Vintage Asset Management

Review of the announcement of US reciprocal tariff arrangements

The indications on the tariffs are:

- Base line 10%
- Imposition of tariffs of around half that notionally imposed against US exports (includes assessment of currency manipulation and trade barriers); this leaves room both for negotiation and to increase
- Canada and Mexico did not receive additional tariffs
- Certain sectors seemingly exempted for now: pharmaceuticals, copper, lumber

Our summary view:

- Given the amount of prior announcements of tariffs there did need to be some shock impact. Markets will make an initial assessment and re-price accordingly although continued volatility should be expected.
- Companies will begin the process of assessing the impact to their input costs and end markets; expect a re-wiring of supply chains.
- Analysts and economists are likely to continue to downgrade growth, particularly in the US, with the additional impediments to global trade. The forthcoming earnings season may well see a number of companies (taking the opportunity to) downgrade guidance.
- In the short term the transition to an enhanced US manufacturing powerhouse seems highly unlikely as many roles have been "offshored" to lower-cost workforces in an installed capacity base. The likelihood is that the US consumer will be squeezed and higher prices will reduce demand, potentially raising less revenue than expected.
- The US trade deficit has increased substantially since the US election indicating significant forward buying by US companies which is likely to lessen the immediate impact of tariffs on US consumers.
- Geopolitically, the tariff strategy is likely to strain relations with the US further and enhance China's relations with the EU and Asia as "reliable" trade partners.
- The impact on more service-oriented sectors is unclear; however, tourism to the US notably from Europe has weakened.
- Inevitably there will be winners and losers and it may take time for those to emerge. The UK has come through relatively unscathed and is taking a

pragmatic and circumspect approach which may lead to a more positive outcome.

Markets:

- Equities: the immediate response has been a mark-down in share prices, notably for the US and Japan in major markets and Vietnam in minor, whereas many Asian markets have proven to be relatively resilient including India and the Chinese domestic A share market. In terms of sectors, US technology might struggle as it may be seen as being vulnerable to reciprocal tariffs as unsurprisingly would consumer discretionary names, whereas consumer staples and healthcare have been more resilient as have domestic utility firms.
- Bonds: higher quality government bonds are stronger on lower growth expectations and index-linked bonds on the potential for higher inflation; credit spreads have widened.
- Currency: the US Dollar is weaker against its major counterparts with the Chinese Renminbi fairly stable.
- Commodities: initially lower on growth outlook, with gold more steady

Portfolios and outlook:

- Portfolios are underweight US equities on a relative basis, overweight Europe and Asia/emerging markets, and neutral or overweight fixed income which should provide some relative resilience.
- We propose maintaining the balance in portfolios and are looking at some further rotation both within equities geographically and within fixed income in terms of credit sensitivity.
- We expect the US Dollar to remain somewhat weaker which could help emerging market economies, whilst recognising that some "re-shoring" over time may affect their growth rates and consumption patterns.
- Bond yields may remain range-bound particularly in the US where there is a balance between a lower growth outlook and its need to attract capital to fund deficits.
- Some large asset allocators are considering reducing their US overweight which may become more of a trend.

Edward Hands, 3rd April 2025