Assessing the immediate impact of tariff announcements

9 April 2025

Following the imposition of trade tariffs by the US administration, we asked our Global Chief Investment Officer and our Global Head of Equities for their immediate views, as well as some insight into how our investment professionals are working to factor impacts into our analysis

William Davies, Global Chief Investment Officer

• The announcement on 2 April is a seminal moment. It provided greater clarity (and some surprise around the size of tariffs) but was aligned with previous signals from the US administration.

• Impacted countries have been warned on retaliation, but it has been indicated that by working with the US some reductions could be achieved.

• It is likely we will see varying reactions by nation. We have already seen China retaliate – others will adopt a more accommodative stance to potentially see their tariffs reduced.

• Overall, it remains an uncertain picture. The equity risk premium (the extra return investors in shares expect to receive over 'risk-free' assets like US government bonds) has risen and looks set to remain elevated.

• Efforts to distort market forces through the introduction of tariffs in an attempt to bring more manufacturing capacity back to the US runs counter to the efficiency of globalisation (where lower-cost manufacturers can win market share irrespective of their location).

• Companies will find it harder to plan and invest in an environment of unpredictable costs and tariffs – this will likely result in an environment of lower growth and profit margins across entire industries.

• We should point out that the US is in an interesting position relative to other countries given its relatively low level of imports as a percentage of GDP.

• Our emphasis on quality should prove positive overall.

In fixed income, higher quality bonds (both government and corporate) have generated better returns – this has helped our performance in this area as we have an emphasis on higher quality assets.

Melda Mergen, Global Head of Equities

• The announcements reflect the US government’s attempts to increase revenues and bring manufacturing back to the US from overseas.

• The number of countries impacted shows there is nowhere to hide.

• The hefty tariffs announced for Vietnam illustrate this well, as it is home to much manufacturing moved from China.

• We see the announcements as signalling a real and protracted change in global trade. These changes will take time and national self-interests will dominate.

• Inflation will increase and both shareholders and consumers will ultimately pay the price.

• As investors in this environment it is important to really focus on portfolio construction and risk management. Companies with strong balance sheets and free cash flow should be the focus.

• We are in an environment in which active management is better placed to deliver client outcomes than passive strategies. Passive strategies reflect where markets have come from. In a period of change, momentum is less likely to outperform.

• We are working hard to factor the new environment into our analysis. That means adjusting our models (often our most pessimistic case is becoming our base (most likely) scenario) and extending our time horizons beyond the two years on which we typically focus.

Uncertainty underlines importance of considered and well-researched active management

Recent announcements look set to fundamentally reshape global trade and the world in which we invest. Attempts to bring supply chains back within national borders will take time and, as individual nations work to best position themselves, self-interests will prevail. Uncertainty will remain a feature for some time yet.

Against this backdrop we are working hard to consider the full implications and impacts. We are cognisant that we need to be more conservative around valuations and realistic in expectations about the growth potential of businesses. Where possible we are adopting a more defensive stance within portfolios. In terms of our underlying research efforts, we are adjusting our analytical models (with downgraded base cases) and remain in close contact with company management teams for their perspectives on how their businesses, industries and geographies are responding.

With the world in flux we believe the merits of active management will come to the fore. Through fundamental research we can identify the best and most resilient companies to invest in. Importantly, we will favour those well placed to prosper from here – contrast this with a passive approach that inherently means anchoring around past performance.

We believe our long-held preference for quality stands us in good stead – in uncertain times, well-managed and well-capitalised businesses should provide greater resilience and be well placed as the new environment beds in.

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