QUARTELY CLIENT
NEWSLETTER

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INSIDE THIS ISSUE

TRUMP TARIFF SHOCKER –
WHAT'S NEXT?

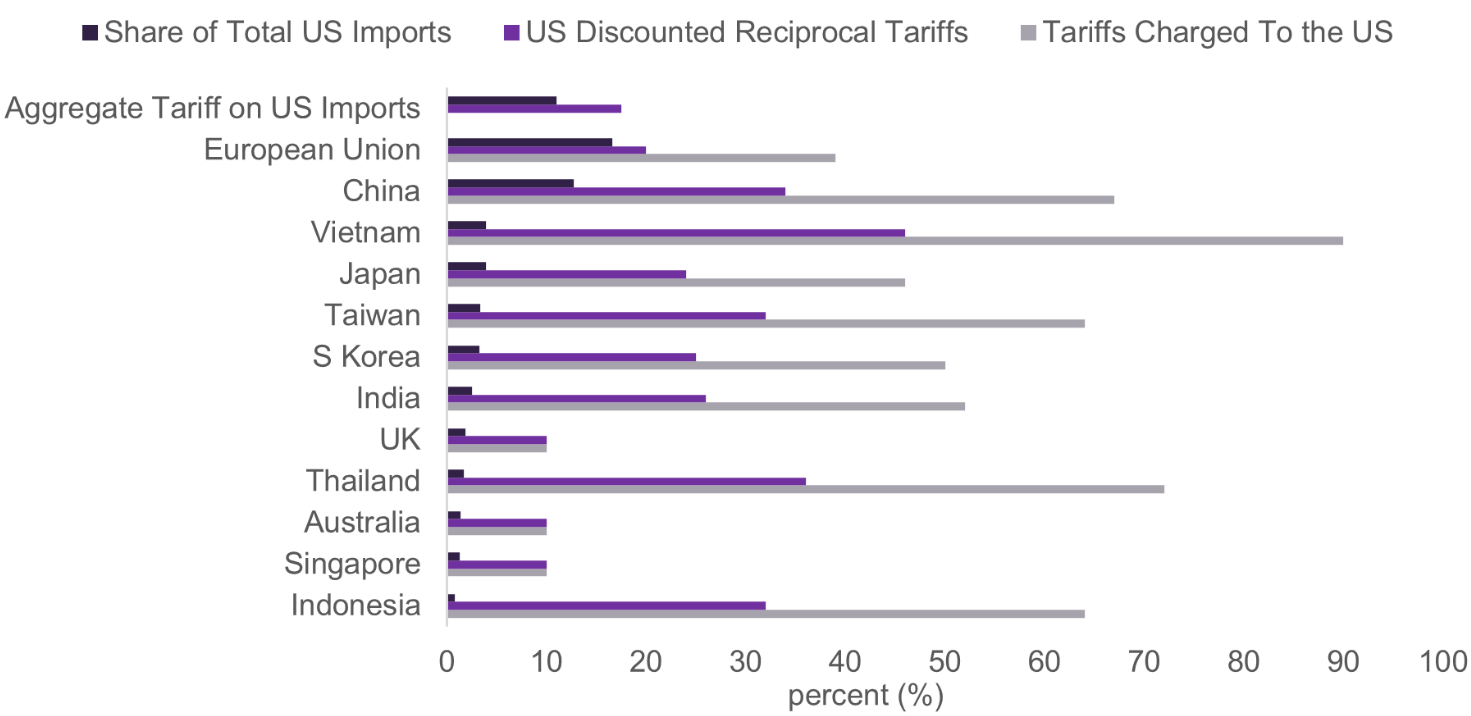
Will "Liberation Day" Tariffs spark a Smoot-Hawley re-run[1]?

Are the reciprocal tariffs touted by President Trump as "Liberation Day" tariffs – aimed at easing trade deficits with its trading partners, to usher in the "Golden Age of America" positive, or would it instead backfire, dismantle the global trade order, and accelerate de-globalisation pressures?

The announced tariffs turned out to be more aggressive than expected as it contained a baseline duty, with additional penalties for running a trade deficit with the US. This new US so-called "discounted reciprocal" tariff regime is a universal tariff, with an additional levy for countries that have significant tariffs against the US and/or have a large trade deficit with the US.

From 5 April, a 10% universal tariff (as announced by the White House), will apply to imports from all countries except Canada and Mexico. Additionally, from 9 April, these trading partners will face an extra tariff equal to half the ratio of the US' bilateral trade deficit (with the country) relative to US imports from that country. Figure 1 shows the tariff to be faced by the US' key trading partners (accounting for around 80% of US imports)[2].

Figure 1: Base "US Discounted Reciprocal Tariffs" and Total Tariffs on selected US trade partners



Source: Fullerton calculations, the White House, and LSEG Datastream, April 2025.
Aggregate US Discounted Reciprocal Tariff is 18%, and total US goods imports to GDP is 11%, Apr 2025.

Macro impacts: stagflationary fears may compress investment returns

In considering potential impacts, the investment "perspective" always makes a huge difference. For example, because of a small import penetration, direct impacts on the US can be modest, but impacts on countries targeted is very different (see Figure 1 above). Vietnam is a great example, where its US trade and tariff burden are large shares of its GDP. Lasting global impacts will also hinge on US-bilateral negotiations to come, as well as potential trade and tariff retaliations.

Fullerton's calculations[3] suggest that the direct impact on US PCE inflation in 2025 could be as high as an extra 1%pts – implying that PCE inflation could potentially hit 3.5% YoY (above the Fed's March projection of 2.7% YoY). At the same time, US growth is likely to suffer from poor confidence, adverse wealth effects from falling equities, investment spending plans that may be postponed, and further trade-flow retaliations from the rest of the world.

If US consumers react adversely to their lost financial wealth, and higher import prices, then they may cut their spending across all goods and services. US firms may react by scaling back investment plans and job creation. Such an adverse demand spiral could actually pull inflation down, and the Fed's (March) expectation may be correct that US inflation does fall back to target in 2026 – or sooner (if US growth proves very weak). The Fed already expects US growth to be sub 2% p.a.[4] for the next three years, and with its policy rate still well above its assumed longer-term neutral rate of 3%[5], its dual mandate may come under significant threat i.e. maintaining full employment and avoiding deflation.

Just as importantly, President Trump's team will need to make greater efforts to reassure investors and financial markets that US policies – the "3-3-3" agenda – spearheaded by its 3% US real GDP growth target is not collapsing[6].

US – bilateral negotiations to come will be critical, as will potential retaliations from the rest of the world

There are still "relative winners", as key sources of important US imports (for its domestic manufacturing) – from Canada and Mexico – are now more competitive. The UK, Singapore, and Australia are notable US trading partners where the tariffs are below average (see Figure 1). In contrast, hurdles for many Asian trading partners are higher.

De minimis treatment (i.e. tariff-free personal shipments under $800USD for countries subject to the reciprocal tariff) remains in place, except for China. This keeps US pressure on China significant as it accounts for a substantial share of total de minimis volume. Collectively, President Trump has now hit his campaign suggestion of a 60% tariff on China (including Hong Kong and Macau) – with this shockingly high 34% tariff [9] (on top of the 20% enacted in February and March).

Countries can improve their competitive position with the US if they lower the tariffs they charge (the US), which can be done more quickly and easily than pledging to buy more US exports. Larger countries, in particular, may focus more attention on domestic stimulus and productivity gains that can give a significant cushion to trade competitiveness. Countries that have significant global export trade shares are also better placed for effective "tit-for-tat" tariff retaliations. As the US actions represent an extreme push-back against globalisation, events will likely continue to build geopolitical uncertainties e.g stronger and more (ex-US) trading (and capital) blocs could be established.

[1] The Smoot-Hawley Tariff Act (1930) was enacted by the US government to try and protect US growth and jobs by increasing tariffs on US imports by 40-60%. This ultimately resulted in retaliatory tariffs from other countries, contributing to a collapse in global trade, and the Great Depression.

[2] The regime is non-"reciprocal" because it captures features beyond the tariffs charged against the US. As the regime is segmented it suggests that the 10% universal tariff is unlikely to be negotiated down, but any additional tariff rate could decline following negotiations (especially if the impacted country lowers its tariffs against the US, or pledges to buy more US exports). There are also product exclusions that may reduce the effective tariff rate i.e. extra tariffs will not apply to existing duties on steel, aluminium, autos, copper, lumber, pharmaceuticals, semiconductors, select minerals, and energy products. That said, there is also potential upside risk from sectoral tariffs not yet announced. Lastly, Trump's order specifies that if at least 20% of the content is US-origin then the new reciprocal tariff rates apply only to the value of the non-US content of goods.

[3] May be subject to change without prior notice.

[4,5] Source: FOMC projections, Mar 2025.

[6] US real GDP growth is certainly slowing: it was 3.1% in Q3, 2.5% by Q424, and has slipped to a nowcast of 2% at end March 2025 (based on the Dallas Fed's Weekly Economic Indicator. The Atlanta Fed's US GDP growth nowcast is much more pessimistic). More importantly, as noted, the Fed stated in March that it now expects US growth to be sub 2% throughout President Trump's term (i.e. as much as 100bps p.a weaker than what President Trump campaigned upon).

[7] Source: LSEG Datastream, Mar 2025.

[8] Announced at China's Mar 2025 NPC.

[9] Source: Reuters, Mar 2025.

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Investing in financial markets involves managing uncertainty, as economic conditions, geopolitical events, and central bank policies can shift market dynamics unexpectedly. Scenario planning helps investors prepare for different possibilities—bull, base, and bear markets—by ensuring their portfolios remain resilient across varying market conditions. A well-structured portfolio with a diverse range of funds enables investors to adapt effectively to these scenarios, balancing risk and opportunity while maintaining long-term financial goals.

Why Scenario Planning Matters for Investors

1. **Reduces Emotional Investing**

   Investors can make impulsive decisions based on market sentiment. A structured plan, like an investment-lined plan, promotes discipline and mitigates reactionary mistakes.

2. **Builds Portfolio Resilience**

   A diversified mix of funds enhances portfolio stability, ensuring investments continue to perform across different economic conditions and reducing volatility.

3. **Enhances Decision-Making**

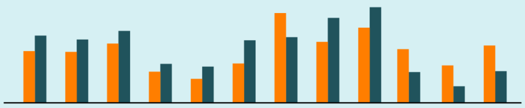
   Scenario planning empowers investors to make informed choices rather than reacting to short-term market fluctuations.

4. **Adapts to Global Uncertainty**

   Economic cycles are influenced by central bank policies, inflation trends, and global events, including geopolitical tensions and technological shifts. A flexible fund selection enables investors to adjust their strategy without overhauling their entire portfolio.

Key Market Scenarios and Role of Fund Diversification

Market Scenario

Market Scenario	Economic Conditions	Investor Sentiment	Recommended Fund Types
 Bull Market	Strong growth, low inflation, loose monetary policy	Optimistic, high risk appetite	Growth equity funds, sector-specific funds, fixed income funds
Base Market 	Moderate expansion, stable inflation, neutral policy	Cautiously optimistic	Balanced equity funds, investment-grade corporate and government bond funds, money market funds
 Bear Market	Weak economy, high inflation, restrictive policy	Risk-averse, capital preservation focus	Defensive equity funds, high-quality government and corporate bond funds, money market funds

1. **Bull Market Scenario (Optimistic Outlook)**

   A bull market is typically characterised by strong economic growth, benign inflation, and accommodative monetary policy. An investment strategy that favours higher exposure to growth-oriented investments, paired with the right fund selection, can maximise potential gains. These include:

   - **Growth Equity Funds:** Focus on growth sectors and emerging markets that tend to outperform in strong economic conditions.
   - **Sector-Specific Funds:** Target sectors with high-growth potential, such as artificial intelligence, healthcare, and consumer discretionary.
   - **Fixed Income Funds:** Allocate to short-duration bond funds or high-yield corporate bond funds for stability while benefitting from economic expansion.

2. **Base Market Scenario (Neutral/Moderate Growth Outlook)**

   In a base market, global economies see moderate expansion, stable inflation, and neutral central bank policies. As economic headwinds may arise, investors often take a cautiously optimistic approach, adjusting their allocations between high-growth and defensive sectors. Key strategies include:

   - **Balanced Equity Funds:** Large-cap and dividend-focused equity funds provide stability and growth.
   - **Bond Funds:** Investment-grade corporate and government bond funds generate income while reducing portfolio volatility.
   - **Money Market Funds:** Liquidity allows investors to capitalise on market dips.

3. **Bear Market Scenario (Pessimistic Outlook)**

A bear market often sees elevated market volatility due to weak economic prospects, persistent inflation, and restrictive monetary policies. Price instability erodes consumer and business confidence, slowing economic growth. A bear market requires capital preservation and defensive positioning, such as:

- **Defensive Equity Funds:** Invest in companies with stable cash flows and earnings resilient to economic downturns.
- **Bond Funds:** Allocate to high-quality government and high-grade corporate bond funds for steady income and downside protection.
- **Money Market Funds:** Ensure liquidity while minimising downside risk.

How a Good Fund Range Supports Investors Across Market Cycles

1. **Flexibility to Adjust Portfolio Weightings**

- A mix of equity, bond, and sector funds allows investors to shift weightings depending on market conditions.
- Investors can increase growth fund exposure in bull markets while rotating into defensive funds in downturns.

2. **Reducing Volatility While Maintaining Growth Potential**

- Holding both growth and defensive funds ensures that a portfolio remains resilient in uncertain times.
- Bonds and dividend-focused funds help stabilise returns when equity markets are volatile.

3. **Ability to Capture Thematic Opportunities**

- Sector-specific and thematic funds enable investors to capitalise on long-term trends, such as technology and healthcare investing.
- These funds provide targeted exposure without requiring deep market expertise in individual stocks.

Conclusion: Using Fund Diversification for Effective Scenario Planning

Scenario planning is essential for long-term investment success. Armed with a diversified selection of funds will allow investors to:

- **Adjust fund allocations** across different economic conditions based on bull, base, or bear market scenarios.
- **Reduce downside risks** by incorporating defensive attributes into their portfolio through bond and money market funds.
- **Maintain flexibility** to capture emerging opportunities while preserving capital.

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PIAS **INVESTMENT OUTLOOK (Q2 2025)**

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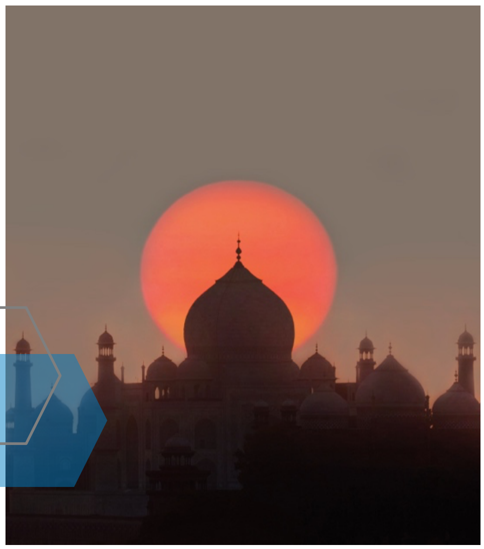
- Global equities had enjoyed a post U.S. elections rally that continued from late last year into the start of the year. However, the positive momentum was upended on rising trade tensions as the new U.S. administration dished out tariff threats. The U.S. equities particularly, retreated from records highs, erasing gains from the post-elections surge. On 2 April, U.S. President Trump shocked the market by announcing a sweeping 10% baseline tariff on all trade partners, along with additional ‘reciprocal’ higher rates for major trading partners such as China, Japan, India and the EU. Notably, China will face 34%, Vietnam 46%, Taiwan 36%, Japan 24% and the EU 20%. These tariff rates far exceeded market expectations and seemed to be based solely on the respective country’s trade deficit with the U.S. In response, global markets declined sharply on fears of a global recession and the upending of international trade.

- **If the tariffs announced are to be fully implemented, they could raise US core PCE inflation by almost 2%, while reducing growth by 1 to 3%, according to Goldman Sachs’ research.** This gave rise to fears of stagflation where growth is slow, yet the upward pressure on inflation could delay Fed rate cuts. Federal Reserve Chair Jerome Powell had initially taken the view that tariff-induced inflation will be ‘transitory’ but later had acknowledged that the larger-than-expected tariffs will boost inflation and slow growth, and Fed will wait before further rate moves. **Economic growth is shifting to a lower gear this year on rising geoeconomic tensions, and the odds of tariffs tilting the U.S economy into recession has become higher. While the upward pressure on inflation could complicate the job of policymakers, we believe the Fed has sufficient allowance for policy easing to prop up the economy should recessionary risks spiral up.**

- The The arrival of DeepSeek, China’s low-cost AI model, also rattled the U.S. markets, particularly the technology giants. Notable tech giants corrected on high valuations multiples with concerns about US tech dominance. **While new entrants can alter the AI landscape, it may also contribute to the overall adoption of the AI technology and yesterday’s winners remain well-placed to benefit from the ongoing AI theme.** Another factor for China equities’ positive momentum is the expansion of fiscal expenditure and raising of growth targets to 5% for 2025**. While these actions are viewed as positive for market support, the price push may not have a long-term positive impact as the key issue to be addressed is household income and job stability to ultimately drive consumption. China’s economy also remains under pressure from its fragile property sector and the ensuing trade conflicts.**

- As a result of the U.S. shifting its security commitments and focus away from Europe, nations in the bloc have been announcing plans to ramp up military spending. Particularly, Germany's fiscal plan to ramp up defence and infrastructure expenditure will uplift economic growth, and this boosted the momentum of European equities. Notably, **Germany's 500-billion-euro infrastructure fund is estimated to add about 2% to its GDP per year on average over the next 10 years. While Trump's tariffs will impact on European goods, the sizable fiscal stimulus, supportive ECB monetary conditions and easing geopolitical tensions between Russia and Ukraine, gave rise to our upgraded constructive view on Europe.**

- Indian equities had experienced notable volatility in the first quarter from an economic slowdown largely attributed to weak urban demand, subdued private investment, and persistent high food inflation that has hurt disposable incomes. **Given the moderating growth and lofty valuations, we turned neutral on India, on the back of incoming impact of tariffs on the country.** Similarly in Taiwan, stocks performances were influenced by concerns over U.S. tariffs and diminished enthusiasm for the AI play. However, Taiwan's export surged by a staggering 31.5% YoY in February, far exceeding expectations of 17%, driven by strong demand for AI-related technologies as companies sought to stockpile components in anticipation of tariff uncertainty. **While strong export gains in Taiwan are likely to persist throughout Q2 due to accelerating applications for AI, we may expect further volatility due to the ongoing trade tensions and the evolving AI landscape.**



- **Near-term volatilities in the financial markets are to be expected as tariff headlines could be a source of uncertainty in the upcoming period. Trump had said he is open to negotiations with trading partners. The eventual tariff rates could go both ways – be scaled back or raised in retaliation.** Notably, China had responded with a retaliatory tariff of 34% on American imports. It also remains to be seen if higher tariff costs will ultimately be absorbed by corporations or passed onto consumers. **Fiscal response by the government would therefore be crucial to cushion the impact to consumers and support sentiments. Market participants will be watchful of Trump's proposed tax cuts and deregulation to potentially offset the impact of tariffs. Policymakers continue to play a critical role in the delicate balancing act of managing inflation while navigating the potential of an economic hard landing.** Therefore, diversification is key, especially in uncertain times like the ensuing trade war sparked by Trump's tariffs. By spreading investments across different asset classes, sectors and geographical locations, investors can reduce exposure to any single economic or political shock. The fresh round of tariffs is likely to create volatility in global markets, with tech and manufacturing sectors facing the most immediate pressure. Maintaining a well-balanced portfolio will be crucial in navigating the uncertainties ahead.

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