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Trump tariffs

What they mean….

Perspective

Unrestricted

Trump administration has introduced global tariffs – Lets begin by unwrapping them and understanding what they are

What has Trump really done

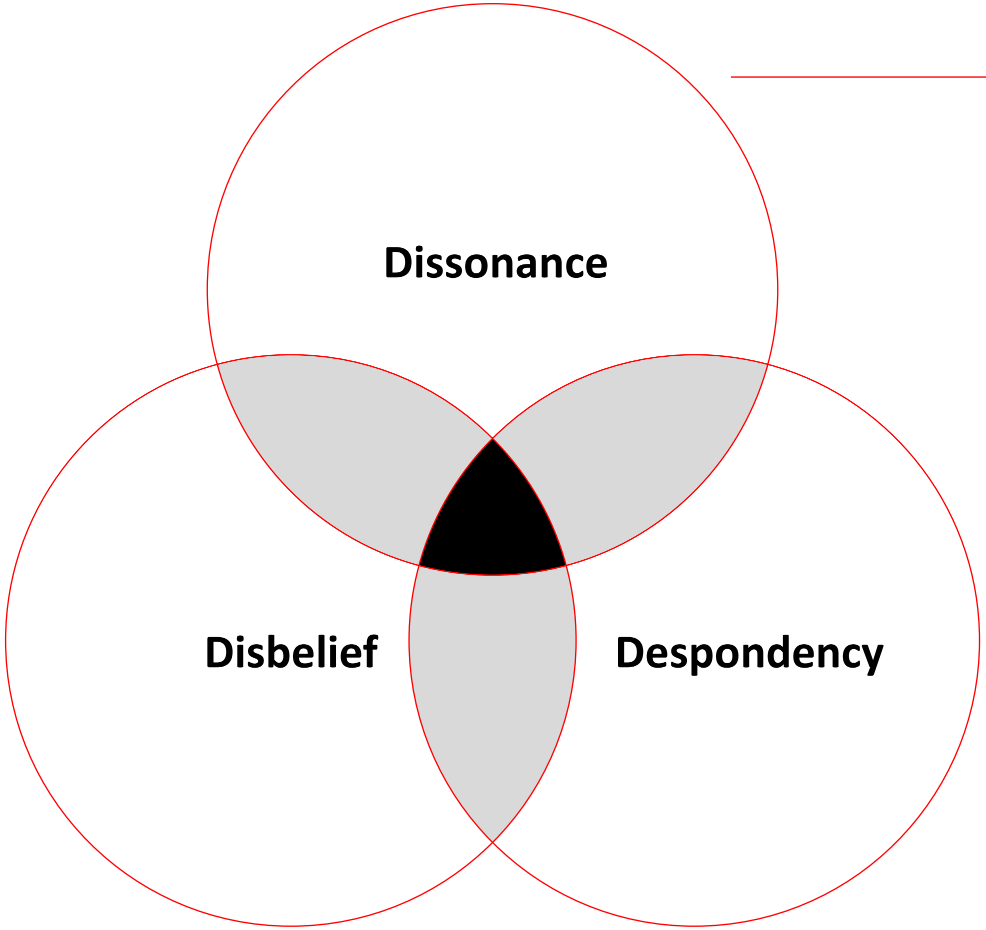
- In early April 2025, President Donald Trump announced a comprehensive tariff strategy affecting imports from numerous countries, aiming to address trade imbalances and protect U.S. industries.
- Global Tariff Implementation:
  - Baseline Tariff: A universal 10% tariff was imposed on all imports into the United States, effective April 5, 2025.
    - Each individual country has been slapped with customized tariffs that are based on a composite formula that includes
      - Level of in-country tariffs put on US exports
      - Level of non-tariff barriers
      - Level of currency manipulation that the country undertakes as perceived by the US.
      - Direct or indirect subsidies that the specific country gives to its manufacturers to reduce the overall cost of goods
  - Country-Specific Tariffs: Higher tariffs were applied to specific countries based on trade deficits and other factors, effective April 9, 2025.
    - Notable examples include:
      - China: An additional 34% tariff, totaling a 54% tariff on Chinese imports.
      - European Union: An additional 10% tariff, totaling a 20% tariff on EU imports.
      - VieTnam: A 46% tariff on imports.
      - Taiwan: A 32% tariff on imports.
      - India: A 26% tariff on imports.
  - Automobile Tariffs:A 25% tariff was imposed on all imported automobiles, effective April 3, 2025.

There are 3 primary domestic considerations that are driving the Trump Administration to push for such an aggressive redo of global trade

Consideration	Explanation
Election promises 01.	Trump in his election campaign had promised such an action and he would want to be coming good on his promises especially as his other promise of ending global conflict quickly is taking more time than it should
Industrial base and corresponding jobs 02.	1. The last decade has shown that a manufacturing led economic revolution (like China and South East Asian countries) is significantly more viable than a services based economy led growth model. 2. Trump sees US has lost key manufacturing industries that are perceived as being of strategic importance 3. Manufacturing investment led jobs create more positive noise in the economy
Geopolitical 03.	1. The Russia-Ukraine conflict's evolution has shown that in conflict situations, the ability to crank up core manufacturing defines success in battlefield. Lack of western industrial base is what has been the defining factor in Russian advance to victory. 2. In a global environment where China will be the main adversary, the US will need to build significant industrial muscle to undertake any geopolitical actions.

Lets declutter the noise - the response to the tariffs has been a mix of 3 reactions

What has been the reaction to the tariffs?



Reaction 1 – It is unprecedented and has not happened before!

Trump presidency is about a lot of actions that are non-traditional and may not have precedence.

Unpredictability is a tool that is often deployed by the Trump administration

Reaction 2 – It disturbs the global trade order

That is exactly what Trump wants – He wants to reset a trade order that he perceives is not fair to the US interests. Coupled with this is the fact that individual countries do try to make the playing field uneven against US interests by currency manipulation, NTBs, Subsidies etc is well known.

Reaction 3 – It would put large regions of the world into recession

For Trump and his 'America First' agenda, a situation where globally other regimes face hardships is not too high in the oder of priorities to consider and may even be a desirable outcome

One of the other factors to consider when looking at this issue is that the nature of economic actors is not just countries

The reality of the world we live in (Jan 2025)

Top 20 Countries by GDP

(Range - ~28 Tn - ~0.9 Tn)

- United States: $27,720.7 Bn
- China: $17,794.8 Bn
- Germany: $4,525.7 Bn
- Japan: $4,204.5 Bn
- India: $3,567.6 Bn
- United Kingdom: $3,380.9 Bn
- France: $3,051.8 Bn
- Italy: $2,300.9 Bn
- Brazil: $2,173.7 Bn
- Canada: $2,142.5 Bn
- Russia: $2,021.4 Bn
- Mexico: $1,789.1 Bn
- Australia: $1,728.1 Bn
- South Korea: $1,712.8 Bn
- Spain: $1,620.1 Bn
- Indonesia: $1,371.2 Bn
- Netherlands: $1,154.4 Bn
- Turkey: $1,118.3 Bn
- Saudi Arabia: $1,067.6 Bn
- Switzerland: $884.9 Bn

Top 20 investment entities by AUM

(Range - ~10 Tn - ~1.4Tn)

- BlackRock – $10.473 Tn
- Vanguard Group – $9.300 Tn
- UBS – $5.808 Tn
- Fidelity – $5.303 Tn
- Global Advisors – $4.715 Tn
- Morgan Stanley – $3.629 Tn
- JPMorgan Chase – $3.564 Tn
- Crédit Agricole (incl Amundi) – $2.858 Tn
- Goldman Sachs – $2.848 Tn
- Capital Group – $2.600 Tn
- Allianz Group (incl PIMCO and Allianz Global Investors)– $2.479 Tn
- Bank of New York Mellon (BNY Mellon) – $2.015 Tn
- Bank of America – $1.730 Tn
- Deutsche Bank – $1.670 Tn
- Invesco– $1.663 Tn
- Franklin Templeton – $1.604 Tn
- Legal & General – $1.512 Tn
- Northern Trust – $1.501 Tn
- Prudential Financial – $1.496 Tn
- T. Rowe Price – $1.485 Tn

Top Companies/Corporate groups

(Range - ~0.6 Tn - ~0.2 Tn)

- Walmart – $648.1 Bn
- Amazon – $574.8 Bn
- State Grid Corporation of China – $545.9 Bn
- Saudi Aramco – $494.9 Bn
- China Petrochemical Corporation (Sinopec Group) – $429.7 Bn
- China National Petroleum Corporation – $421.7 Bn
- Apple – $383.3 Bn
- UnitedHealth Group – $371.6 Bn
- Berkshire Hathaway – $364.5 Bn
- CVS Health – $357.8 Bn
- Volkswagen Group – $348.4 Bn
- ExxonMobil – $344.6 Bn
- Shell– $323.2 Bn
- China State Construction Engineering – $320.4 Bn
- Toyota Motor Corporation – $312.0 Bn
- McKesson Corporation – $276.7 Bn
- Cencora – $262.2 Bn
- Costco Wholesale Corp – $242.3 Bn
- JPMorgan Chase & Co. – $239.4 Bn
- Microsoft Corporation – $211.9 Bn

3 Truths that emerge

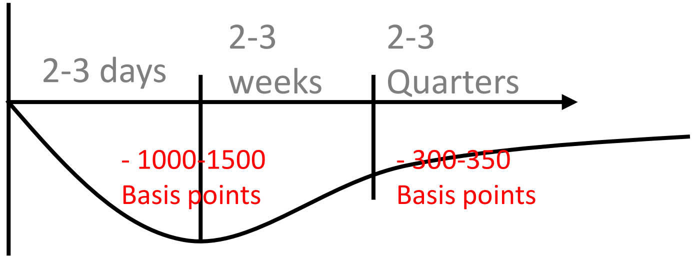
1. **Large investment entities and corporations are as impactful as countries in global trade**
2. **Large investment entities and corporations are significantly geographically diversified and so may not have the same compulsions as countries**
3. **Businesses always are more comfortable having a temporary reduction in margins than ceding marketspace to competition (this fact has been re-inforced by the Russia Ukraine crisis where western businesses that ceded market space to Chinese competitors will maybe never get it back)**

So how does the immediate to near term (2-3 months) play out? – based on feedback from economists, traders and politicians

Immediate playbook and options before economic actors

Immediate and near immediate feedback from markets

- Immediate short-term contraction in the stock markets followed by a phase of slow market recovery leading to a eventual situation where the markets are lower by a benchmark of 300-350 Basis points



- On currency, the expectation is for the dollar to depreciate vs. other currencies by between 400-700 basis points in the immediate term and then arrive at a renewed medium-term price mean

Immediate and near immediate feedback from countries

- Large countries will have a mix of public announcements of distrust and dissonance with the US decision but except for China and EU, most will not take strong anti-positions to the tariff measures announced
- Most countries are expected to take a wait and watch stance whilst doubling down on their individual efforts to iron out preferential trade agreements with the US.
  - The US on its own part will have to concurrently run large and rather frentic trade negotiations with atleast 8 countries – Canada, Mexico, China, Japan, UK, Brazil, India, VieTnam and EU to arrive at specific arrangements (Industry based to start with in most cases before becoming larger) by Q3 of CY 2025

Immediate and near immediate feedback from corporates

- Companies will try to avoid any noise and will immediately start to devise approaches to limit the operational impact of tariffs.
- The steps most large companies/corporates will consider are:-
  - Investment announcements in US coupled with negotiation to get one-off exemptions
  - Internal restructuring of reporting to have US financials reported distinctly from North America (Canada and Mexico)
  - Establish beachheads in the US manufacturing ecosystem
  - Fast track M&A for upstream and downstream assets in the US to show manufacturing job impact in the US
  - Put political pressure on home governments to negotiate a sustained deal with the US

What does it all mean for the long term (horizon of 2 years & beyond out) – Based on feedback of Economists, Politicians and Hedge fund traders

Medium to long-term playbook and options before economic actors

Long term impact on markets

- Currently the US equity market capitalization is close to $52 Tn in 2025, while the US manufacturing market is valued at $2.5 Tn. This is not sustainable. We are expecting this ratio of ~20-21 to correct closer to 15-17 levels creating a new cycle of market led growth in 8-12 quarters
- We expect the new dollar price to improve US export competitiveness especially to NAFTA and EU – thereby accelerating the shift of manufacturing to US

Long term impact on trading countries

- Further weakening of EU economy as a manufacturing base
- China economy is not expected to be significantly hit except for slightly more muted growth (closer to 4% growth rather than 5% targeted) numbers as the loss of volumes is more than currently compensated by unfettered access to Russian market
- Asian economies growth trajectory will be impacted and will be driven by the nature of 'deal' they can execute with the US.
- Canada and Mexico will face major economic challenges as currently there is a 20-25% cost advantage some parts of US have over Canada as a manufacturing destination which is expected to expand further. Mexico will have to pivot from manufacturing-for-export-to-US towards manufacturing-for-export-elsewhere (which is a difficult pivot)

Long term impact on corporates/companies

- Companies will have a larger manufacturing exposure to the US.
- Companies will also accelerate AI and Automation in manufacturing to ensure labour cost as an input to overall cost of production is neutralized globally.
- Companies may need to develop a multi-tier technology track if technology transfer between US and other geographies is restricted.
- We will see more local for local manufacturing frameworks and hence a greater regionalization of the supply chain, especially in the US.
  - However, this mandates the US to ensure the triple pitch of :-
    - Lower cost of energy
    - Lower taxes (corporate and individual)
    - Slower than historical increase in labour costs (linked to greater tax cuts)

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