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Market Watch

The impact of tariffs

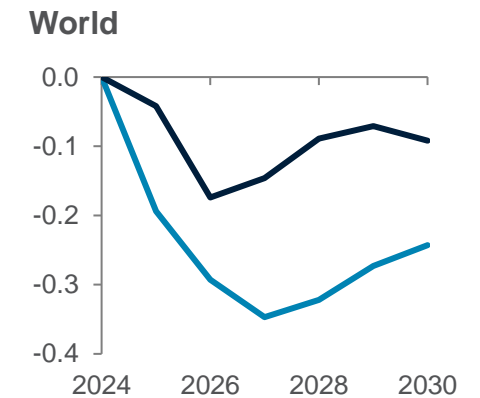
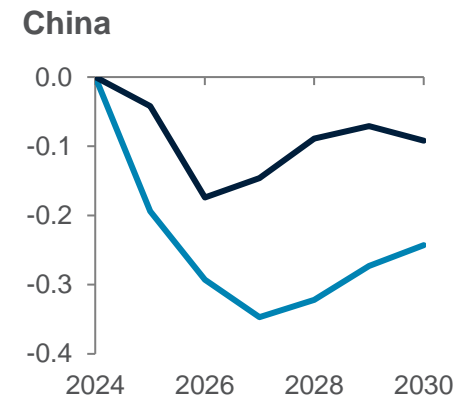
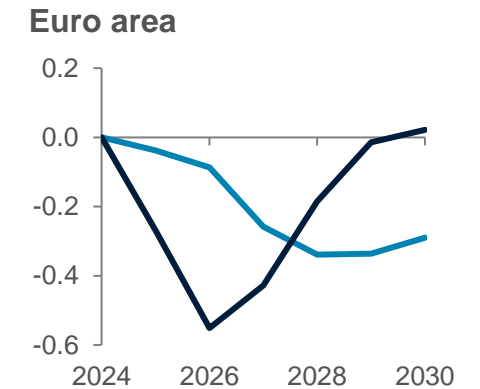
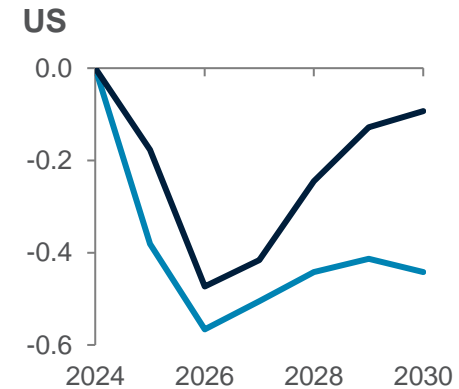
17 February 2025

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If Trump follows through, 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 it's growing dependence on global exports to drive growth

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



— Tariffs — Add trade policy uncertainty

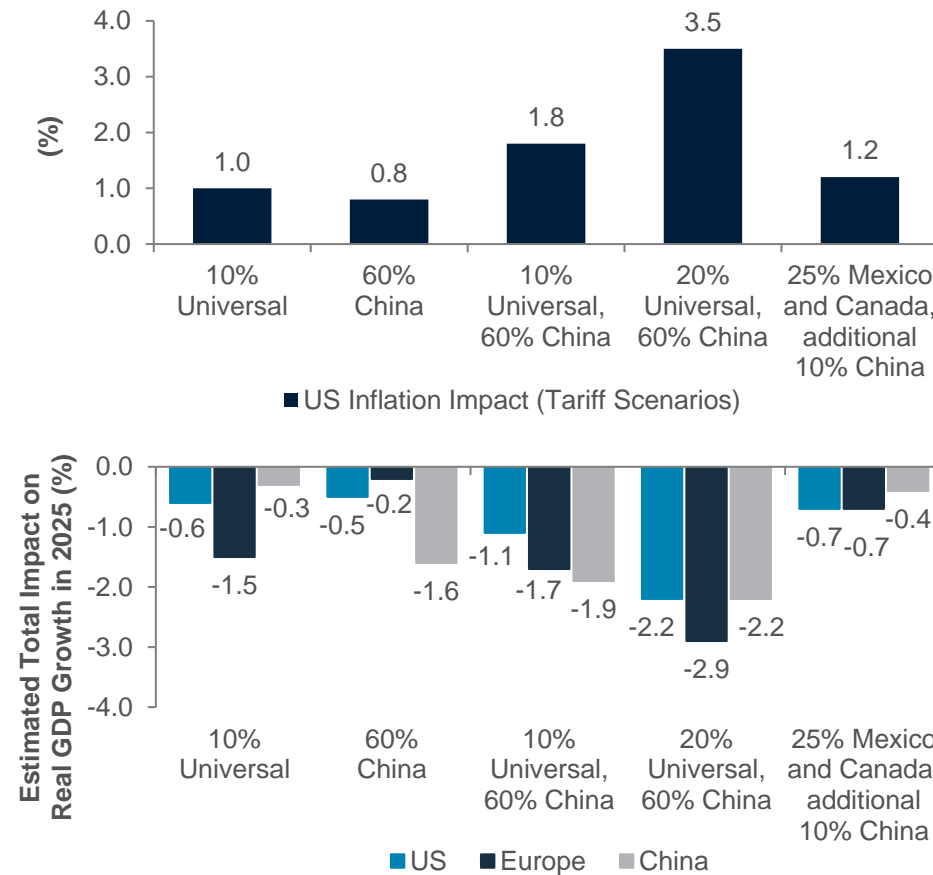
Source: US International Trade Commission, IMF, Bloomberg; Standard Chartered



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
- Based on Fed models used during Trump 1.0 tariffs, recently announced tariffs are likely to **raise US core PCE inflation by 0.7% and hurt US GDP by 1.2%**, if all tariffs are passed on to consumers and US trade partners retaliate by same degree
- 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

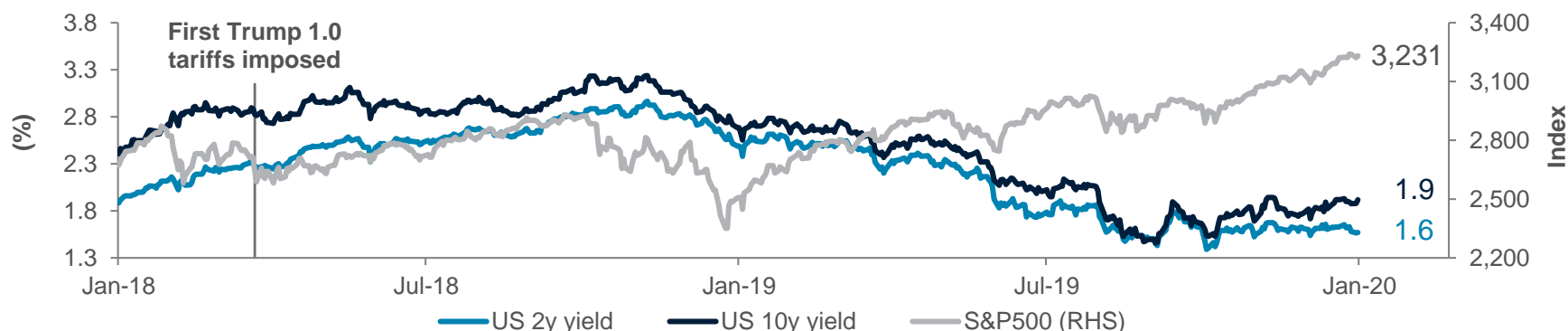
	Trump 1.0	Trump 2.0
US Real GDP (%y/y)	1.8% (Q3'16)	2.7% (Q3'24)
Unemployment Rate	4.9% (Oct'16)	4.1% (Oct'24)
12m Change in Unemployment Rate	Declined by 10bps (5.0% to 4.9%)	Increased by 30bps (3.8% to 4.1%)
Total Nonfarm Employment (%y/y)	1.74% (Oct'16)	1.4% (Oct'24)
Headline CPI (%y/y)	1.6% (Sep'16)	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%



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

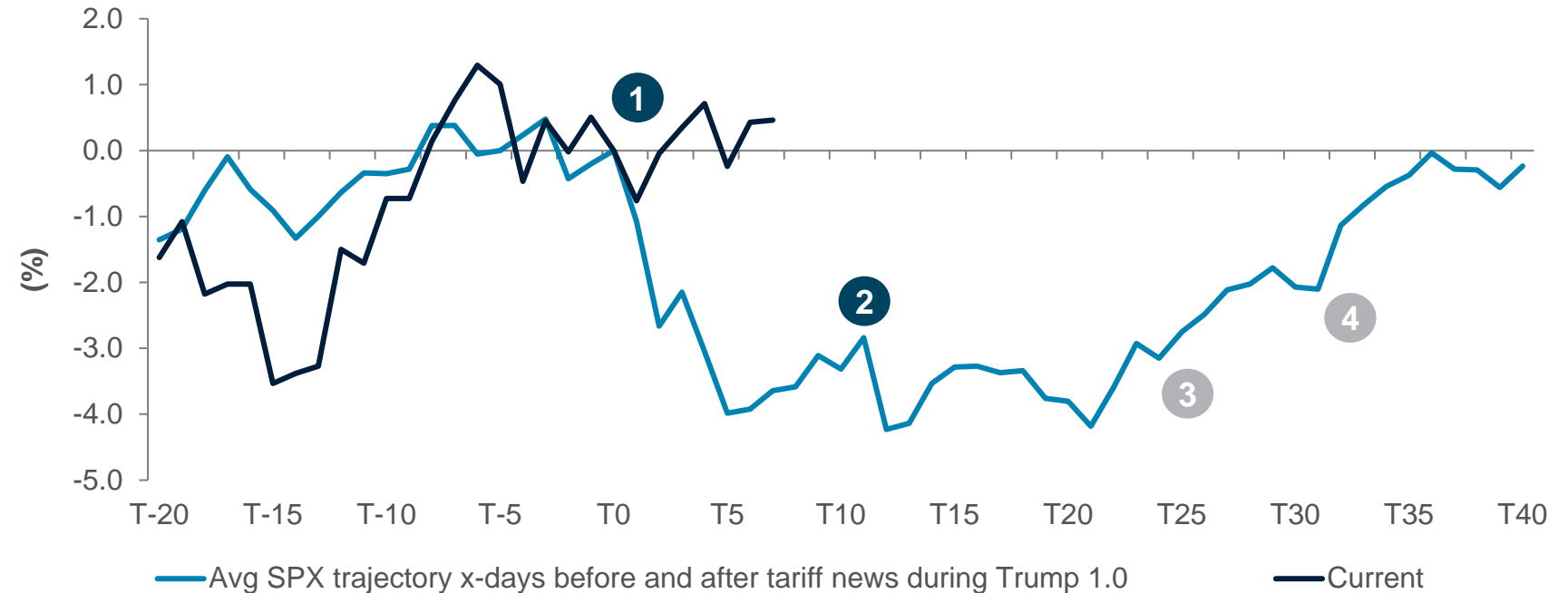
Source: Vanda Research, Standard Chartered



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”
- This month’s imposition and then lifting of Mexico tariffs is a good example

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

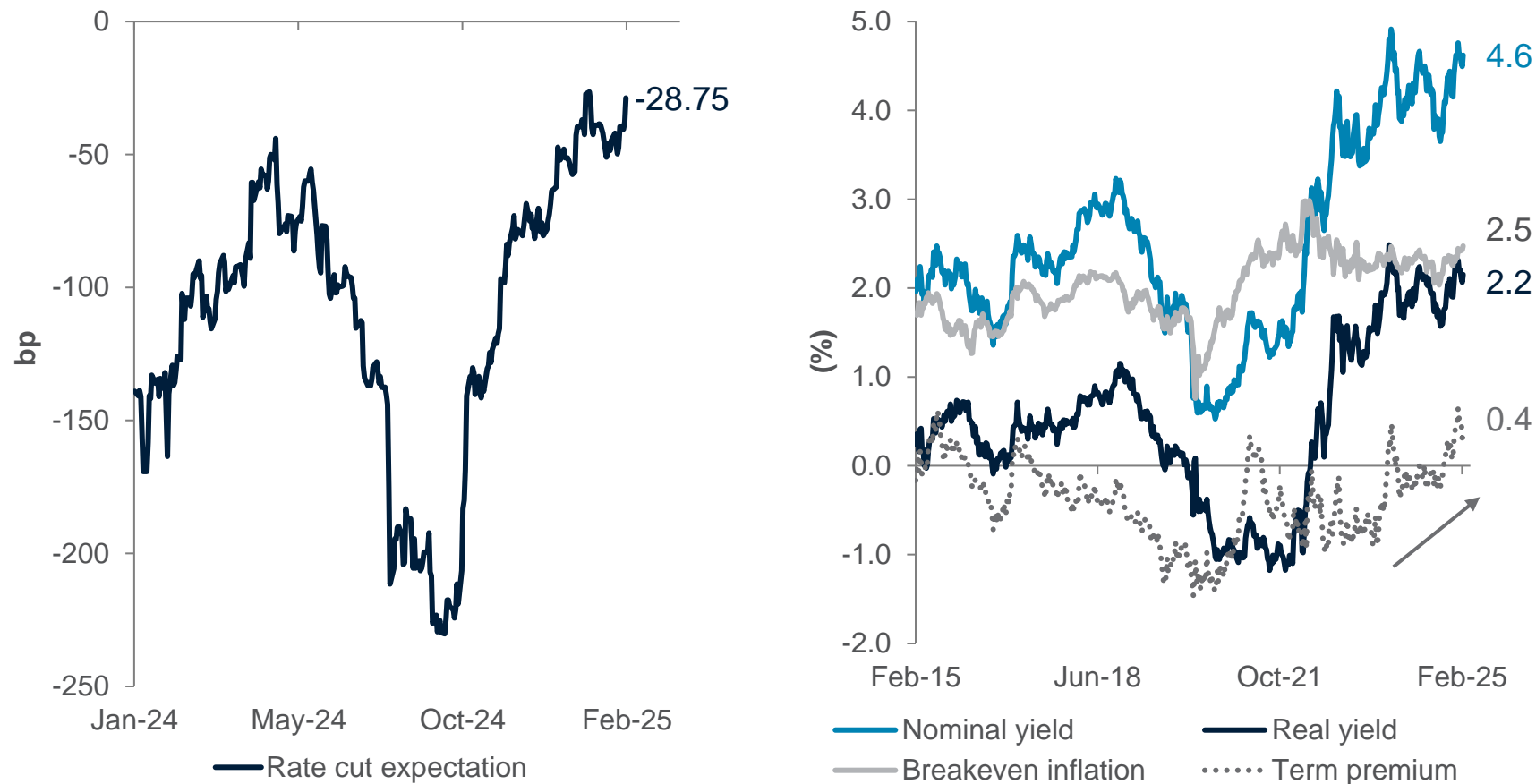
Source: Bloomberg, Vanda Research, Standard Chartered



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

- Fed to remain on hold amid uncertainty about the impact of tariffs and fiscal policy on inflation and growth
- Money markets are pricing around 30bps of rate cut 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



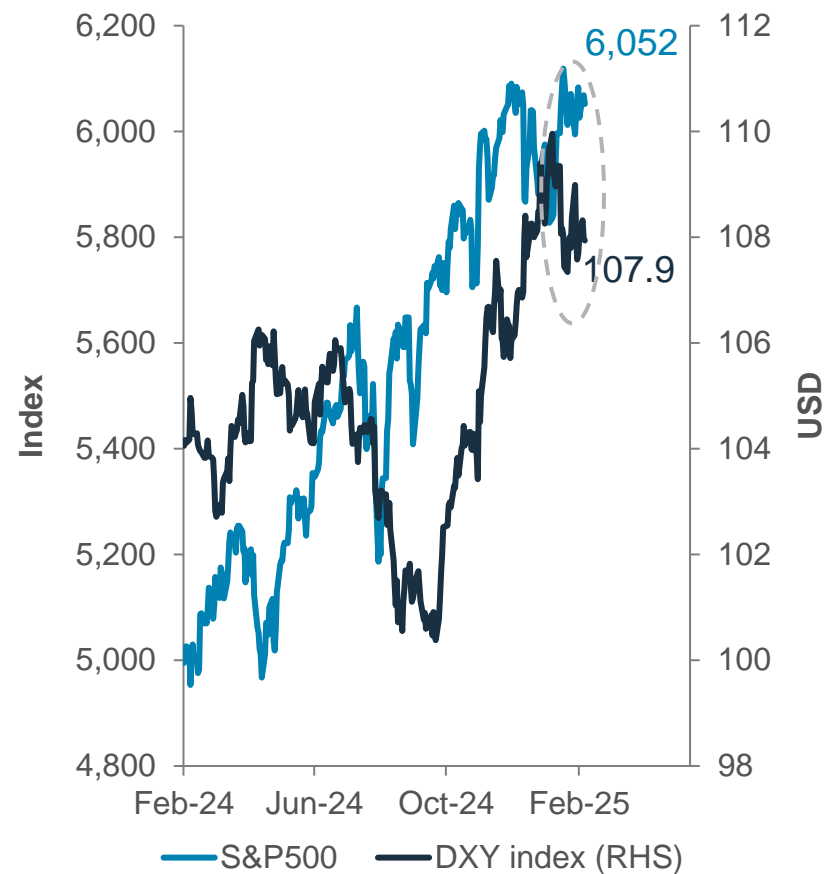
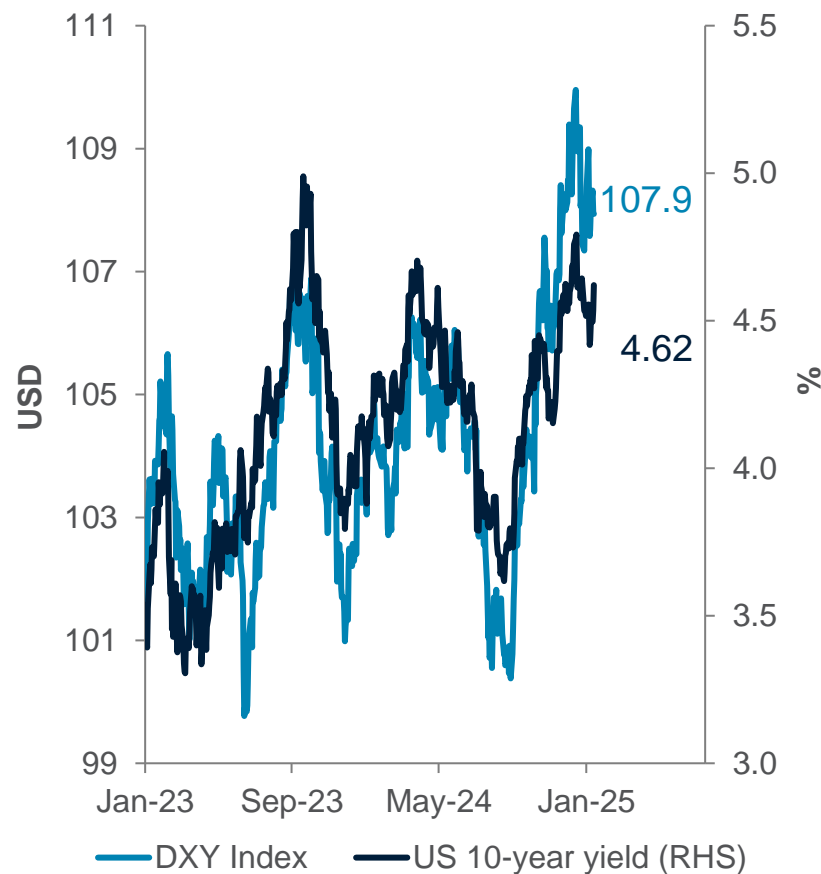
Source: Bloomberg, Standard Chartered; as of 12 February, 2025



USD path key to relative asset performance; will trade deal weaken USD?

- 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



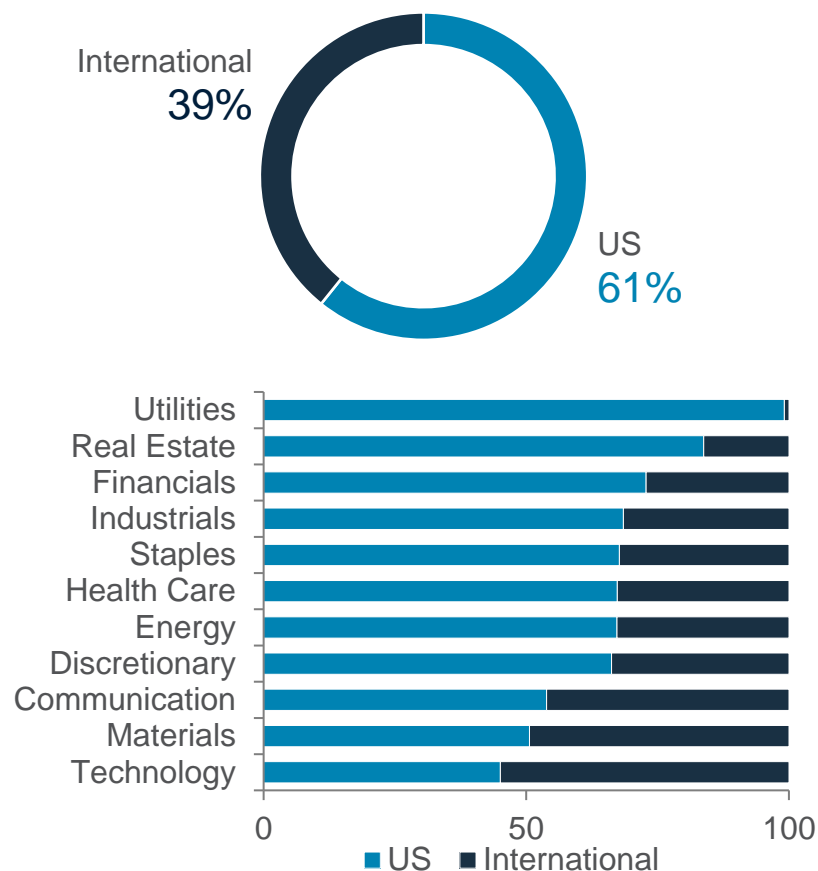
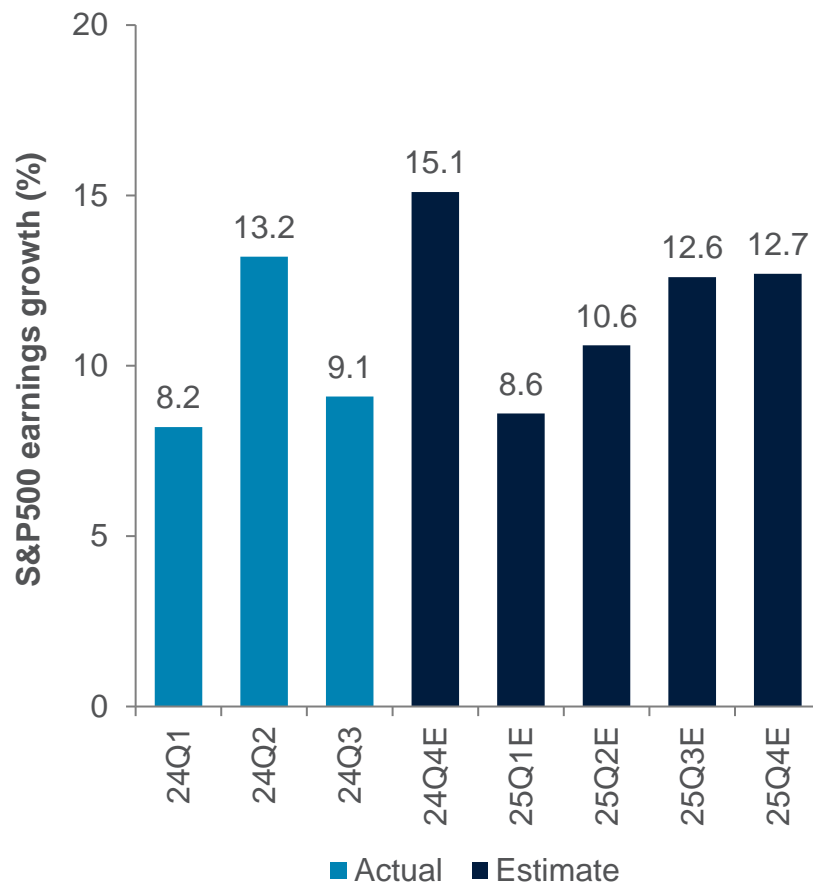
Source: Bloomberg, Standard Chartered; as of 12 February, 2025



Robust 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, 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

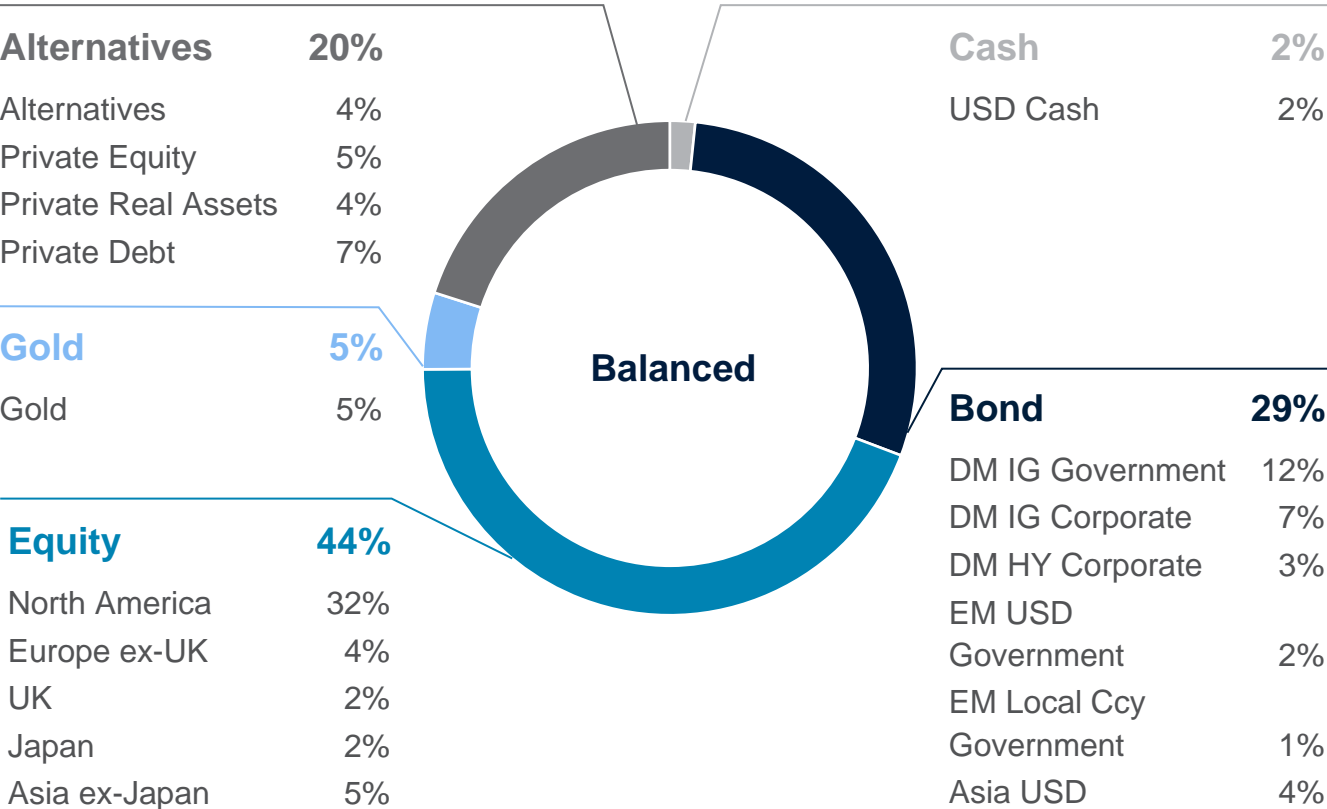


Source: LSEG I/B/E/S, FactSet, Standard Chartered; as of 12 February, 2025

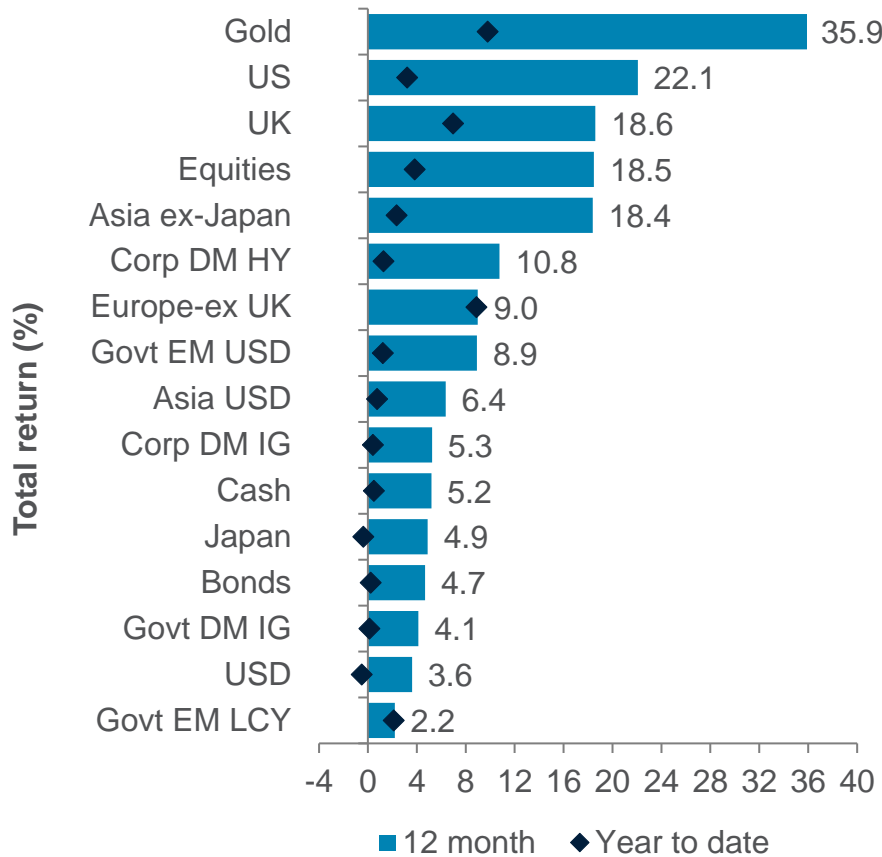


Uncertainty calls for diversified allocation, with OW on US assets, gold

Foundation + tactical asset allocations



Performance of key asset classes, 12m & YTD*



Source: Standard Chartered Global Investment Committee; Bloomberg
 *asset class performance as of 12 February, 2025



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