UOB PRIVATE BANK

Taking stock of Trump's tariffs

3 April 2025

Overview

- President Trump's administration is set to impose a minimum 10% tariffs on all exporters to the US
- Additional duties will be imposed, targeting around 60 countries with largest trade imbalances
- We anticipate an additional 5-8% downside from current S&P 500 levels in the near-term
- Our UOB Economics Research team now projects three 25 bp Fed interest rate cuts for 2025
- We emphasise a defensive posture which includes low volatility dividend stocks to tide through the gyrations
- The S&P 500 could stage a comeback despite a sizeable 10-40% drawdown in the past episodes
- We continue to prefer Chinese equities in EM Asia; consider Singapore REITs and Financials for haven plays
- Advocate a well-diversified portfolio with fixed income, gold and alternative investments as good stabilisers

CIO initial thoughts: Taking stock of Trump's tariffs

On 2 Apr 2025, dubbed "Liberation Day" by President Trump, he announced sweeping new tariffs during a White House Rose Garden speech. He introduced a 10% baseline tariff on all US imports, with higher reciprocal tariffs (up to 54% on China, 20% on the EU and others) on over 150 countries with large trade imbalances, escalating global market tensions (**Fig. 1**).

Global markets slumped as investors "sell first, ask questions later" in response to the aggressive tariff scale; the S&P 500 futures are down by 3.0% as at the time of writing. We anticipate an additional 5-8% downside from current S&P 500 levels in the near-term. Investors should adopt a more defensive stance as the dust settles from this initial salvo. A reset in the US equity valuations would present attractive buying opportunities for long-term investors

Figure 1: Trump tariffs announced on "Liberation Day"

Reciprocal Tariffs		
Countries	Tariffs Charged to the US	"US discounted" Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
Singapore	10%	10%
Myanmar	88%	44%
Laos	95%	48%
Australia	10%	10%

Source: Trump Administration, Bloomberg

Note: List of countries in the table above is not exhaustive. Tariff % numbers could not be independently verified.

Anything but "liberated": US tariff implications

Inflation risks: The universal import duty affects a wide range of goods, leading to higher costs for households. Economists warn that tariffs will drive up consumer prices (e.g., USD 2,700-3,400 annually per household per Yale estimates). Our UOB Economics Research team projects that the US CPI inflation could rise to 4.0% (from the previous forecast of 2.5%) for 2025 (as of 3 April 2025).

Growth risks: Global growth is set to be hit, dragged by contraction in trade, consumer spending and investment. Our UOB Economics Research team projects that the US real GDP growth could slow significantly to 1.0% (from the previous forecast of 1.8%) for 2025. Correspondingly, the Fed is expected to conduct three 25 bp rate cuts to 3.75% by end-2025. We maintain two cuts for 2026, implying a lower terminal rate of 3.25% in 2026.

Retaliation looms: Reciprocal tariffs may provoke retaliatory measures from other countries, potentially disrupting global trade. Recent weeks have seen alliances forming between Europe and Canada, as well as among South Korea, Japan, and China, in preparation to respond to the evolving dynamic with the US, suggesting the plausibility of a protracted trade war with supply chains being highly disrupted.

Skepticism around the US tariffs: While Trump touts manufacturing gains and job creation, most economists expect higher costs, stagnating growth, and a possible recession if retaliation escalates. These tariffs face significant skepticism regarding their effectiveness in the longer term.

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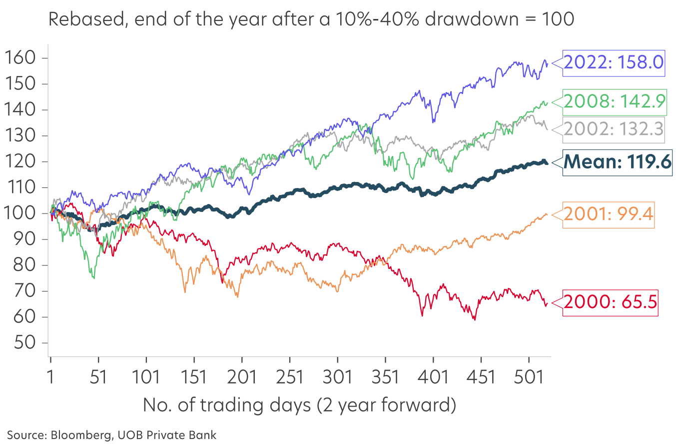
How do we position our investments?

We repeat the importance of adopting a defensive posture in times of market volatility. For US equities, we reiterate the importance of diversifying out from the Magnificent 7 (Mag7) to the rest of S&P 500; the latter group has held up much better year-to-date. Defensive plays including REITs, Utilities, Consumer Staples and Health Care will likely hold up better as investors seek shelter from a potential protracted trade war. Domestically oriented companies should also hold up better. Investors could also consider gaining defensive exposure via structured products.

We expect the "peak" trade policy shock via news headlines to come through as markets adjust to a new normal in the coming months. Given the street expectations for S&P 500 earnings per share (EPS) growth to come in at 13-14% for 2025, a downward revision to ~8-10% could be imminent in the wake of the "Liberation Day" tariff announcements, driven by related cost pressures and market uncertainty.

We would turn constructive on the US equities if the S&P 500 falls to ~5,200 from current levels, assuming some form of negotiations with the US would take the magnitude of tariffs down materially. Nonetheless, most of the US tariffs could be permanent. Our research also shows that the S&P 500 could still fetch a 20% gain on average in two years, following a year of 10-40% drawdown **(Fig 2)**.

Figure 2: S&P 500 can climb after sharp corrections



Source: Bloomberg, UOB Private Bank; Data start from the year 2000.

What about China and EM Asia Equities?

We expect some risk-off moves but continue to be positive on Chinese equities within Emerging Asia. China still has lots of room for policy easing and will likely respond with more aggressive fiscal stimulus after President Trump announced a reciprocal tariff of 54% on China. On the ground, there are also signs that market sentiments have changed for the better. In addition, we have also seen strong southbound flows into China H-shares **(Fig 3)**.

Figure 3: Strong FII inflows into China H-shares

FII flows (US$ bn)						
Markets	2020	2021	2022	2023	2024	2025 YTD
India	23.4	3.8	-17.0	21.4	-0.8	-13.7
Korea	-20.1	-22.8	-9.7	10.1	1.7	-3.9
Taiwan	-16.0	-15.3	-44.0	6.5	-19.7	-17.4
Philippines	-2.5	0.0	-1.0	-0.9	-0.4	-0.2
Indonesia	-3.2	2.7	4.3	-0.3	1.4	-1.8
Thailand	-8.3	-1.6	6.0	-5.5	-4.4	-1.1
Malaysia	-5.8	-0.8	1.1	-0.5	-0.9	-2.2
ASEAN	-19.8	0.3	10.3	-7.3	-4.3	-5.3
Japan	-31.4	3.7	-18.6	23.6	0.7	-8.4
EM Asia ex CN	-32.5	-34.1	-60.4	30.8	-23.0	-40.3
H-shares (south bound)	87.0	59.0	49.0	42.0	104.0	56.0

Source: Goldman Sachs Research, UOB Private Bank

Within China, we continue to like high-quality beta plays as well as dividend stocks. Within ASEAN, Vietnam, Cambodia, Laos and Myanmar are the hardest hit with >40% reciprocal tariffs on top of the 10% baseline. Singapore and Brunei are the least affected ASEAN countries with only a 10% baseline. We favour Singapore's dividend-yielding assets like Financials and REITs for their relative haven status.

Key diversifiers: Gold, bonds and alternatives

We remain constructive on Gold despite signs of the haven asset becoming overbought in the near-term. Central bank purchases will likely persist over the long term as they diversify out of their USD-denominated reserve assets. We also maintain our view that fixed income and alternative investments serve as portfolio stabilisers. With yields attractive and credit spreads contained, investors should remain diversified to manage risk while positioning for the next leg higher.

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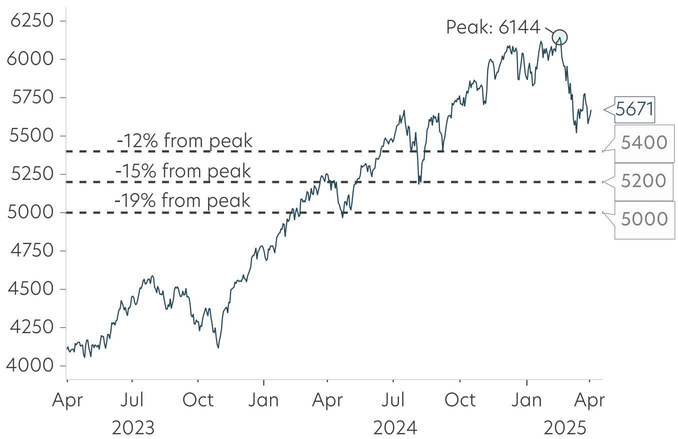
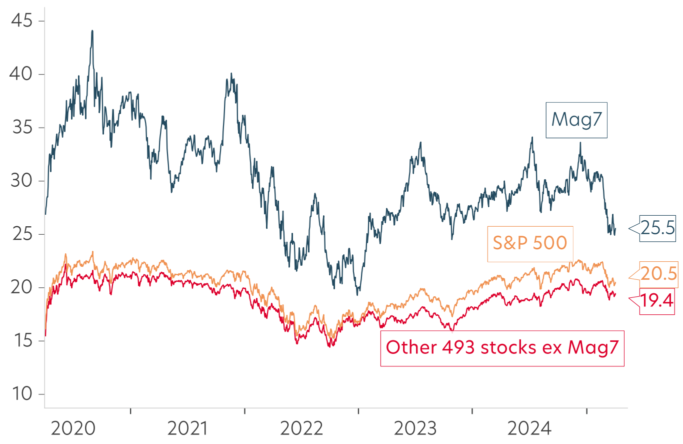
Charts of interest

Figure 4: S&P 500 key technical levels to watch



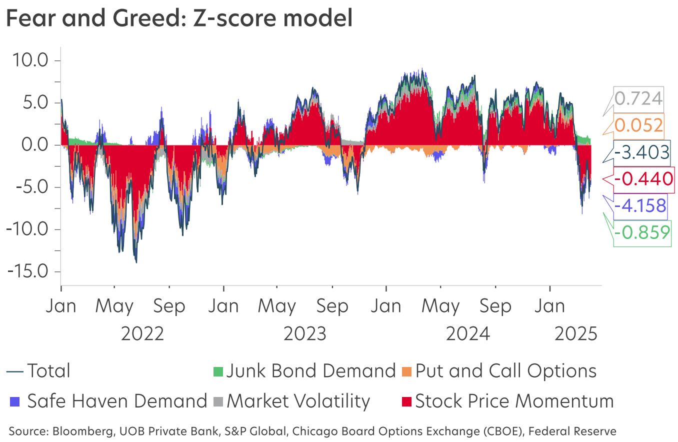
Source: Bloomberg, UOB Private Bank

Figure 7: Mag7 12M P/E getting more reasonable



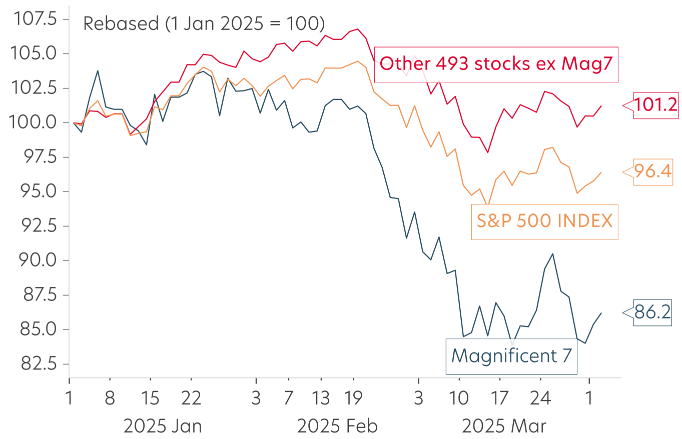
Source: Bloomberg, UOB Private Bank

Figure 5: Part of tariffs fear is priced into market



Source: Bloomberg, UOB Private Bank, S&P Global, CBOE, Fed

Figure 8: O493 holding up better



Source: Bloomberg, UOB Private Bank

Figure 6: Tracking 97 years of S&P 500 returns

Bucketing yearly growth rates of the S&P 500

-50 to -40	-40 to -30	-30 to -20	-20 to -10	-10 to 0	0 to 10	10 to 20	20 to 30	30 to 40	40 to 50
1931	2008	2002	2022	2025	2016	2020	2024	1997	1954
	1937	1974	2001	2018	2007	2017	2023	1995	1935
		1930	2000	2015	2005	2014	2021	1975	1933
			1977	2011	2004	2012	2019	1958	
			1973	1994	1993	2010	2013	1945	
			1969	1990	1992	2006	2009		
			1966	1981	1987	1999	2003		
			1962	1970	1984	1988	1998		
			1957	1960	1978	1986	1996		
			1946	1953	1968	1983	1991		
			1941	1948	1965	1982	1989		
			1940	1939	1959	1979	1985		
			1932	1934	1956	1976	1980		
			1929		1947	1972	1967		
						1971	1961		
						1964	1955		
						1963	1950		
						1952	1938		
						1951	1936		
						1949			
						1944			
						1943			
						1942			

Source: S&P Global, UOB Private Bank

Figure 9: Dividend theme to weather this storm well

Source: Bloomberg, UOB Private Bank

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