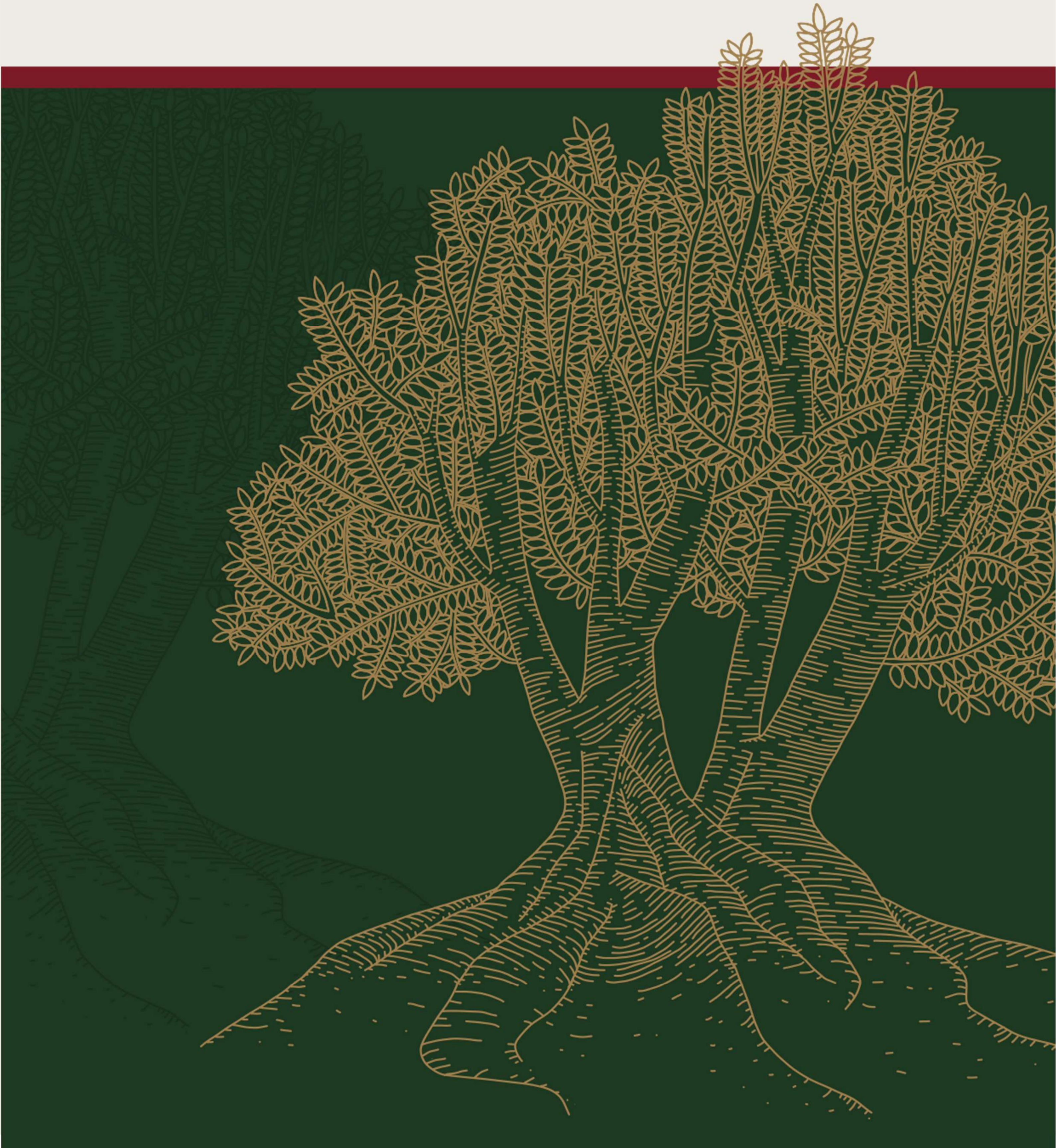
ONE WEEK LATER

Uncertainty – Markets still repricing for Trump's tariffs

10 April 2025



SUMMARY

Just over a week has passed since Trump's "reciprocal tariff" announcement last Wednesday (2 April), which triggered a rout on US stock markets followed by global indices with the S&P500 falling as much as 15% (on 7 April) only for the S&P 500 to then experience its best day since 2008 (+9.5% on 9 April).

Almost exactly one week after Trump's announcements upended global markets and put heavy strain on political alliances, Trump has given the markets some (temporary) reprieve as he posted:

> *"… based on the fact that more than 75 Countries have called Representatives of the United States … to negotiate a solution … and that these Countries have not, at my strong suggestion, retaliated in any way, shape, or form against the United States, I have authorized a 90 day PAUSE, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately..."*
>
> *"Based on the lack of respect that China has shown to the World's Markets, I am hereby raising the Tariff charged to China by the United States of America to 125%, effective immediately."*

The news flow has been relentless, and uncertainty has dominated market discussions. The depth of uncertainty driven by the tariff announcements cannot be understated, and this has already caused , and will continue to cause, real-world impacts.

To the real economy the impact of higher tariffs is arguably clear – higher prices and less efficient trade. Given the extent of the tariffs, largely ranging from 10%-50%, and the unpredictable escalation and concessions, the impact on consumers and businesses is significant. When consumers are threatened, they stop spending and when businesses are threatened, they cut capital expenditure and freeze hiring – stalling economic growth.

Financial markets too depend on a reasonable degree of certainty and the extreme lack thereof is causing heightened volatility in market prices. Markets have had to, and will continue to, re-price lower to reflect the risk premium of this uncertainty.

Through all the uncertainty our message, and actions, for clients remains very much the same. Market drawdowns have not been significant when compared to other corrections, valuations are neither cheap nor expensive, and while under strain, the financial system is functioning. Uncertainty is, and will weigh, on companies and the real economy and economic growth will suffer. The global economy is however in a reasonably strong position and governments have the capacity (and willingness) to provide both fiscal and monetary support should it be needed. A shallow recession in the US is not unexpected.

One week into this major policy upheaval, and on the balance of risk and on the lessons of past crises, we think long-term investors should remain invested in equities as predicting any lows in equity prices is nigh impossible. Those with excess cash and fixed income should begin to consider upweighting equities slightly.

United States		Rest of World		
S&P 500	US 10 Year Treasury Yields	Japan	Europe Stoxx 600	Gold
-3.8%	0.1%	-11.4%	-12.5%	-1.6%
Nasdaq 100	US Dollar Index	MSCI China	UK FTSE 100	Oil
-2.2%	-0.9%	-12.1%	-10.8%	-12.6%

Source: Refinitiv - Price performance for 3 - 9 April 2025. US numbers much stronger due to late timing of tariff pause.

UNDERSTANDING THE RECIPROCAL TARIFFS

While "understanding the reciprocal tariffs" may sound like an oxymoron to some, we look to take a pragmatic view of what is, in no certain terms, a major policy upheaval.

HISTORY OF TARIFFS

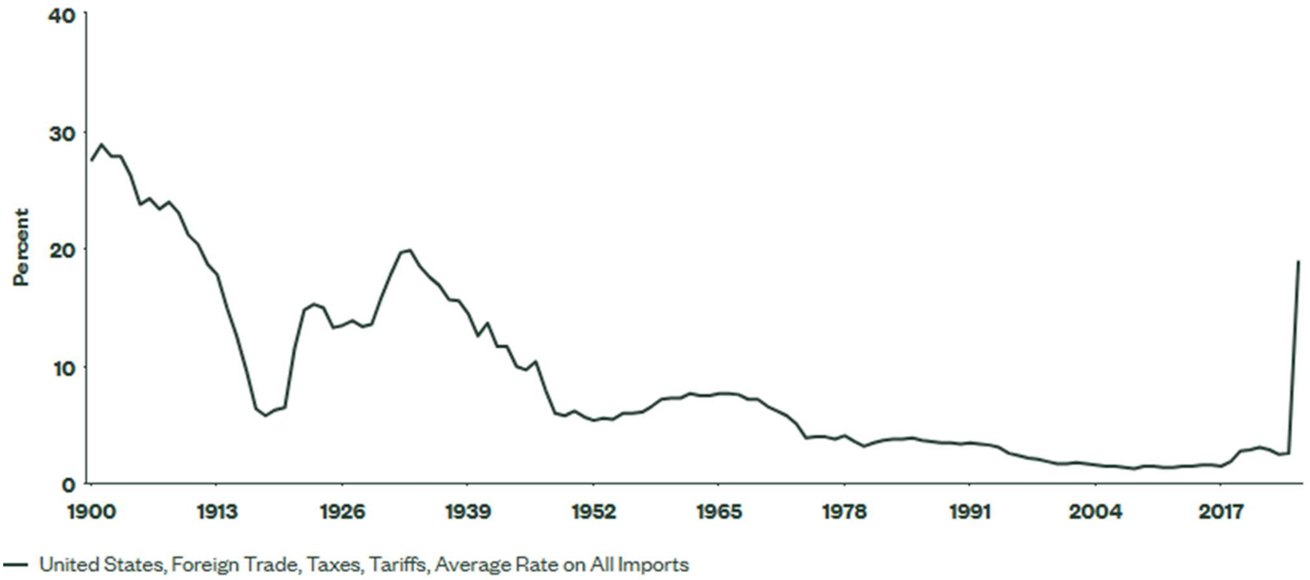
In Trump's comments on Liberation Day (2 April 2025) he commented:

> *"From 1789 to 1913 we were a tariff-backed nation, and the United States was proportionately the wealthiest it has ever been."*

Ratified in 1913, the 16th amendment established Congress's right to impose a Federal income tax. This was the turning point from a tariff-based system to an income tax led system.

Not to understate the enormity of the current situation, the imposition of tariffs has simply been a policy decision. While the US Constitution says that "Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises" the legality of decision resting with only the President seems broadly accepted (and the principle of which, historically upheld by the courts).

US Average Tariff Rate Highest in a Century



Source: Macrobond, SSGA, 3 April 2025

FINANCIAL IMPACT

While the sell-off has not been disorderly it has been severe. The global stock market damage (in terms of speed) has now rivalled that seen in 2020 (Covid), 2008 (Global Financial Crisis), and 1987 (Black Monday). Perspective is however important with the S&P 500 falling 34% in 1987, 57% in 2008 and 34% in 2020, while the current fall from market highs is "just" 19%.

The immediate reprieve that we've seen has been provided by the clearest candidate – Trump himself.

While Trump has come under much pressure, the pain experienced to date is not material in terms of the face value of his broader objectives. Even with the current reprieve (which does not apply to all countries, notably not China) Trump appears to be doubling down instead of attempting to find an off-ramp. Comments such as "Europe must pay us a lot of money, and retrospectively" puts Europe in a more difficult position rather than putting the US in a stronger position. The problem the US administration faces is not just the direct impact of very high tariff barriers on trade (and profit margins of US importers), but also the possibility of a recession that may ensue.

The next best response would be from Powel (Chair of the US Federal Reserve) although he indicated on Friday last week: "While uncertainty remains elevated, it is now becoming clear that the tariff increases will be significantly larger than expected… The same is likely to be true of the economic effects, which will include higher inflation and slower growth." A reluctance on their part makes sense and it is likely that markets would need to move notably lower before we see a meaningful response from the Fed.

We delve further into some of the questions that arise from this in the following section.

OTHER COUNTRIES

The design of the "reciprocal tariffs" is not intended to simply match tariffs that other countries place on the US. The calculation was openly intended to be a far broader assessment on cross border trade, trade barriers, tariffs, currency manipulation, and non-monetary tariffs. The focus (for the US) has very much been on the goods (where it has such a significant deficit with the rest of the world) rather than services (where the US is a powerhouse in terms of information technology and financial services).

The traditional channels of diplomacy have largely been ignored by the US in implementing these tariffs. While the practicality of this approach is clear, the short and long term negative impact of such an approach with both friend and foe outweighs any benefit of speed or simplicity.

The reprieve (in the form of Trump's 90-day selective pause) does not, however, take us any closer to what we see as a reasonable compromise at a global level. Key challenges remain:

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. 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%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

- How does trade between the US and China look one year from now?
- How does trade between the US and its allies look one year from now?
- How much will this policy upheaval practically hurt US interests (geopolitically and financially) in the short and long term?
- What happens to global ex-US trade? For example should the US-China tariffs remain uneconomical then will other countries also raise tariffs on China to protect from dumping of products?

MARKET UPDATE

EQUITIES

The Nasdaq 100 was one of the main casualties of the sell-off, but most indices were impacted. The temporary relief from Trump (announced only after European markets closed on 9 April) is the reason for American markets showing far greater returns on 9 April.

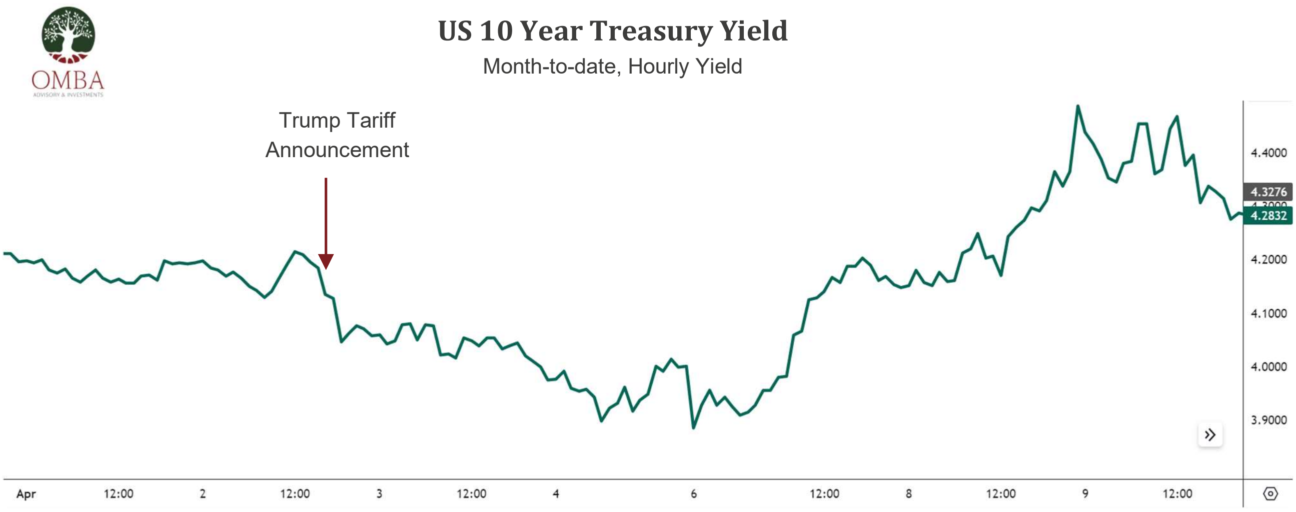
Equity Indices	Ccy	Original Currency								USD
		01 Apr 2025	02 Apr 2025	03 Apr 2025	04 Apr 2025	07 Apr 2025	08 Apr 2025	09 Apr 2025	Year-to-09 Apr 2025	Year-to-09 Apr 2025
S&P/BMV IPC - Mexico	MXN	1.63%	0.87%	0.54%	-4.87%	-1.93%	-0.28%	4.39%	6.09%	9.26%
IBEX 35 - Spain	EUR	1.23%	0.40%	-1.19%	-5.83%	-5.12%	2.37%	-2.22%	1.75%	7.62%
DAX - Germany	EUR	1.70%	-0.66%	-3.01%	-4.95%	-4.13%	2.48%	-3.00%	-1.48%	3.66%
Hang Seng Index	HKD	0.38%	-0.02%	-1.52%	0.00%	-13.22%	1.51%	0.68%	1.02%	1.11%
FTSE MIB - Italy	EUR	1.33%	-0.27%	-3.60%	-6.53%	-5.18%	2.44%	-2.75%	-4.26%	0.75%
CAC40 - France	EUR	1.10%	-0.22%	-3.31%	-4.26%	-4.78%	2.50%	-3.34%	-7.01%	-1.64%
JSE TOP 40 - SA	ZAR	1.43%	-0.92%	-3.30%	-5.35%	0.81%	2.34%	-2.01%	0.41%	-1.82%
S&P/TX Comp Index - Canada	CAD	0.46%	1.09%	-3.84%	-4.69%	-1.44%	-1.54%	5.42%	-4.05%	-2.03%
STOXX 600 - Broad Europe	EUR	1.07%	-0.50%	-2.57%	-5.12%	-4.50%	2.72%	-3.50%	-7.43%	-2.09%
FTSE 100 - UK	GBP	0.61%	-0.30%	-1.55%	-4.95%	-4.38%	2.71%	-2.92%	-6.04%	-3.76%
MSCI All Country World Index	USD	0.60%	0.48%	-3.40%	-5.37%	-2.46%	-0.34%	5.70%	-6.66%	-6.66%
CSI 300 - China	CNY	0.01%	-0.08%	-0.59%	0.00%	-7.05%	1.71%	0.99%	-6.31%	-6.95%
S&P 500 - US	USD	0.38%	0.67%	-4.84%	-5.97%	-0.23%	-1.57%	9.52%	-7.22%	-7.22%
MSCI Emerging Markets	USD	0.84%	0.09%	-0.80%	-1.38%	-7.92%	0.11%	-0.91%	-7.63%	-7.63%
NASDAQ - US	USD	0.82%	0.75%	-5.41%	-6.07%	0.19%	-1.95%	12.02%	-8.89%	-8.89%
TOPIX - Japan	JPY	0.11%	-0.43%	-3.08%	-3.37%	-7.79%	6.26%	-3.40%	-15.64%	-10.44%

Source: Refinitiv

FIXED INCOME

The sell-off initially resulted in a dash for safety causing yields to fall (bond prices to rise) but this developed into concerns for the US fiscally. As a result, there has subsequently been a lack of demand for treasuries and for the US dollar with market concerns about rising inflation and debt sustainability – all pushing yields higher.

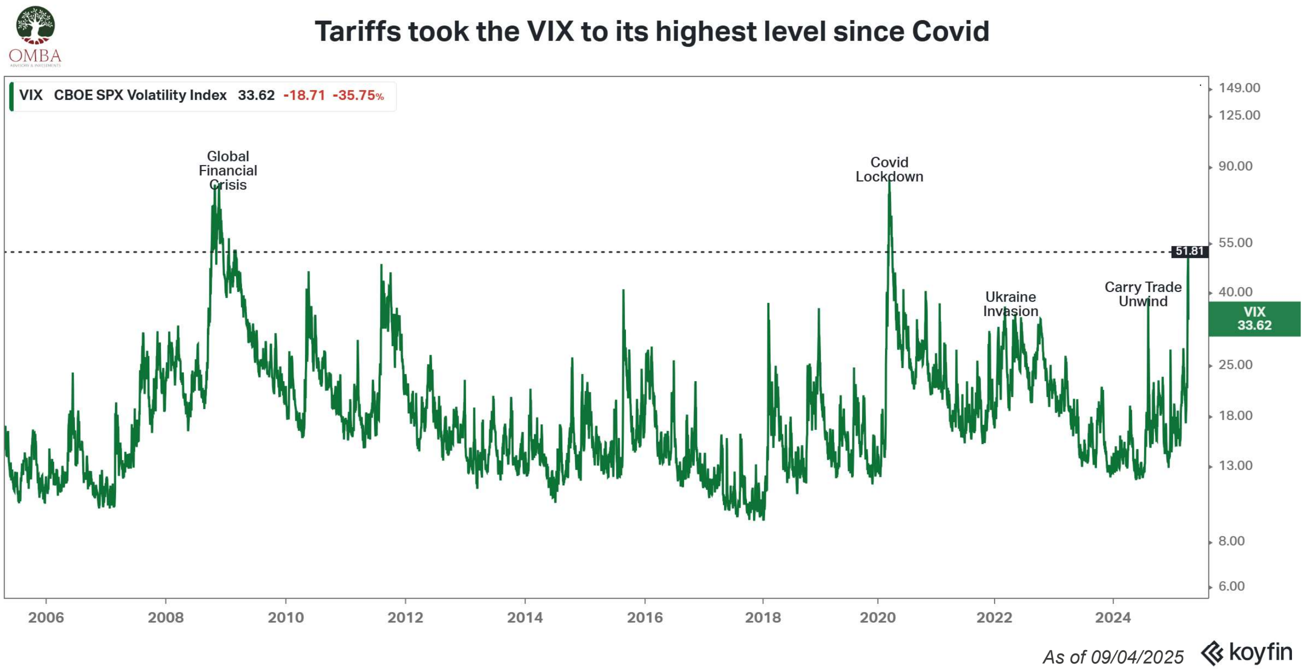
Fixed income	Currency	Yields							Yield Movement
		01 Apr 2025	02 Apr 2025	03 Apr 2025	04 Apr 2025	07 Apr 2025	08 Apr 2025	09 Apr 2025	Year-to-date 09 Apr 2025
US 10 Yr Treasury	USD	4.17%	4.18%	4.05%	4.01%	4.19%	4.27%	4.27%	-0.30%
UK 10 Yr Gilts	GBP	4.64%	4.64%	4.52%	4.45%	4.63%	4.61%	4.79%	0.21%
German 10 Yr Bunds	EUR	2.68%	2.73%	2.64%	2.57%	2.64%	2.63%	2.58%	0.22%



Source: Refinitiv - 09/04/2025

VOLATILITY

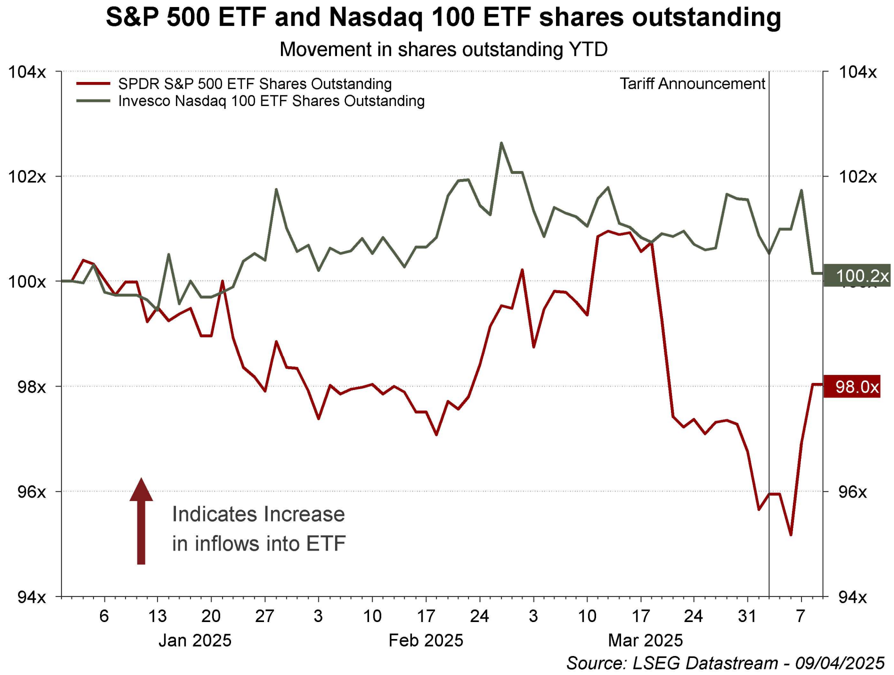
Volatility in the S&P 500 Index, as defined by the Cboe Volatility Index representing expected S&P 500 volatility over 30 days, has had its worst (end-of-day) spike since Covid lockdowns. However, the VIX is notably lower than the levels that it was during Covid and the Global Financial Crisis. The situation today is also different to that of a collapsed financial system or the global pandemic previously experienced, but potentially a paradigm shift in itself.



Uncertainty in the S&P 500 can further be seen in its intraday movements. Monday 7 April saw an intra-day peak to trough movement of 7.8%, but the index itself closed 0.23% for the day.

S&P 500 - US	01 Apr 2025	02 Apr 2025	03 Apr 2025	04 Apr 2025	07 Apr 2025	08 Apr 2025	09 Apr 2025
Price High-Low Movement	-1.63%	-2.2%	-2.0%	-4.2%	-7.8%	-6.8%	-9.7%
Close Price Movement	0.38%	0.67%	-4.84%	-5.97%	-0.23%	-1.57%	9.52%

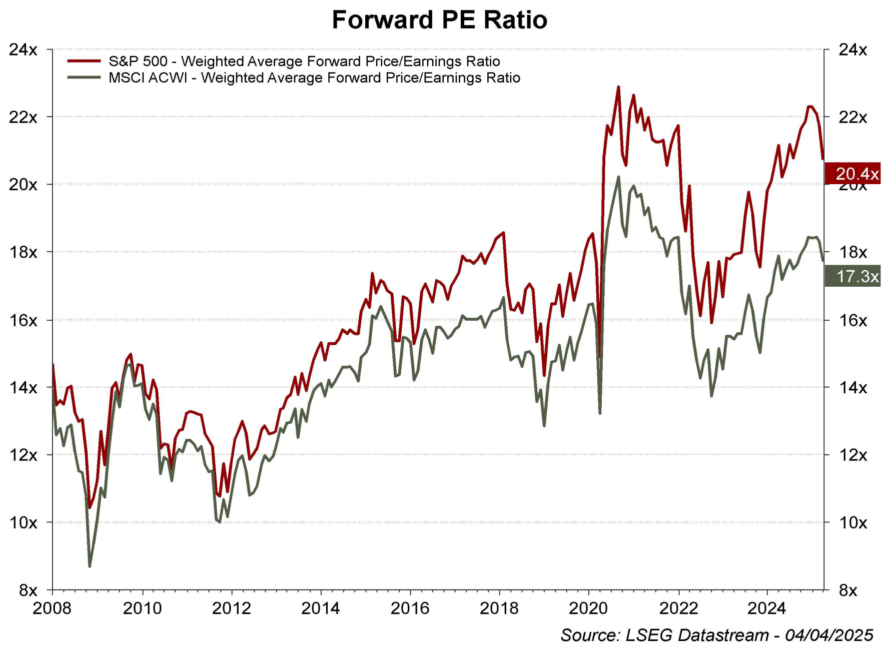
FLOWS



An increase in shares outstanding (from the tariff announcement date) in the graph indicates an increase in ETF creations driven by increased inflows.

Since the post-tariff announcement outflow, an uptick in inflows into the big US ETFs can be seen as ETF investors try to 'buy the dip'. This indicates that sentiment has not been completely wiped out.

VALUATIONS



The US equity valuations seen in 2024, which marked another year of US exceptionalism, have unwound year-to-date. They do however remain at relatively high multiples and are by no means cheap if we see a sustained earnings impact from the tariff announcements. The upcoming earnings season in the US, although unlikely impacted directly by tariffs, will be quite telling in terms of corporations' view on tariffs. Subsequent quarters are likely to suffer the actual impact and investors are still trying very hard to gauge this.

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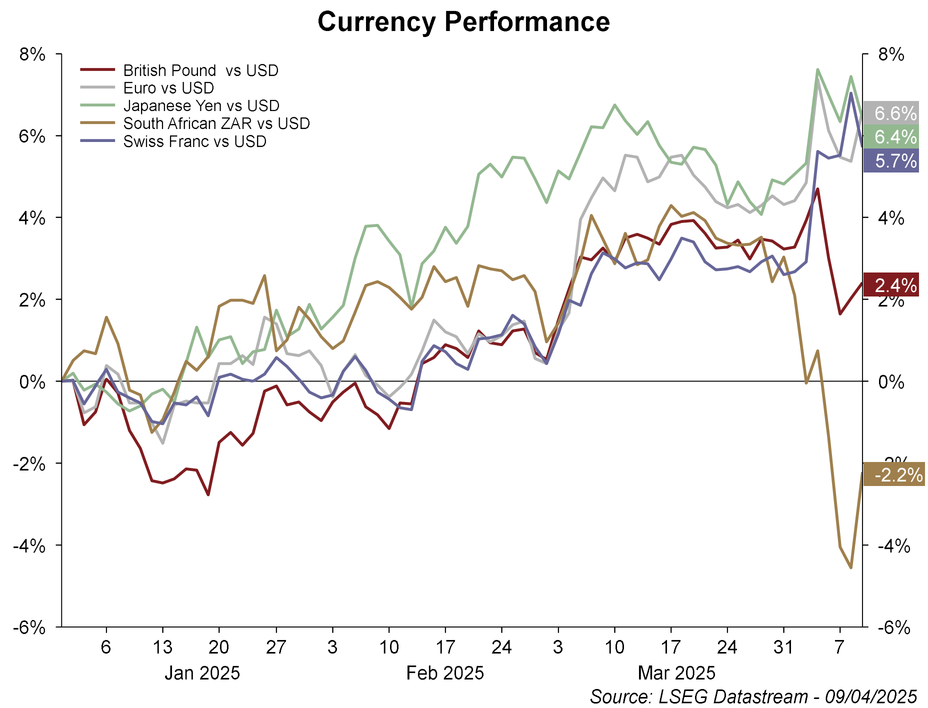
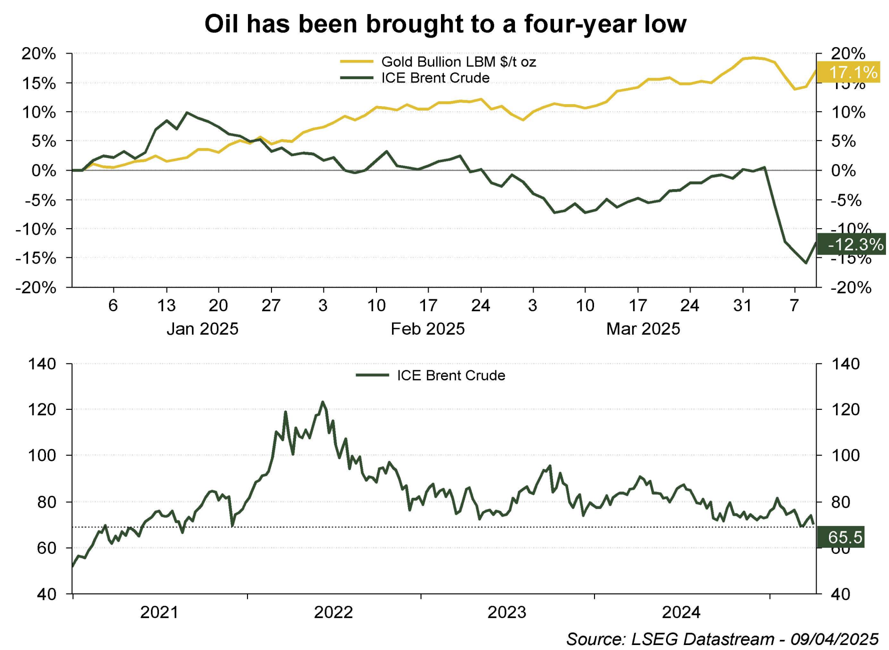
CURRENCY PERFORMANCE



Debate around how the US dollar will be impacted both in the immediate and longer term has resulted in surprising little consensus. The US dollar normally acts as a safe haven during periods of market upheaval. Given the role of the US in this latest upheaval and the potential change to a multi-polar world there is less consensus. The Swiss Franc has stood out as a safe-haven currency.

The South African Rand, along with other EM currencies, weakened even further with economic growth concerns due to the impact of the tariffs, and in South Africa's case the future of their coalition government.

COMMODITIES



Oil prices dropped to a four-year low after the tariff announcement, which is partially an indicator of growing fears of an economic slowdown, along with the decision by OPEC+ to increase supply.

Gold dipped, after surging to another all-time high as investors direct capital to safe-haven assets. Liquidity demands (as leveraged investors unwind positions) capped some of this impressive performance.

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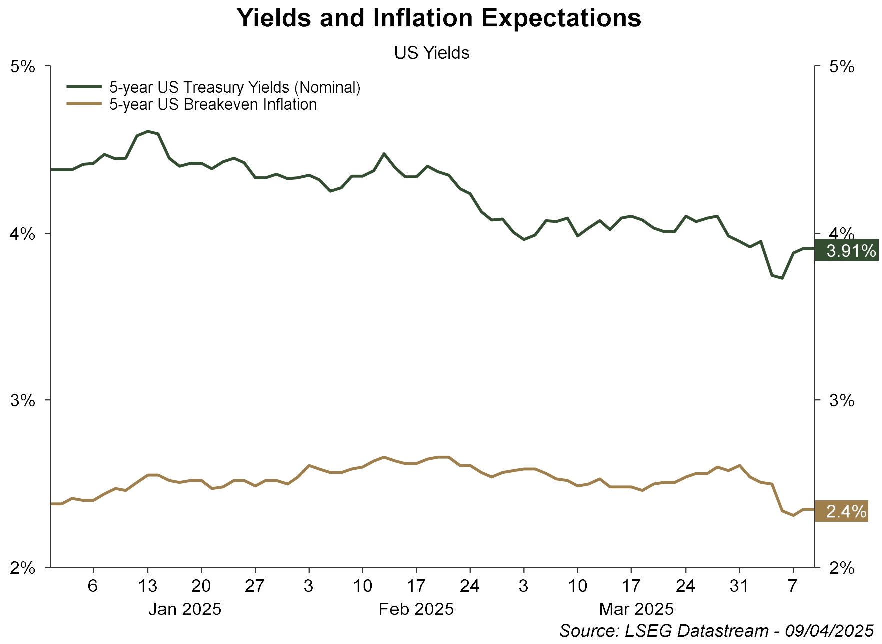
INFLATION



Tariffs have a clear inflationary impact, even if this might be one-off or transitory. The market however has been more concerned with the negative growth impact that has been caused by the tariffs. Furthermore, longer-term inflationary measures have not increased in response to the various tariff announcements. On the one hand tariffs are directly inflationary but on the other hand there could be demand destruction and a negative growth shock which is deflationary hence break-even inflation expectations actually declining in recent days.

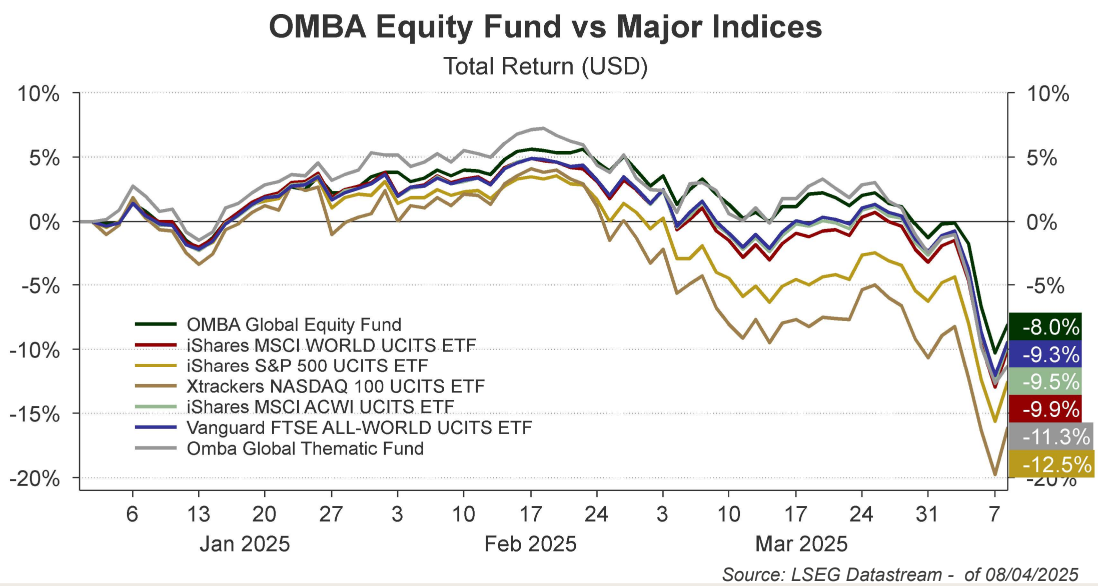
OMBA'S POSITIONING?

In March 2025 we previously highlighted our positioning, which could be described as marginally defensive at both an asset class level and within our individual positions, both of which have borne out relatively well.

We were well positioned coming into 2025 and for the tariff announcement relative to MSCI ACWI. We are underweight the US, more specifically underweight US tech and Mag 7, due to extended valuations at the end of 2024.

Each position below is held within our equity portfolios, with the YTD Contribution being based on weights as of 31 March 2025. Weights (and positions) have changed and are changing year-to-date. **While not static, we made several changes in our portfolios in February, March and on 9 April 2025.**

Position	Weight (31 March)	YTD Return (9 April)	YTD Contribution (9 April)
Yen	3.7%	6.4%	0.2%
Mexico	4.1%	2.4%	0.1%
Pound Sterling	2.8%	2.4%	0.1%
Clean Energy	4.2%	-0.7%	0.0%
Europe Real Estate	4.0%	-3.0%	-0.1%
China Tech	4.5%	-3.4%	-0.2%
China A Shares	4.8%	-7.2%	-0.3%
Europe Healthcare	9.2%	-7.4%	-0.7%
Europe Consumer Discretionary	4.0%	-9.4%	-0.4%
Pacific ex Japan	3.1%	-10.6%	-0.3%
US Communication Services	3.3%	-11.0%	-0.4%
Japan	4.9%	-11.8%	-0.6%
Europe IT	3.9%	-12.0%	-0.5%
US Real Estate	4.5%	-12.3%	-0.6%
MSCI ACWI		**-12.4%**	
S&P 500 Equal Weight	12.5%	-13.1%	-1.6%
Cybersecurity	2.0%	-14.5%	-0.3%
S&P 500	17.7%	-15.6%	-2.8%
Nasdaq 100	3.1%	-19.2%	-0.6%
Semiconductors	4.2%	-25.5%	-1.1%



CONCLUSION

In our Bull vs Bear publication in January we highlighted a number of risks for the year ahead pertaining to US valuations and the Trump administration and potential tariffs. We expected to see heightened market volatility during Trump's term. For the remainder of the year, we expect a similar trend with headline policy announcements causing both relief rallies, like we saw on 9 April 2025, and market corrections. Longer term companies will adjust their supply chains, capex and hiring to reflect policy changes and earnings will recover. Investors should not panic in times of uncertainty but rather use times like this to take advantage of lower equity prices. We have argued for a long time that global portfolios and major indices have been too overweight the US. To have over 65% weight just in the US was a risk that investors were willing to take when the US stock market was performing well, and US policy was less extreme (and more certain). If these tariffs persist the US will isolate itself from the world and the rest of the world will trade with each other. In times like this one might well question allocations to the US to such a large degree. We remain overweight Asia and Europe vs major global equity indices.

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