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Alcoa Corp (AA)
Century Aluminum (CENX)
Nucor Corp (NUE)
Steel Dynamics Inc (STLD)
United States Steel Corp (X)

Impacted Groups: Steel & Aluminum

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Man of Steel

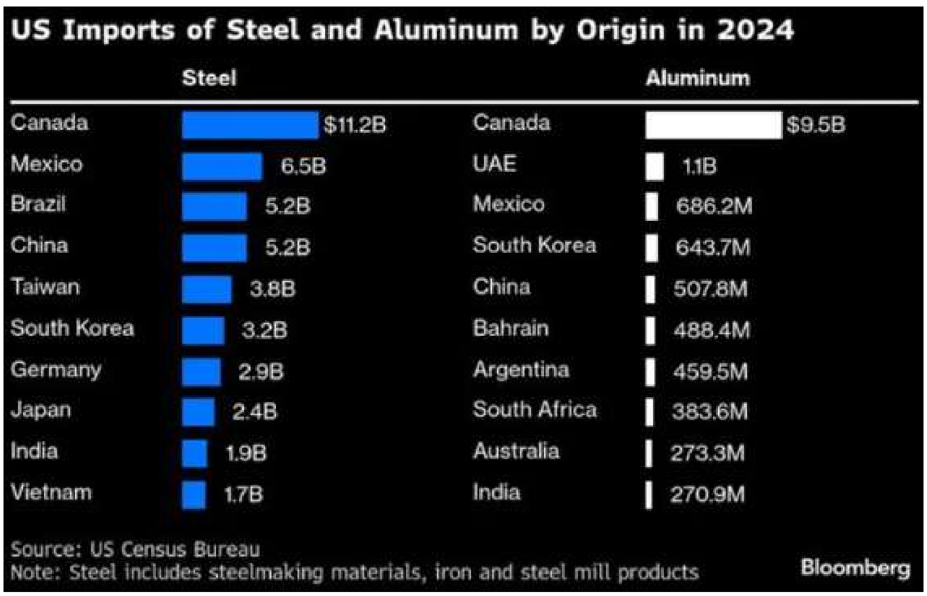
Introduction

In a new world of global trade policy, President Donald Trump's 25% tariffs on steel and aluminum imports triggered significant disruptions in global markets and prompted retaliatory measures from key trading partners. As tensions escalate and economic uncertainty grows, the world watches closely for the next chapter in the swiftly shifting landscape. While proponents view the tariffs as a crucial step toward revitalizing domestic manufacturing, critics contend that the measures could lead to higher inflation, supply chain disruptions, and unnecessary conflicts. As the situation unfolds, the critical question remains: will these tariffs bolster America's industrial base or result in higher costs and strained international relations?

Abstract

In February 2025, President Trump announced a 25% tariff on all steel and aluminum imports to the United States with the goal of eliminating exemptions effective March 12, 2025. Additionally, he introduced a requirement that steel must be "melted and poured" and aluminum "smelted and cast" within North America to prevent circumvention by nations like Russia and China.

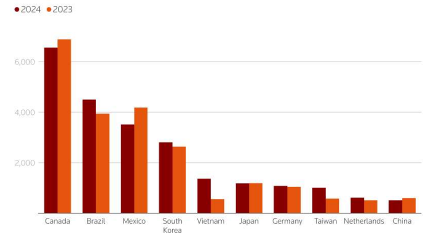
Steel and aluminum are vital components of the U.S. economy, playing a crucial role in heavy manufacturing industries. In 2023, the U.S. consumed approximately 98 million metric tons of steel, which left the country dependent on imports for roughly 25% of this consumption. The aluminum market saw a significantly worse spread, with nearly 80% of U.S. consumed material being imported. The majority of both coming from Canada:



The impact of tariffs on these materials is significant, as industries that rely on steel and aluminum are highly sensitive to price increases.

- Construction (40% of U.S. steel demand)
- Automotive manufacturing (25%)
- Machinery production (10%)

As new tariffs take effect, the balance between domestic production, import dependency, and industrial costs will be a critical factor shaping the trajectory of U.S. economic growth and trade policy.



International Response:

The global response has been a mixed bag of sorts, mostly consisting of immediate retaliation or strategic patience.

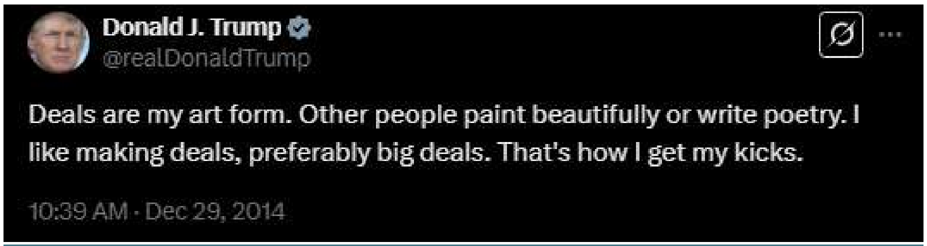
- Canada counters, slapping 25% counter tariffs on approximately $20.8 billion worth of U.S. goods, primarily steel, aluminum, various consumer products. Trump quickly responded with a doubling of Canadian Tariffs, in a hope to cull electricity supply threats from our neighbor that also materialized through the madness.

- The EU announces swift countermeasures as well, imposing recycled levies, expanding them to include a broader set of U.S. industrial and agricultural products to the tune of $26 billion.

- Asian manufacturing hubs such as South Korea, Taiwan, Japan, and Australia held still, instead opting to push for negotiations. China, while not directly impacted, has only clarified retailers claims about who is going to absorb the extra costs.

Full Court Press

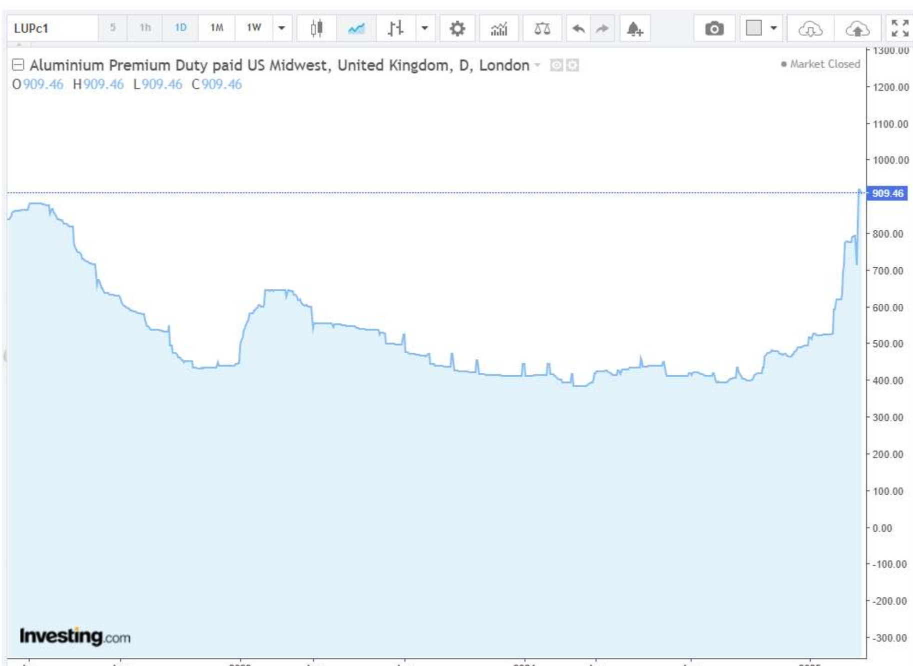
Costing American jobs and weakening national security, lopsided global trade agreements have tangibly impacted the U.S. for the worse. By imposing tariffs, Trump hopes to create an incentive for companies to source materials domestically, ultimately bolstering industries that have struggled against foreign competition for decades. Plus... deals are his art form.



This aggressive trade stance so early into his second term does not come without caution and concern. Stakeholders like Alcoa Corp. warn tariffs could cost tens of thousands more jobs as companies have to find ways to cut costs to make up for lost revenue. Still, Trump persists, aiming to shield American industry from a global trade system he claims has exploited the U.S. for decades.

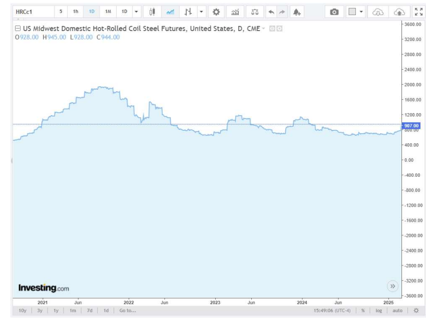
Costs & Price Hikes

While this all just sounds like world leaders playing a game with each other, there are actually some immediate impacts on pricing for the impacted goods. Metals premiums see the greatest surge, with aluminum premiums surging, marking a near double since Trump took office in November:



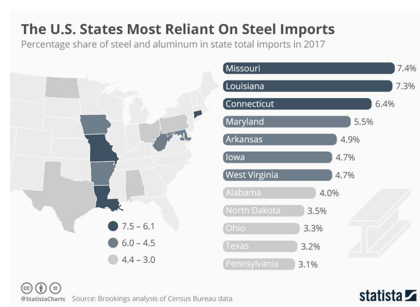
Costs & Price Hikes Cont.

Similarly, Midwest hot-rolled coil steel prices escalated to $945 per short ton, reflecting a 37% increase since the beginning of the year. This is not however comparable to 2021 supply shortage prices, which reached $2000.



These price hikes are expected to ripple through various sectors, potentially leading to increased costs for manufacturers and consumers alike. If we look back to Trumps first term, data from the U.S. Department of Commerce shows that steel prices surged by 30% following Trump's previous steel tariffs in 2018.

Notable here is the “US Midwest” portion of the name of the future. The most reliant states on imported steel are those in the midwest, seen below:



It’s not just the metal producers who are worried however. Industries that depend on specialized steel imports, such as the oil sector (uses steel pipes for drilling) are bracing for higher costs. The automobile industry, already dealing with supply chain disruptions, could see price hikes trickle down to consumers, making vehicles more expensive. It is reported that the Trump team is also drafting reciprocal tariffs on a host of other industries, from semiconductors to pharmaceuticals, even copper.

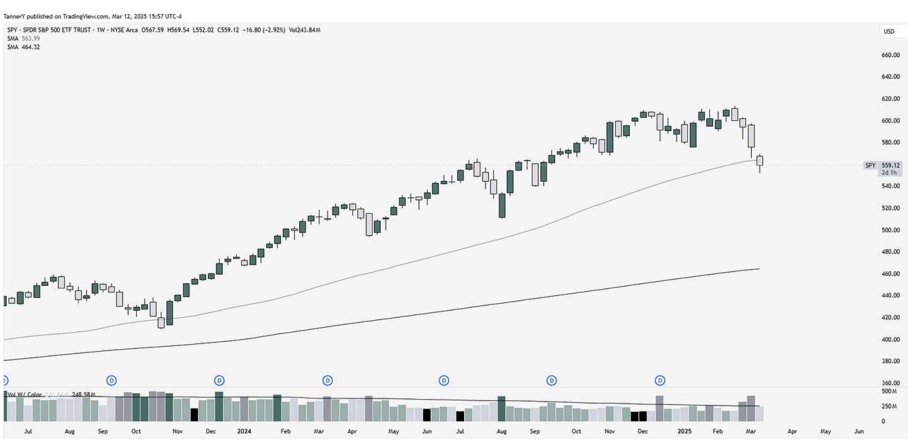
Broad Market Impact and Conclusion

To say that fear is palpable in the market would be an understatement. Liquidation has been ongoing for the past 9 to 12 weeks, with the SPY down 2.5% over the past five days and a 7% decline over the last 30 days. Below are two key graphs that illustrate critical market indicators:

1) 200-Day Simple Moving Average (black line)
2) 50-Day Simple Moving Average (grey line)

SPY Daily:

SPY Weekly:



In our view, while the current market price action is influenced by factors including international conflict and geopolitical tensions, there are also numerous underlying issues at play. By the Q4 of 2024, we had become more confident in the idea of a market cool off, driven by the extreme upside movements across key price levels in major indexes. While this doesn't necessarily signal a recession, a market pullback seemed inevitable regardless of any initiatives President Trump pursued.

Broad Market Impact and Conclusion Cont.

The trade war, while impactful in the short run for both businesses and consumers, appears to be part of a larger agenda. As a businessman, Trump understands the power of leverage, which is arguably the most valuable asset in any deal. The U.S. possesses immense leverage in trade discussions due to our economic independence, infrastructure, capability for manufacturing and historical successes. However, relying solely on that leverage without the support of allies is a risky proposition, especially considering we operate at a deficit to so many nations worldwide. We anticipate that Trump may eventually pivot toward more diplomatic solutions after shaking things up with several countries.

Whether this shift will lead to an immediate market rebound remains to be seen. From our perspective, we still need some cooling off. A healthy pullback to fair value for the SPY seems more likely in the 480-500 range. If, for instance, we were to see a surge in the market following an announcement of a Ukraine-Russia ceasefire and the reversal of tariffs, it would likely place the market exactly where it was a month ago: over-saturated, with extended price-to-earnings ratios, a noticeable housing crisis, and slowing growth in AI and related sectors.

All in all, we look forward to seeing this story develop, as quick resolution would put less of a damper on the short-term economics of trade, and skew in the favor of the US. Additionally, we anticipate there to be a material trade in infrastructure during Trumps presidency, which would fall in line with his plan to rejuvenate American manufacturing as well as the recent efforts to bring down our reliance on global powers.

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