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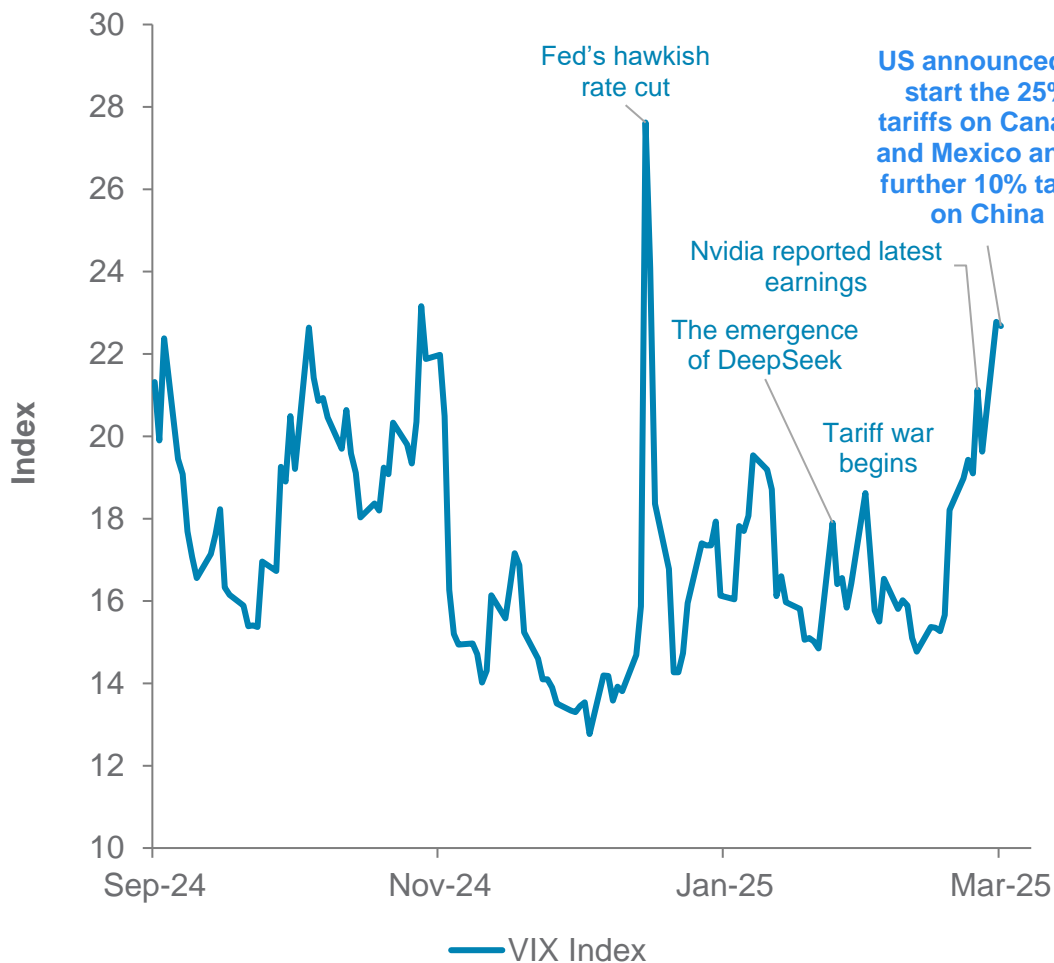
The impact of tariffs

05 March 2025

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Recent macro developments and market volatility (VIX)

US Stock Market Volatility (VIX Index) rising on mixed US economic data points and rising trade tensions



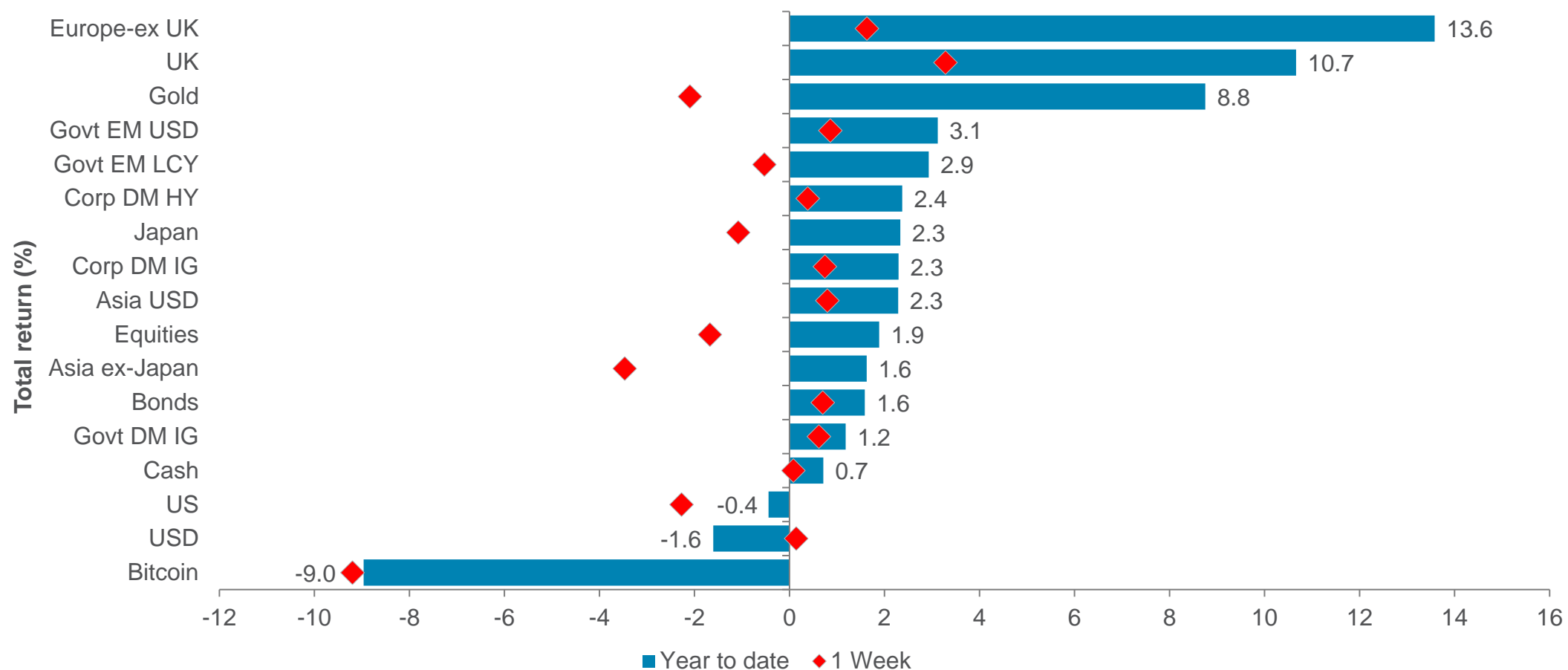
	Positive for risk assets	Negative for risk assets
US Macro data	<ul style="list-style-type: none">US Chicago Fed National Activity index dropped less than expectedUS durable goods orders came in above expectations in January	<ul style="list-style-type: none">US Conference Board consumer confidence dropped unexpectedlyUS services PMI fell unexpectedly to 49.7US new home sales dropped unexpectedUS initial jobless claims rose above expectations to 242,000
	Negative: Weak US consumer confidence, new home sales and US services data	
Trade news		<ul style="list-style-type: none">Trump announced tariffs on Canada and Mexico will start from 4 March, and on EU from AprilTrump ordered new tariff probe into US copper imports
	Negative: Rising trade tensions	

Source: Bloomberg, Standard Chartered



How different asset classes have reacted to these developments

Performance of key asset classes, YTD and the last 1 week*



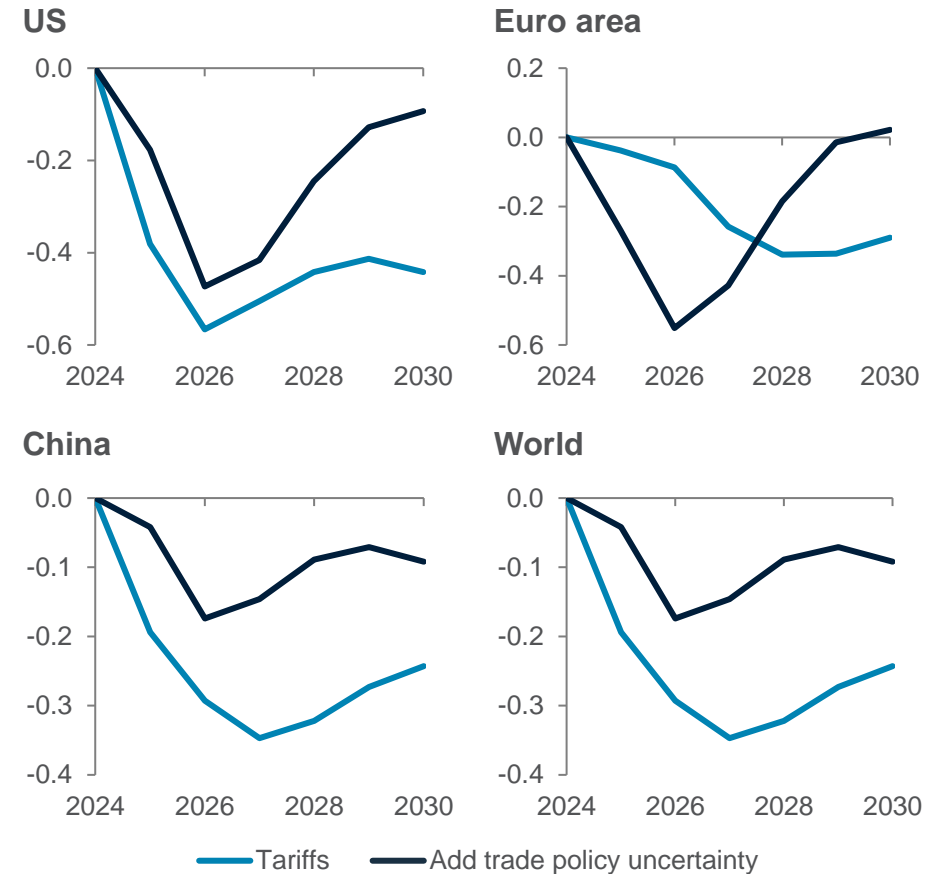
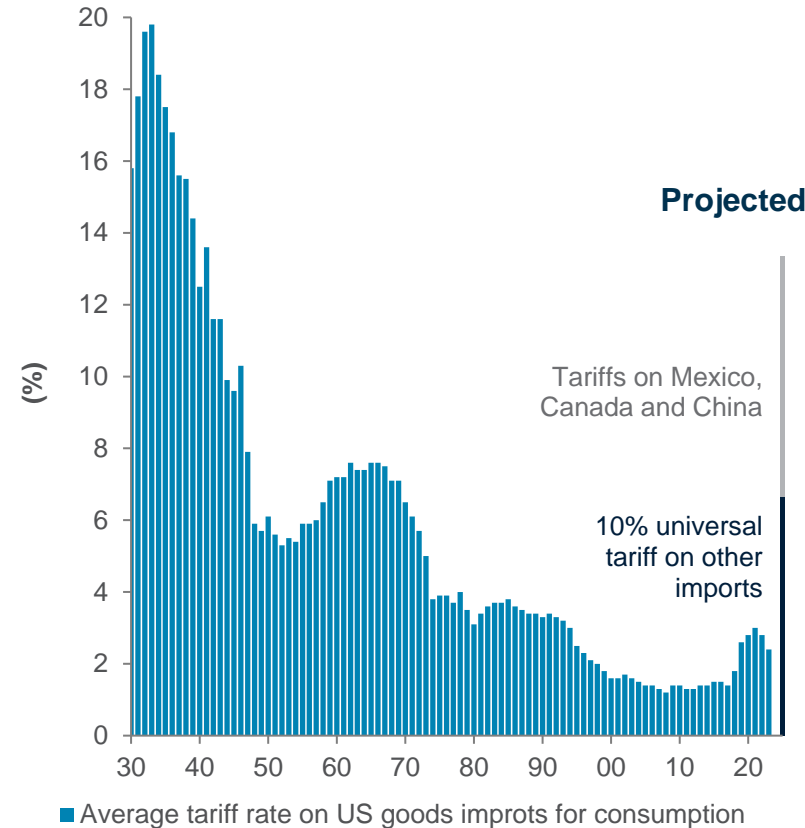
Source: Bloomberg, Standard Chartered; as of 3 March, 2025



The new tariffs mean US protectionism will rise to multi-decade highs

- US average tariffs will rise to well above 10%, the highest since the 1940s, from today's 2.3% average, if Trump follows through on threatened tariffs
- Tariffs to increase US competitiveness at the expense of trade partners
- Mexico, Canada and EU are likely to be directly impacted the most, given their ballooning trade surplus vs the US since the pandemic
- China will be impacted indirectly due its growing dependence on global exports to drive growth

Average tariff rate on US goods imports for consumption; GDP impact of tariffs, trade uncertainty



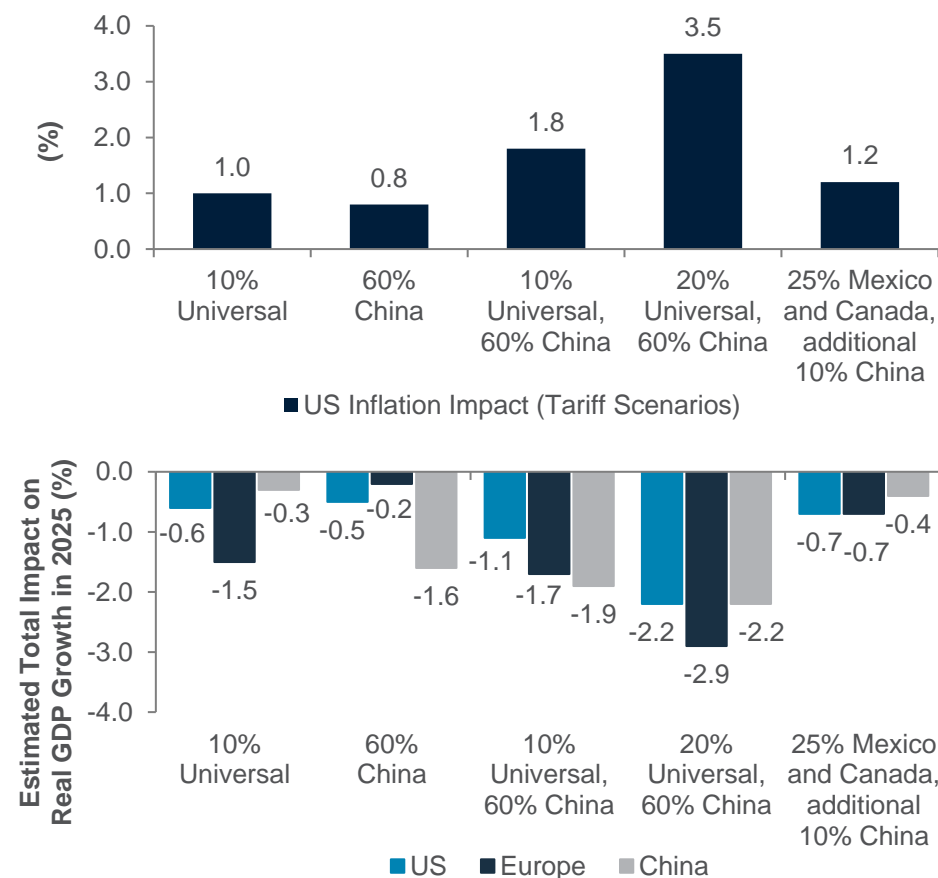
Source: US International Trade Commission, IMF, Bloomberg; Standard Chartered



Tariffs to lift near-term inflation, hurt medium-term growth, especially ex-US

- US manufacturing capacity and job market are both tight; hence most tariffs are likely to be passed on to consumers
- Recently announced tariffs are likely to raise US inflation and hurt US GDP by varying degrees, depending on the tariffs that are imposed and passed on to consumers
- Ultimate impact will depend on actual tariff rates, supply disruptions, the degree of retaliation and USD adjustments

Likely impact on US inflation, global growth; comparative macro backdrop today vs. 2016



Source: Goldman Sachs Asset Management, Standard Chartered

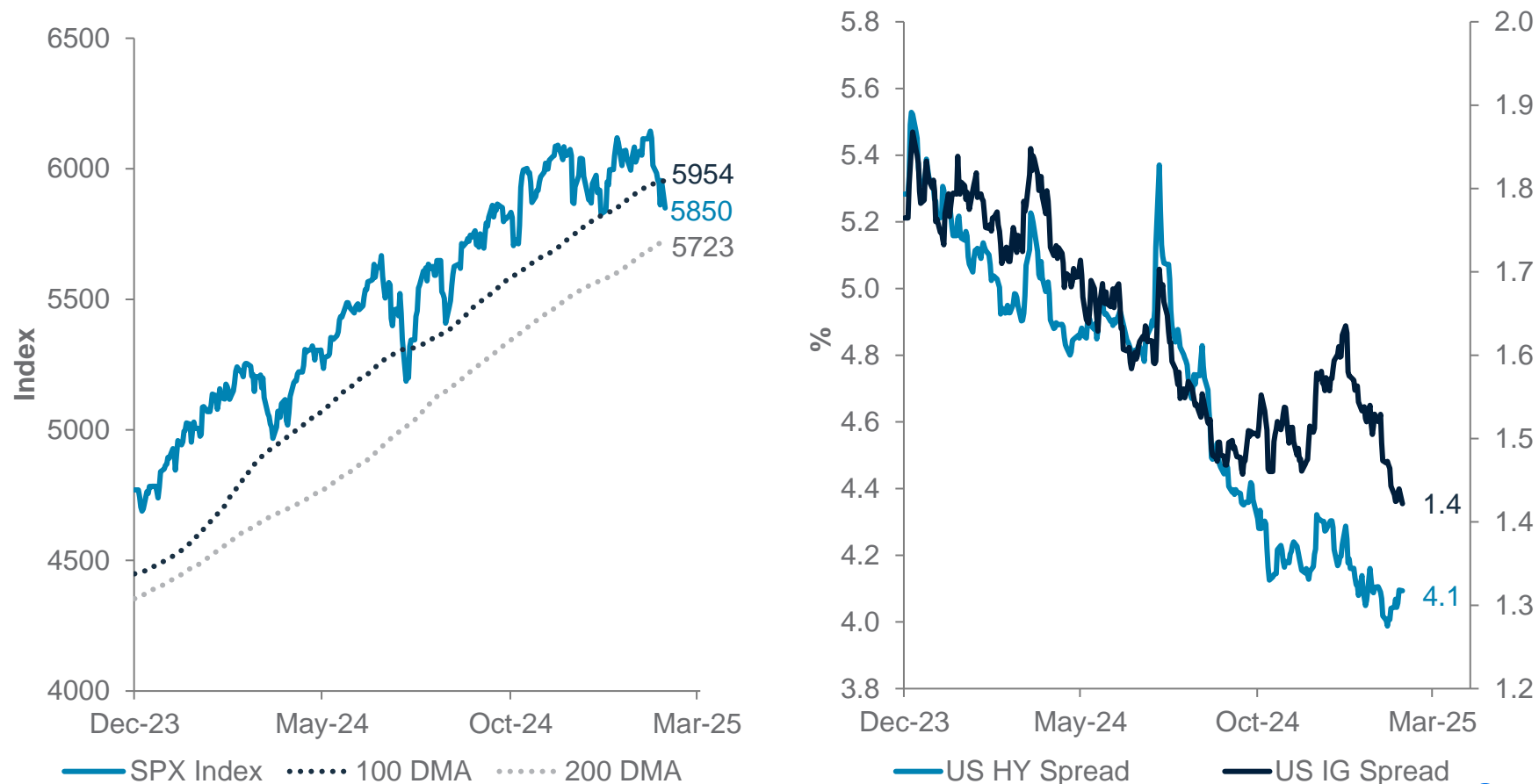
	Trump 1.0	Trump 2.0
US Real GDP (%y/y)	1.8% (Q3'16)	2.7% (Q3'24)
Unemployment Rate	4.9% (Oct'16)	4.1% (Oct'24)
12m Change in Unemployment Rate	Declined by 10bps (5.0% to 4.9%)	Increased by 30bps (3.8% to 4.1%)
Total Nonfarm Employment (%y/y)	1.74% (Oct'16)	1.4% (Oct'24)
Headline CPI (%y/y)	1.6% (Sep'16)	2.4% (Sep'24)
Core CPI (%y/y)	2.3% (Sep'16)	3.3% (Sep'24)
5y Inflation Expectation (University of Michigan)	2.4%	3.0%
Conference Board Consumer Confidence	101 (Oct'16)	109 (Oct'24)
Global Mfg. PMI/6m Change in Global Mfg. PMI	51.9 / +1.8	49.4 / -0.9
US Mfg. PMI/6m Change in US Mfg. PMI	53.4 / +3.6	48.5 / -1.5
Federal Deficit (% of GDP, 4qma)	-3.0% (Q3'16)	-6.6% (Q3'24)
Gross Federal Debt (% of GDP)	105%	124%



Tariffs and trade uncertainty have started to impact markets

- US equities and bond yields have both declined over the past couple of weeks, suggesting investors are becoming more concerned about the growth outlook as President Trump pushes through with his tariff plans
- However, the market impact has been relatively muted so far, compared with past corrections
- S&P500 index has pulled back from a record high, breaking below its 100DMA, with next support around 200DMA
- US High Yield bond spreads have risen from three-year lows, though the rebound has been restrained

S&P 500 Index and moving average lines; DM IG and HY credit spreads



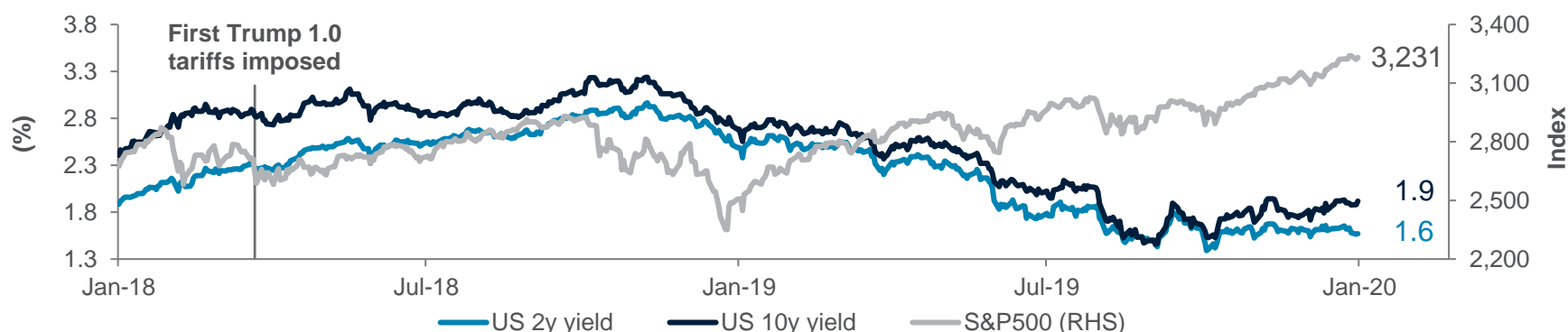
Source: Bloomberg, Standard Chartered



In Trump 1.0, bond yields initially rose post tariffs, then fell on growth fears

- One-off near-term inflationary impact of tariffs initially led to higher bond yields in 2018
- Growth and deflationary concerns eventually returned, dragging bond yields and equities lower
- **Downside risk:** There is a risk tariffs could be stickier this time, sustaining inflation longer, if they are used as key revenue source
- **Upside risk:** Trump (Musk) looking to cut government spending to partly pay for proposed tax cuts; success would reduce dependence on tariffs for funding tax cuts

US 10-year government bond yield and S&P500 index during 2018-19 (during Trump 1.0 trade war)



Episode (% reaction)	Mar-April'18	Jun-Aug'18	May'19	Aug'19	Average
Trigger	Trump announces \$60bn Section 301 tariffs	USTR releases a revised list of products subject to 25% tariffs, in two phases	List 3 (\$200bn) tariffs increased from 10 to 25%, 25% tariff threatened on List 4	List 4 Tariffs (US\$300bn) of 10% threatened to started on Sep 1	
Phase-ending event	List reduced to US\$50bn on intermediate goods	Phase 1 & 2 of US\$50bn worth of goods placed by both China and the US	USTR states List 3 goods shipped prior to May 10 not subject to tariff if arrive before jun 15	US announced List 4 tariffs in two tranches (4a and 4b), delays List 4b (\$160bn) tariffs to Dec 15	
S&P 500	-3.59	2.78	-6.57	5.73	-3.3
US energy stocks	-1.54	-0.63	-8.94	-10.47	-5.4
DX	0.46	0.93	-0.24	-0.06	0.4
CSI 300	-4.89	-9.20	-7.24	-4.86	-6.5
CNH	0.5	-6.63	-2.90	-2.34	-2.8
WTI	-2.29	4.13	-13.54	-4.92	-4.2
Gold	0.04	-7.30	2.07	5.97	0.2
UST 10Y (bps)	-10.8	-9.4	-40.1	-47.9	-27
UST 2S10S (bps)	-8.0	-16.6	1.0	-21.0	-11.1

Source: Bloomberg, Vanda Research, Standard Chartered



Key milestones from Trump 1.0 trade war

- Trump 1.0 tariff war was announced in spring 2018 and was mainly focused on China
- Positive market catalysts emerged subsequently with US-China background negotiations starting in May 2018
- By Q3 2019, Trump-Xi had held talks and China had said it wouldn't immediately retaliate
- See next slide for how markets reacted to each negative and positive catalyst

How Trump 1.0 trade war played out in 2018-19

Negative Catalysts		Positive Catalysts	
Context		Context	
22-Mar-18	Trump imposes tariffs on \$60bn on Chinese imports	4-May-18	Goldilocks US jobs data (lower unemployment rate and lower wages)
2-Apr-18	China retaliates with tariffs on US pork and fruit	10-May-18	Trump tweets that US-China talks have been "constructive"
5-May-19	Trump tweets that tariffs on List 3 increased to 25% and threatens List 4 tariffs	1-Jun-18	US non-farm payrolls beat estimates
13-May-19	China retaliates with tariffs on \$60bn of US goods	4-Jun-19	Border-related tariffs on Mexico potentially delayed
1-Aug-19	Trump tweets announcing 10% tariffs on List 4 due to lack of Chinese agricultural purchases	18-Jun-19	Trump tweets about "very good telephone conversation" with Xi
23-Aug-19	China retaliates with 5-10% tariff on \$75bn of US goods, leading US to counter with an additional 5% tariff	19-Jun-19	Dovish FOMC meeting
		29-Jun-19	Constructive Trump-Xi talks at G20
		29-Aug-19	Confirmation from Trump of a conversation with China + China saying it won't immediately retaliate
		4-Sep-19	US and China agree to face-to-face negotiations in early Oct

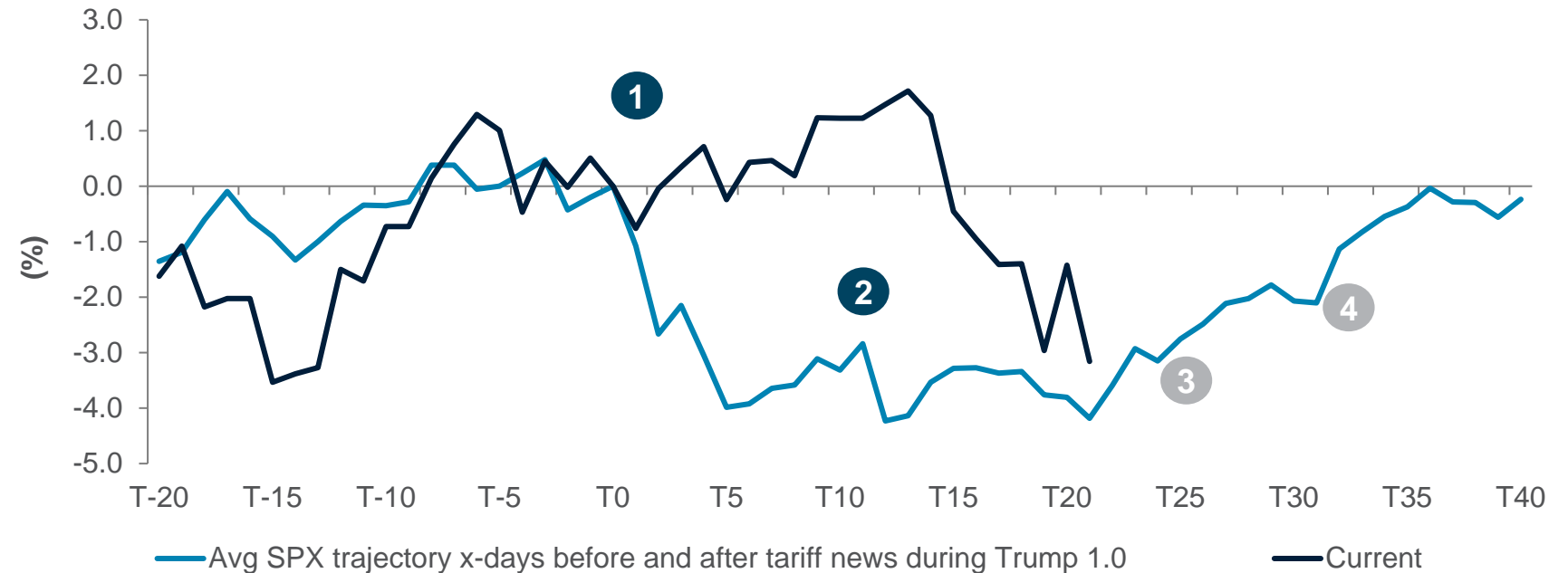
Source: Vanda Research, Standard Chartered



Trump 2.0 could crunch timeline as partners familiar with “Art of the Deal”

- Markets are extrapolating Trump 1.0 trade war to estimate how markets might react if Trump 2.0 escalates
- Risk assets initially fell on Trump tariff threats, China retaliation, before recovering on positive news from negotiations and positive macro/policy news
- This time, the timeline could be crunched as trade partners are better prepared this time and both are familiar with Trump’s “**The Art of the Deal**”

Trajectory of S&P500 move during Trump 1.0 and likely trajectory if tariff events sped up 12x



1. Tariff threat	2. Retaliation	3. Negotiation	4. Macro news
e.g., Trump Tweet/ Truth	e.g., China retaliation	e.g., positive news flow on negotiation	e.g., positive macro or policy news flow

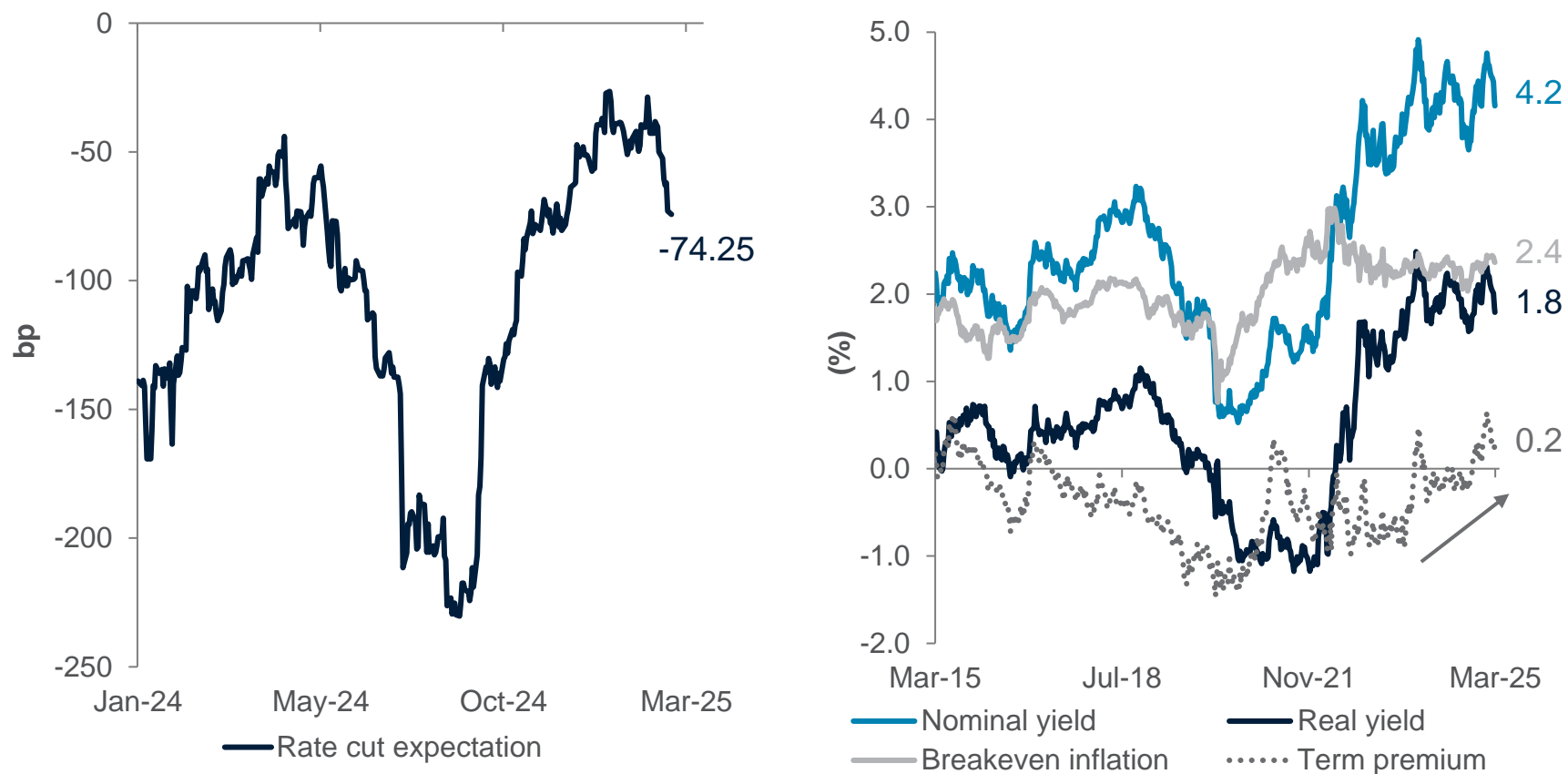
Source: Bloomberg, Vanda Research, Standard Chartered



Fed on hold amid policy risks; watch inflation expectation, term premium

- Fed to remain on hold in March amid uncertainty about the impact of tariffs and fiscal policy on inflation and growth
- However, any downturn in growth is likely to bring forward Fed rate cuts
- Money markets are pricing around 75bps of rate cuts from now until end-2025
- The Fed and markets will watch long-term inflation expectations and term premium closely
- Inflation expectations remain anchored so far, but continued rise in term premium signals uncertainty over Trump's fiscal policy

Money market estimate of Fed rate cut by Dec 25; breakdown of US 10-year government bond yield



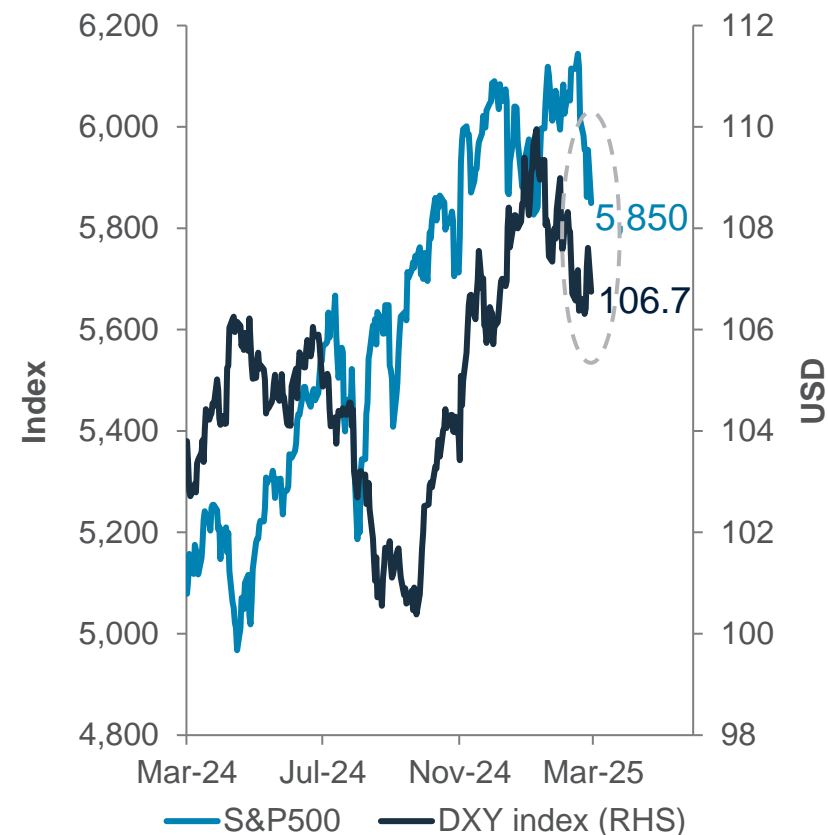
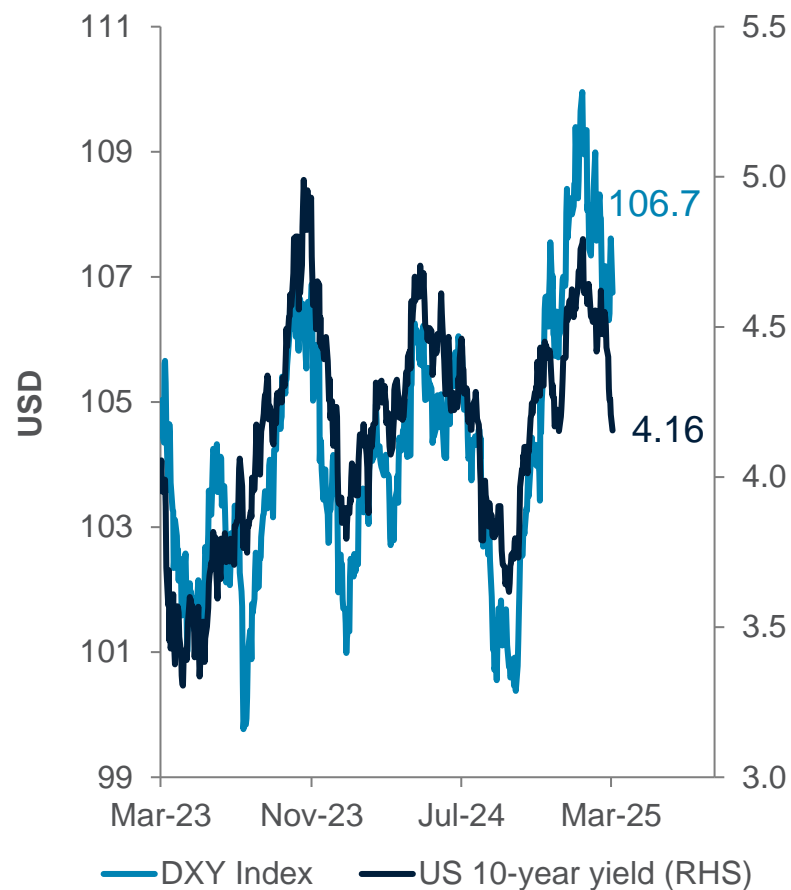
Source: Bloomberg, Standard Chartered; as of 3 March, 2025



USD path key to relative asset performance

- Sustained outperformance of equities and other risk assets likely needs lower bond yields and weaker USD
- US government bond yields could fall if Treasury Secretary Bessent's tax cut plan partly paid by Musk's spending cuts and limited tariffs
- Unfunded tax cuts would be a risk to bonds, raising yields
- Trade deal, involving limited tariffs, and lower fiscal deficit likely to weaken USD
- Trade deal with China, which involves a weaker USD (stronger CNY), would be positive for ex-US assets

Sustained outperformance of risk assets likely needs lower bond yields and a weaker USD



Source: Bloomberg, Standard Chartered; as of 3 March, 2025



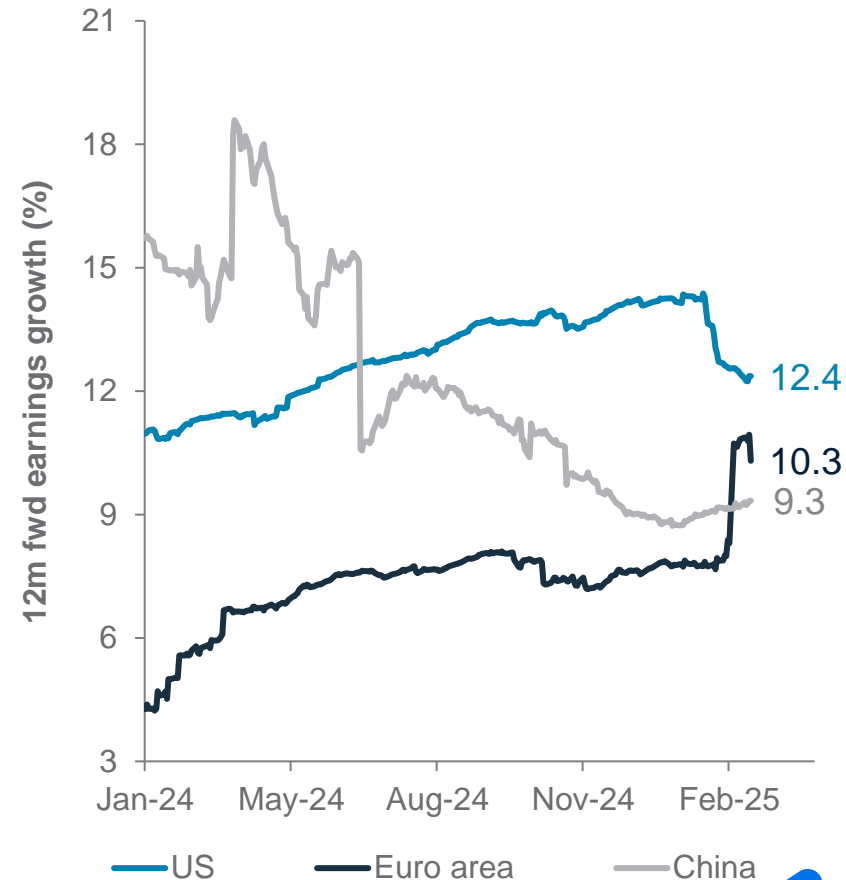
US economic data have missed estimates, earnings estimates downgraded

- US economic and business confidence indicators have started to wilt amid rising policy uncertainty
- US economic data have missed estimates in recent weeks; the Atlanta Fed's real-time GDPNow estimates are now projecting Q1 25 GDP contraction (-1.5%) vs. 2.3% growth projected in late February
- US 12-month forward earnings estimates have also been downgraded in recent weeks, while Euro area estimates have been upgraded on optimism about an end to the Russia-Ukraine conflict

US and Euro area economic surprise indices; US, Europe, China 12m fwd earnings growth estimates



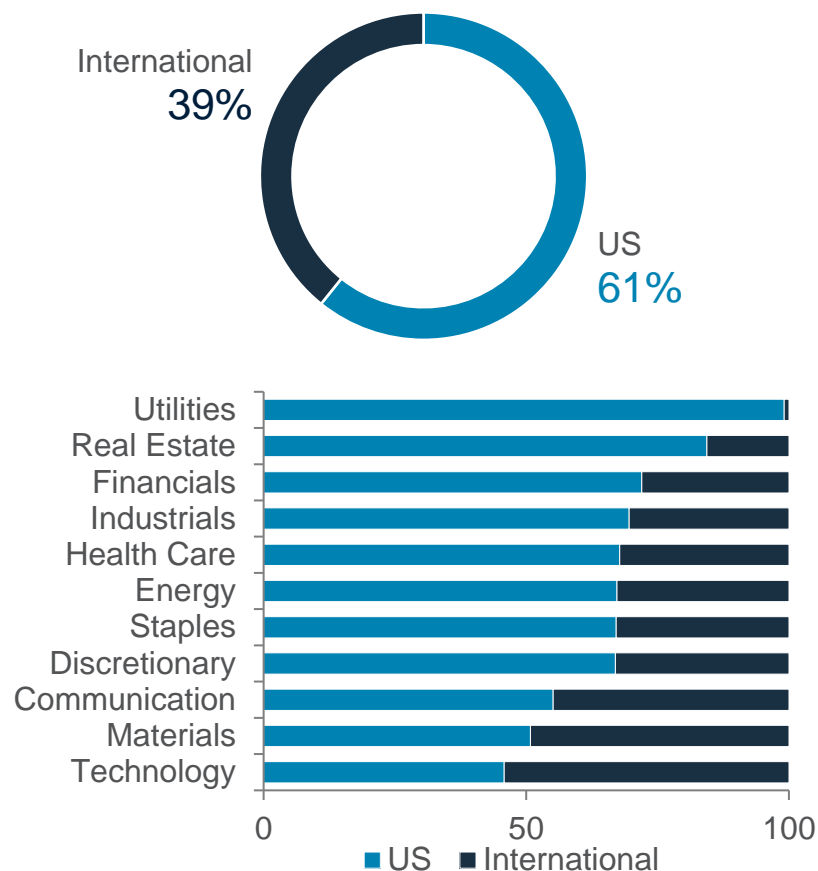
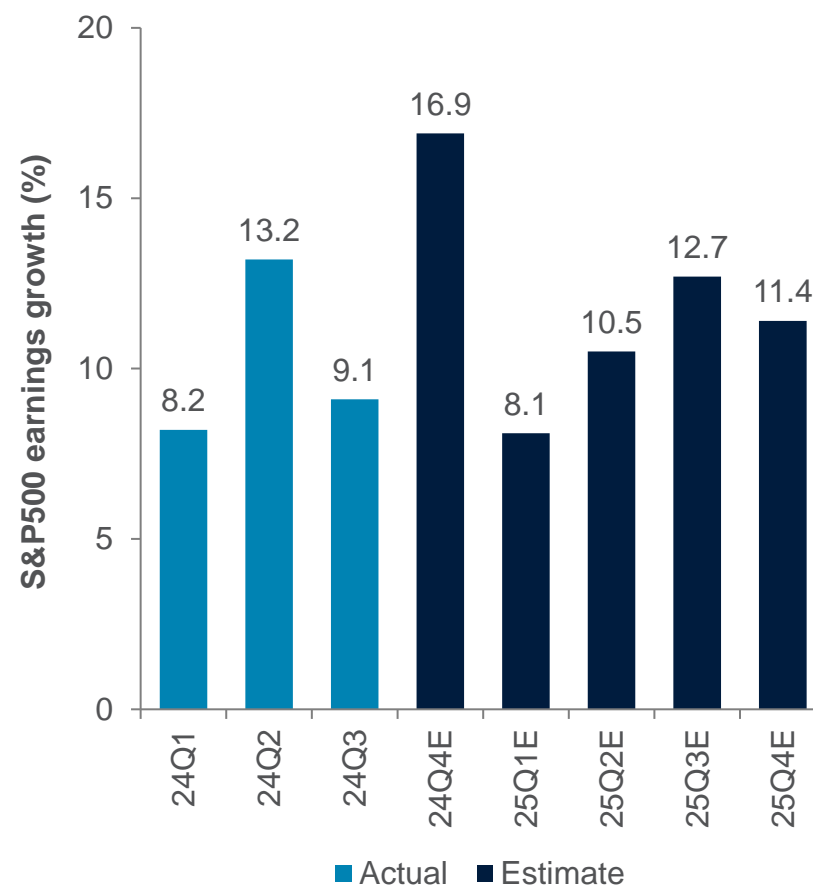
Source: FactSet, Bloomberg, Standard Chartered



US earnings key support for equities, but firms exposed to tariffs

- US corporate earnings for Q4 2024 have continued to beat expectations
- 2025 earnings expectations remain robust, despite recent downgrades, with earnings seen broadening out beyond technology and communication services sectors
- However, S&P500 index earnings, especially in the technology sector, are heavily exposed to global markets, making them vulnerable to a prolonged tariff war

US corporate earnings and estimates, % y/y; breakdown of S&P500 index revenue by origin

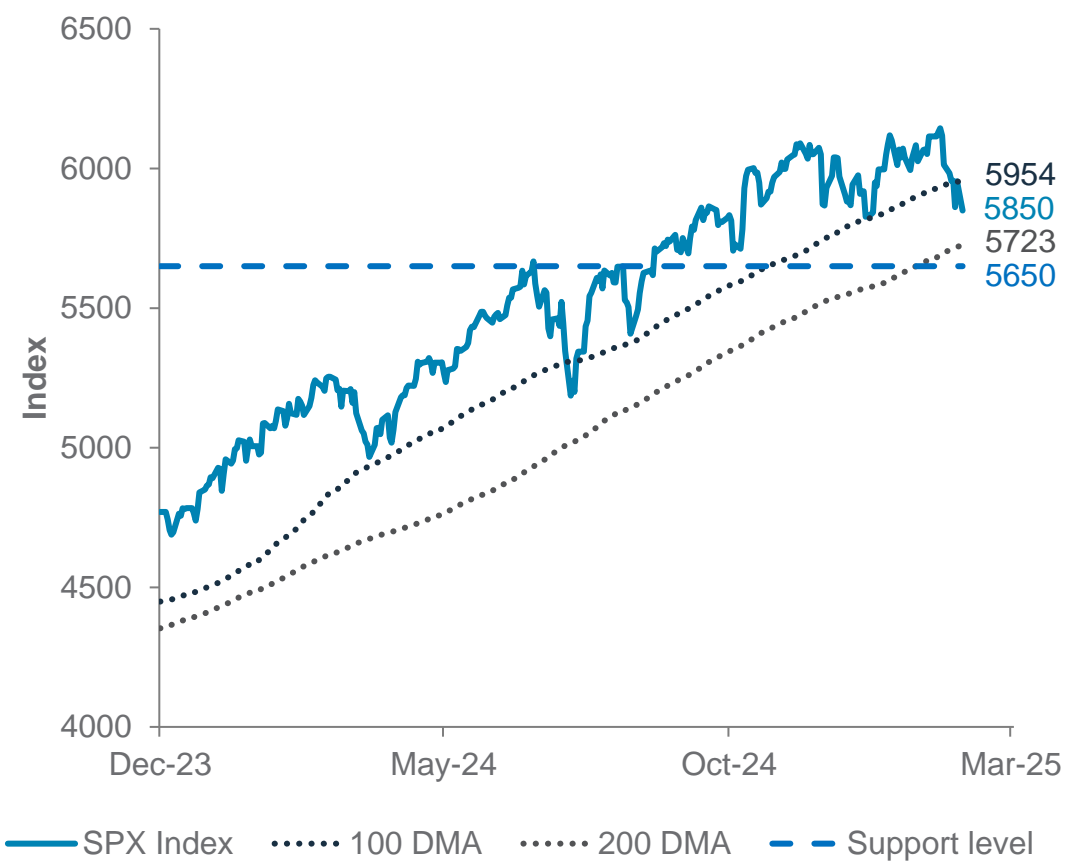


Source: LSEG I/B/E/S, FactSet, Standard Chartered; as of 28 February, 2025



Equities: Opportunities to buy on dips

S&P 500 Index and technical levels






Hang Seng Tech 12m forward Price/Earnings



Source: Bloomberg, Standard Chartered



Equities: Diversify exposures across Overweight (OW) sectors

	US 	Europe 	China 	India 
▲ Overweight	Technology	Communication	Technology	Industrials
	Communication	Technology	Communication	Financials
	Financials	Healthcare	Discretionary	Technology
		Financials		
◆ Neutral	Discretionary	Utilities	Financials	Staples
	Industrials	Industrials	Staples	Discretionary
	Energy	Real Estate	Healthcare	Healthcare
	Healthcare	Energy	Industrials	
	Materials	Staples	Energy	
	Utilities		Utilities	
▼ Underweight	Staples	Discretionary	Materials	Materials
	Real Estate	Materials	Real Estate	Energy
				Utilities

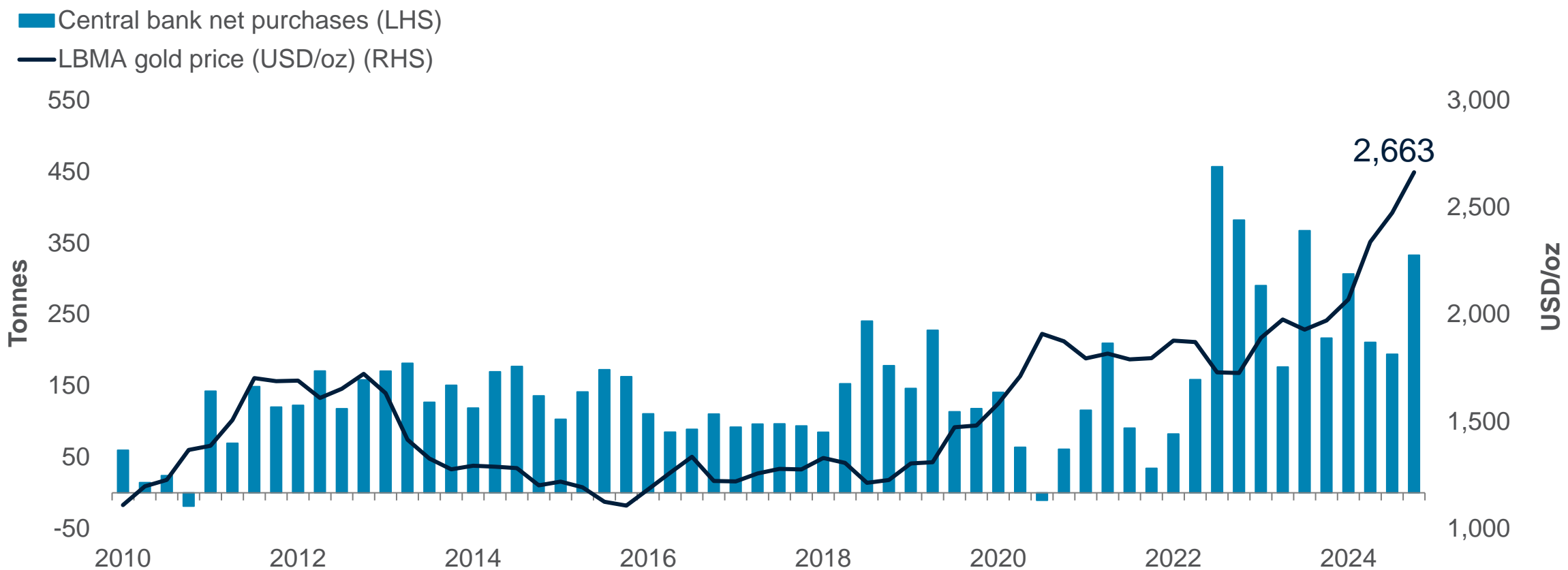
Source: Standard Chartered

▲ upgrade from prior GMO | ▼ downgrade from prior GMO | * Attractive to buy



Gold: Latest data showed strong central bank demand, a structural tailwind

Quarterly central bank purchases

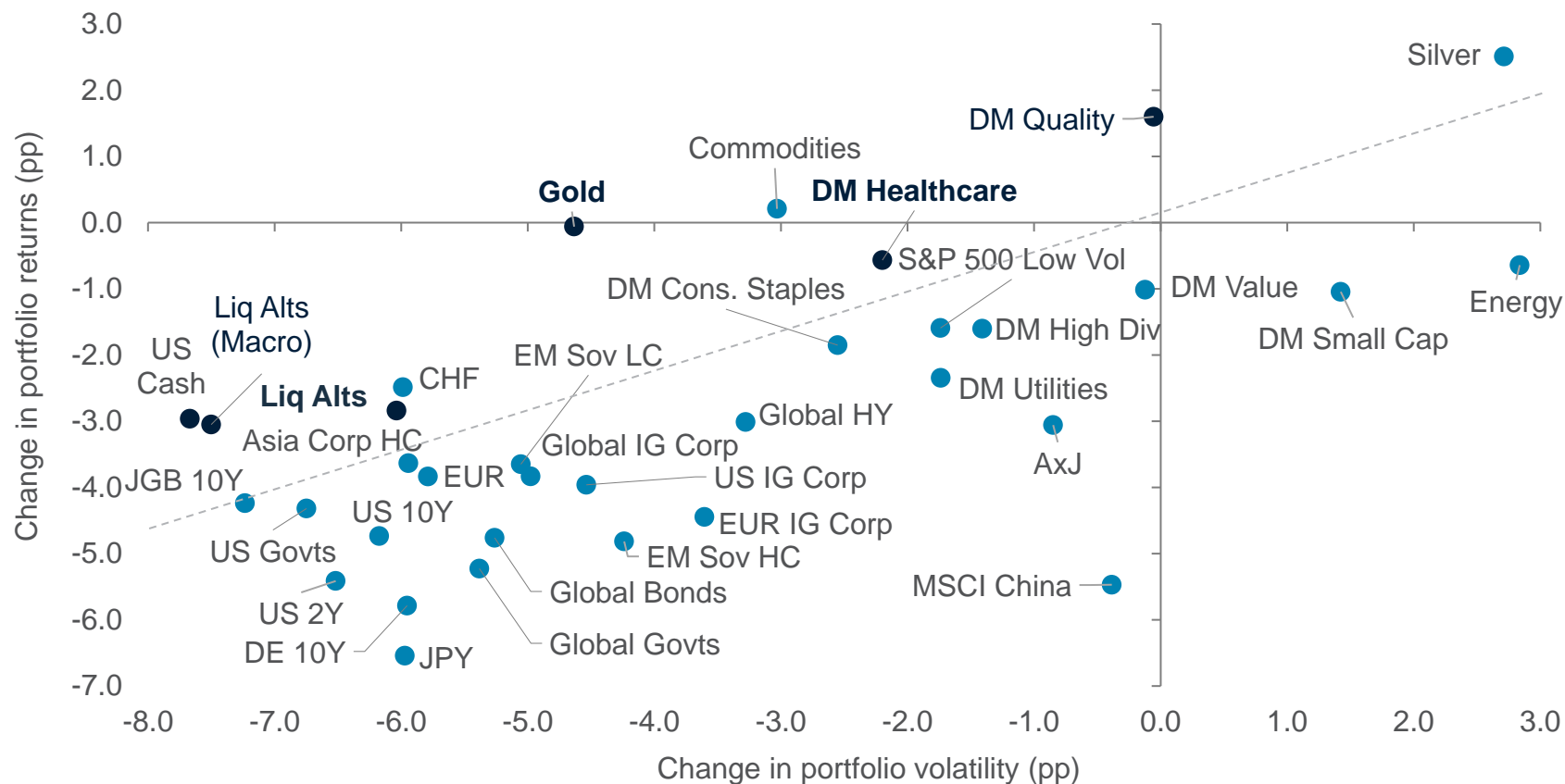


Source: Bloomberg, Standard Chartered. The latest available data is as of 31 December 2024



Gold and Liquid alternatives moderate portfolio volatility during sticky inflation

Gold and liquid alternatives have reduced portfolio volatility when added to a 60/40 equity/bond portfolio*



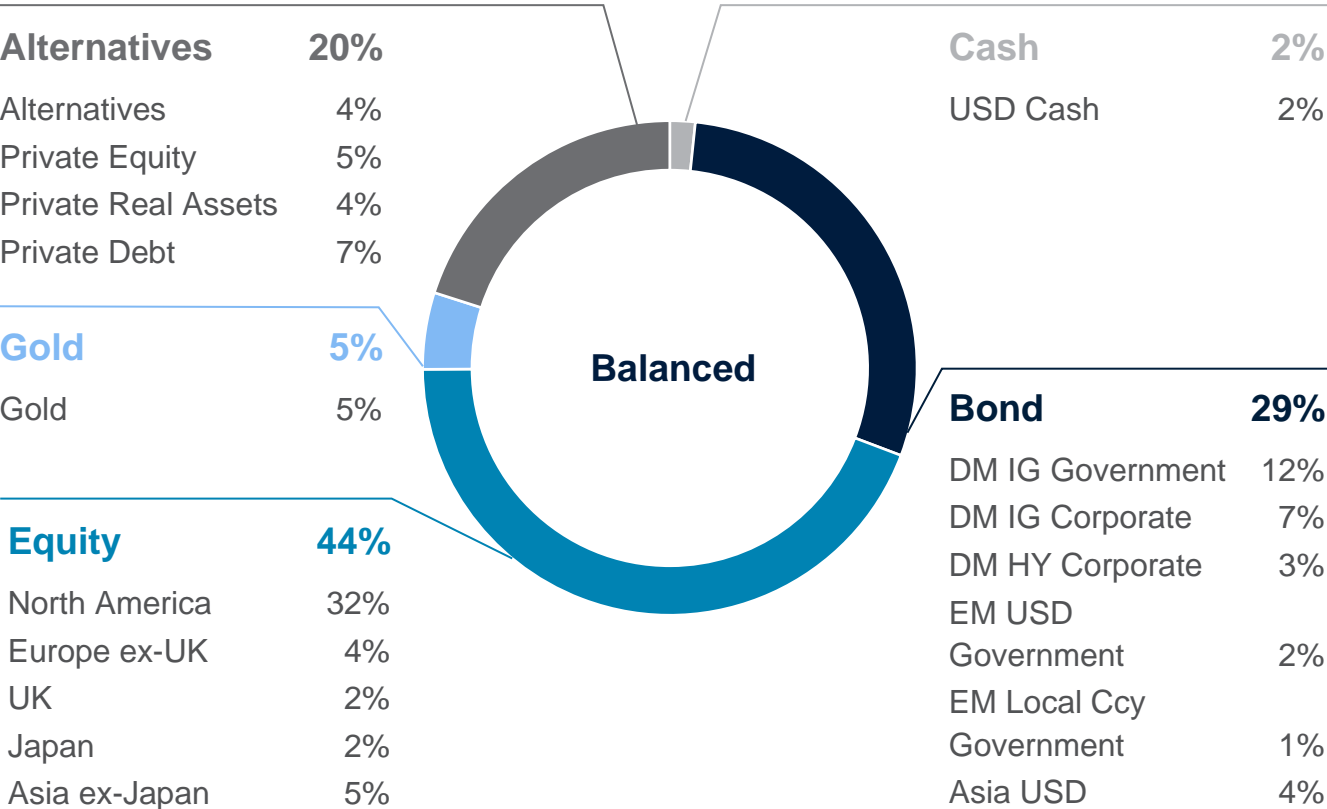
Source: Bloomberg, Standard Chartered.

*Change in portfolio returns and volatility from a 100% Global Equities portfolio to a 60% Global Equities/40% Diversifier portfolio, Calculations based on data from Jan 2020 to Nov 2023

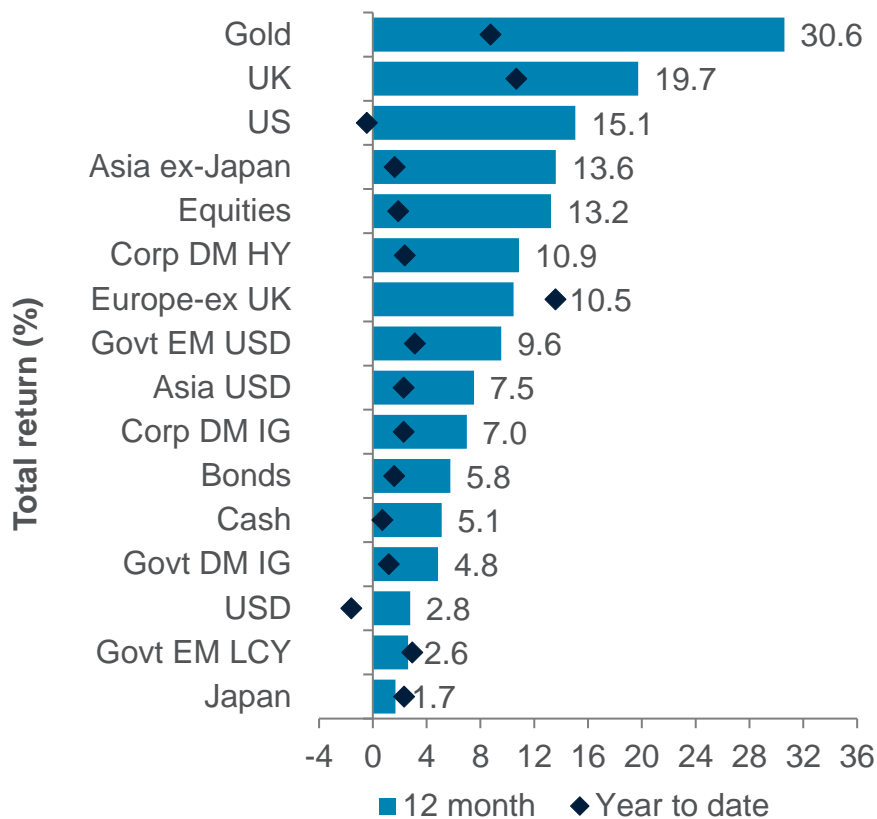


Uncertainty calls for diversified allocation, with OW on gold

Foundation + tactical asset allocations



Performance of key asset classes, 12m & YTD*



Source: Standard Chartered Global Investment Committee; Bloomberg
 *asset class performance as of 3 March, 2025



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