as guide, unemployment could increase to 7-7.7% (see fig 6)</td></tr>
</table>

Figure 6: US unemployment (blue line) & periods of Recession (grey bars)

Since the early 1950s, recession in US has on average caused unemployment to spike by 2.8% points (excluding Covid) or 3.5% (including Covid).

Current unemployment at 4.2% (Mar-25). Next release on 2-May (Friday).