

Unpacking the New Playbook: Tariffs, Trade, and the Road Ahead

Reviving the "America First" doctrine but with more bite; is this a fresh chapter in the Trump 2.0 playbook? A blanket 10% tariff on all imports and a raft of targeted levies aimed at key trading partners, particularly China and the EU, has been branded by the administration as an "economic reset." These policy measures have unsettled markets, renewed fears of trade decoupling, prompted higher input costs, and are a potential drag on global growth.

The reaction to recent trade tensions has been swift. Trade-exposed equities have underperformed, while the dollar has weakened and US Treasuries sent mixed signals as markets weighed the implications of higher tariffs against the potential for increased fiscal spending. The escalating trade rhetoric and stretched valuations also put pressure on US equities, contributing to their pullback so far in 2025.

However, the tone is shifting following meaningful progress in US/China trade discussions, with both sides agreeing to suspend most tariffs and establish a mechanism for further negotiations. The US will reduce its reciprocal tariff on most Chinese exports from 145% to 30%, while Beijing will lower its

retaliatory levies from 125% to 10%. These reductions will remain in place for 90 days as talks continue.

Though some commentators see echoes of Trump's first-term strategy of setting extreme initial terms to force renegotiation, this recent de-escalation marks a notable shift from the previously entrenched posture. The administration's stance appears more measured, but tariffs remain a policy lever to reshape global supply chains. Although these developments offer some reprieve and suggest greater openness to engagement, it would be premature to call it a full reversal of the direction set by Trump's "Liberation Day."

The market narrative is moving away from trade skirmishes and adjusting accordingly. What had looked like the start of a deeper economic realignment now appears more fluid. That said, policy risk remains elevated. A temporary tariff truce does not guarantee resolution, and both the tone and substance of future talks will be closely watched.

We expect volatility to persist as markets navigate this evolving landscape. The outlines of a new regime, shaped by a blend of strategic overseas rivalry, selective cooperation, and shifting economic priorities, are only beginning to emerge.

Despite the noisy headlines, our investment approach remains unchanged. Stay disciplined, stay diversified, and stay focused.

Portfolio Moves:
We continue to view asset allocation through a long-term lens, while also positioning tactically as short-term dynamics unfold.

We are marginally underweight US equities, reflecting a degree of caution rather than a fundamental shift in our long-term view. The US remains an economic powerhouse, home to many of the world's most profitable companies and a global centre for innovation. However, elevated valuations and uncertainty surrounding higher trade tariffs cloud the near-term earnings outlook, which may weigh on US equities. Once valuations moderate and trade policy becomes clearer, we would look to bring our exposure back to, or slightly above, weight. We continue to see some of the most compelling long-term opportunities in areas such as Artificial Intelligence.

Easing US/China tensions offer a near-term tailwind, with the suspension of most tariffs and a 90-day negotiation window helping to stabilise sentiment. Domestically, China's momentum is also improving, supported by targeted stimulus and resilient consumer demand. The success of DeepSeek and other tech leaders has further energised sentiment toward China's tech sector. We continue to favour broad-based emerging market exposure, allowing participation in the recovery while avoiding concentration risk as geopolitical dynamics unfold.

Europe, particularly Germany and France, is benefiting from a wave of fiscal spending focused on defence and infrastructure, alongside ECB rate cuts helping fuel a cyclical recovery. That said, Europe's structural technological gap continues to weigh on longer-term competitiveness. As such, we have taken profit on our overweight position, reducing to at weight and reallocating to more attractive opportunities.

Japanese and UK equities appear relatively attractive from a valuation perspective. In Japan, ongoing structural corporate reforms and efforts to boost technological self-sufficiency are highlighted by TSMC's $23 billion joint venture with Sony and Toyota. Meanwhile, UK equities continue to trade at historically low valuations, alongside improving trade sentiment with the US that appears more constructive compared to global peers. As a result, we have increased our exposure to both regions.

Although the trade narrative has become more accommodative, we still expect a one-off shock to US goods prices inducing firmer or higher inflation. We view this inflationary pressure as transitory, particularly as it remains supply-driven. To position for this, we have increased our inflation exposure through the TIPS (Treasury Inflation Protected Securities) index which is not sensitive to changes in inflation expectations.

While the risk of recession has not been fully ruled out, the softening in trade rhetoric gives us a reason to be cautiously optimistic. In line with this, we have reduced the level of safe haven assets such as gold, which has performed strongly this year on the back of global trade uncertainty.

Final thoughts:

In the face of ongoing trade tensions and a rapidly shifting global landscape, we remain focused on positioning for the long term and navigating through the noise. We maintain a disciplined approach, placing conviction in structural investment opportunities that provide a clear foundation for future growth.

While the recent US/China de-escalation has helped ease market anxiety, upcoming trade talks with China, the EU, and other strategic partners will be critical in shaping the direction of global supply chains and investment flows. Markets are adjusting to this new reality, where trade is not just an economic lever but a geopolitical weapon.

Looking ahead, while policy risks remain elevated, we remain cautiously optimistic. We believe the opportunities that will define 2025 and beyond are already taking shape and we are positioning to capture them

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