UOB Investment Insights

US trade developments: Positioning for the road ahead

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Key takeaways

- With reciprocal tariffs now set, there is more clarity on trade policy. However, sector-specific measures may still emerge.
- Global financial markets have remained resilient amid recent US tariff developments, with investor sentiment supported by strong corporate earnings and expectations of central bank rate cuts.
- While the third quarter often brings increased market volatility, it may also present timely opportunities for investors to position for a potentially stronger end to 2025.

Breakdown of tariff rates

Basic framework of trade deals:

- The US announced some trade agreements, notably with the European Union (EU), Japan, and South Korea, that had a similar framework.
- In exchange for the US lowering tariff rates, countries pledged higher investments in the US, higher purchases of US goods, and offered greater market access for US products.
- These trade deals are structured to use trade policy as a tool to boost domestic growth and competitiveness in line with President Trump's "America First" approach.

Reciprocal tariff rates imposed on 31 July can be categorised into 3 groups based on their trade relationships with the US:

- **Group 1:** Countries running trade deficits with the US will face a baseline tariff of 10%.
- **Group 2:** Nations that have reached trade agreements or those with modest trade surpluses against the US will face tariffs between 15-20%.
- **Group 3:** Countries with significant trade surpluses against the US and no formal trade deals will be subject to higher tariffs of up to 41%.
    - Notably, Switzerland will be subject to a 39% tariff, and Canadian exports that are not covered under the existing USMCA trade deal will face a 35% tariff.
- These took effect starting from 7 August 2025, although Mexico was granted a 90-day extension of current tariff rates.

The US-China tariff truce was extended by another 90 days, pushing the deadline to 10 November 2025.

- This move averts the imposition of triple-digit tariffs that were set to take effect, which would have severely disrupted trade flows.
- This allows both countries time to negotiate a trade deal, and paves the way for President Trump to meet Chinese President Xi in the coming months.

- New tariffs imposed in 2025:
  - US tariffs on Chinese goods: 30%.
  - Chinese tariffs on US goods: 10%.
- Average tariff rates currently (including prior levies):
  - US tariffs on Chinese goods: 54.9%.
  - Chinese tariffs on US goods: 32.6%.

Additional measures:

- India faces an additional 25% tariff on top of a previously announced 25% rate, possibly starting from 27 August, due to its continued imports of Russian oil.
- The Trump administration also plans to introduce new tariffs targeting pharmaceuticals, semiconductors, and other strategic sectors.

Economic Implications: Weaker trade, slower economic growth

US:

- Tariff rates will be higher than 2024 levels, with the average effective US tariff rate on all imports likely to spike from 2.3% at end-2024 to around 15% - 16%, which will be the highest since 1936.
- This will ultimately mean higher prices, that may negatively affect consumption and weaken the US economy.

China:

- The tariff truce gives China time to manage domestic economic challenges, including weak consumer demand, property sector stress, and sluggish credit growth.
- It also allows policymakers to maintain accommodative monetary policy without the risk of triggering disruptive capital outflows.

Countries with trade deals:

- These countries will have a comparative export advantage over other countries that face higher tariffs.
- Nonetheless, the tariff-based trade barrier into the US will be higher, which will weigh down on trade activity and overall economic growth.

Other countries without trade deals:

- They potentially face a bigger hit to economic growth given higher tariffs.
- These countries may have to respond with greater monetary and fiscal stimulus to offset the tariff impact.

How will tariffs affect global financial markets?

- The skewed nature of the trade agreements, designed to benefit US interests, may help the US stock market narrow some of its year-to-date underperformance in the short term.
  - Importantly, there is more room for the Federal Reserve (Fed) to cut interest rates as compared to global peers, having left interest rates unchanged this year.
  - US corporate earnings have also been resilient.
- More broadly speaking, we expect volatility to persist through August and September as markets adjust to the new trade landscape.
- Nonetheless, any interim volatility represents an opportunity to buy risk assets on dips to position for a strong end to 2025, with a focus on income-generating investments and diversified exposure.

What can you do?

- Maintain a diversified portfolio across different asset classes, regions, and sectors to avoid concentration risks. Prioritise core investments like multi-asset strategies.
- Focus on income-generating assets like investment grade bonds and quality dividend stocks. These instruments offer stability and consistent returns, which is particularly valuable in an environment where economic growth is expected to slow, and interest rates are likely to fall.
- For investors with higher risk appetite, any seasonal volatility in 3Q 2025 should be viewed as an opportunity to buy on dips. There are opportunities in developed market financials and technology, respectively supported by strong earnings momentum and the structural growth driven by artificial intelligence. Tactical opportunities also exist in Chinese stocks, while Gold can be a valuable portfolio diversifier.
- Speak to a UOB Advisor to find out how the latest developments may impact your portfolio

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