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BILBoard August 2025 – Trump's trade gambit



President Trump appears to be achieving his key objectives on trade. Several major trading partners have acquiesced to tariffs while agreeing to enhance market access for US firms. Financial markets, which were initially unsettled by the overhaul of global trade, seem to have adjusted to an environment where US import duties are at their highest in almost a century. Encouraged by the de-escalation of trade tensions, US equities reached new highs, despite the strain that tariffs could exert on businesses and consumers. Over the coming months, corporate earnings and hard economic data will be key in determining whether current market valuations are justified.

At present, we are comfortable with our portfolio positioning, maintaining a measured, wait-and-see approach until the longer-term effects of tariffs become clearer, including how they might influence monetary policy. Targeted adjustments to the fixed income segment of portfolios were made in order to enhance yield capture. We also maintain the measures taken throughout the year to limit downside risk, such as stepping up exposure to gold and hedging segments of the portfolio.

MACROECONOMIC OUTLOOK

The US

Global trade tensions have moderated since “Liberation Day”, with tariffs mostly lower than initially announced and most US trading partners reluctant to escalate. This de-escalation has

supported sentiment: the Composite PMI recently rose to 54.6. US tariffs collections reached USD 64bn in Q2 and President Trump has also secured expanded market access for American firms, as well as headline commitments from trading partners to invest in the US and purchase more US goods.

However, the details behind these agreements are not so black and white and a lot of grey areas remain. Some foreign investment pledges are largely structured as loans[1], while commitments to buy US goods may face practical limits: shareholder-driven companies are unlikely to overpay for American products if cheaper alternatives exist elsewhere.

As tariff levels stabilise, uncertainty has not evaporated, it has only shifted. Companies now face the challenge of managing higher import costs. They are likely to use a mixed approach – absorbing some, passing some to consumers and negotiating harder with suppliers. Early signs of consumer impact are visible in July's inflation print when we look at import-heavy categories such as toys, audio equipment and large household appliances like washing machines. Larger US multinationals are better positioned to absorb and distribute these pressures across global markets, while domestic consumers become increasingly price sensitive.

The Fed stands firms in its wait-and-see mode, with tariffs complicating its dual mandate by risking slower growth alongside rising prices. Markets now expect just one 25bp rate cut in December, with resilient macro data tempering easing expectations.

Despite trade-related headwinds, other forces continue to underpin US growth such as:

- Government stimulus – The newly-signed tax bill is expected to save US businesses around USD 100bn this year, mainly in tax breaks
- AI-related investment – US hyper-scalers expect to boost capex to USD 360bn in 2025, up from USD 259bn in 2024. AI optimism is thought to be keeping financial conditions looser than they would otherwise be, with major tech stocks pushing up the overall stock market

Key trading partners with whom a deal was agreed

Country	Agreed tariff rate	Tariff rate before agreement
China (talks still ongoing)	30%	145%
EU	15%	30%
Indonesia	19%	32%
Japan	15%	25%
Philippines	19%	20%
South Korea	15%	25%
UK	10%	25%
Vietnam	20%	46%

Eurozone

The Eurozone economy continues to struggle for momentum, with demand subdued and the PMI new orders index still in contraction. The recently announced 15% blanket tariff on EU goods – covering key exports such as automobiles and pharmaceuticals - threatens to further pressure European order flows, although a last-minute deal avoided the harsher 30% tariff threatened by President Trump. As part of the agreement, the EU has committed to significant purchases of US energy products and defense equipment, while both sides continue negotiating a list of goods eligible for zero tariffs.

Meanwhile domestic conditions remain soft. Slowing wage growth and weak consumer confidence are constraining household spending, which accounts for more than half of the bloc's GDP. Nonetheless, there are tentative signs of stabilisation: Germany's industrial recession has ended, with annual production turning positive for the first time since early 2023 (+1.0%).

Inflation edged up to 2% in June, prompting the ECB to adopt a more hawkish tone at its July meeting. Markets still anticipate a single 25bp cut by year-end, though conviction has weakened.

China

China's economy outperformed expectations in the first half of the year, helped by the front-loading of exports to the US and government-led stimulus measures. GDP grew 5.3% YoY over the first six months. This strong start gives Beijing some flexibility to accommodate a mild slowdown in the second half while still meeting its "around 5%" growth target. Market attention now turns to the upcoming Politburo meeting, where further policy signals are expected; nothing major is foreseen in the way of economic support. A trade agreement with the US is also still outstanding, with Washington and Beijing having pushed out the August 12 discussion deadline.

INVESTMENT STRATEGY

EQUITIES

We continue to favour **US equities** over European counterparts. From a market standpoint, rather than from a macro perspective, the much-discussed "end of US exceptionalism" has not

materialised. Investors who rotated aggressively from US to European markets earlier in the year are now facing performance headwinds, consistent with the view outlined in our midyear outlook.

In the US, corporate earnings remain a bright spot. Of the S&P 500 companies that have reported so far, 80% have delivered both earnings-per-share and revenue surprises, according to FactSet. Large-cap earnings revisions continue to outpace small caps, supported by international revenue exposure and a weaker dollar. For context, the NASDAQ 100 derives roughly 45% of its revenue from abroad, compared with just 20% for the Russell 2000. In addition, the recently enacted tax bill provides an incremental tailwind for large-cap profitability.

In contrast, European equities remain rangebound. Breaking higher will likely require a meaningful pickup in earnings momentum – something not yet evident amid soft business activity, currency headwinds and ongoing trade uncertainty. The newly announced 15% US tariff, combined with the impact of a stronger euro, will add further pressure to European corporates in the months to come, though our portfolios retain downside protection on this exposure.

Fixed Income

In the latest review of our asset allocation, we implemented targeted adjustments to our fixed income portfolios to capture additional yield opportunities.

First, we reallocated 2% of **investment grade corporate exposure into high yield (HY) bonds**. [2] Investment grade spreads remain near year-to-date lows, limiting upside potential, whereas HY spreads – though tight – retain scope to compress further if they are to revisit this year's lows. With recession fears easing and optimism around trade improving, investors are returning to the asset class. Limited new issuance provides a favourable technical backdrop, and HY bonds' shorter durations (below three) help dampen volatility. US default rates remain stable, while Europe may be nearing the end of the recent default cycle.

Second, we shifted 2% of **developed-market government bond exposure into EUR-hedged hard currency emerging market debt (EMD)**. Government bonds remain range-bound, with fiscal pressures on both sides of the Atlantic threatening to push long-term yields higher. France could become a near-term focal point while its new budget undergoes parliamentary review. While EM valuations are stretched and spreads are tight, the carry is sufficient to keep the asset class interesting. Continued US growth, eventual Fed easing, and a weaker-dollar-policy from the administration could support further EM outperformance after a temporary pause in July's summer trading environment.

CONCLUSION – A STRATEGIC GAMBLE IN MOTION

While President Trump's trade strategy may appear to be a checkmate, it could prove to be more akin to a gambit – a bold opening that sacrifices near-term stability in pursuit of longer-term advantage. Hard data will tell in the months ahead.

In the meantime, however, US equity markets continue to trade at historically rich valuations even as import duties sit near century highs. While the risk of stagflation cannot be dismissed, the broader forces supporting growth have thus far offset much of the drag from tariffs. As history reminds us, economies as complex and deep as that of the US are rarely driven by a single factor – even ones as disruptive as today's trade regime.



Lionel De Broux

Group Chief Investment Officer



Jade Bajai

Macro Strategist / Investment Communication Manager

[1] For example, Japan expects only 1% to 2% of its recently agreed upon USD 550bn US fund to be deployed as investment, with loans making up the bulk of the amount

[2] Preference for EUR HY in EUR-denominated portfolios due to hedging costs. US HY favoured in USD-denominated portfolios

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