March 2025

U.S. Trumping the Tariffs

On April 2nd 2025, President Donald Trump declared "Liberation Day", unveiling a comprehensive tariff strategy that would apply to more than 100 trade partners aimed at addressing perceived trade imbalances. The immediate aftermath saw significant turmoil in global financial markets. In this article, we delve into the rationale behind President Trump's tariff strategy, examine its immediate impacts on global markets, and explore the potential long-term consequences for the U.S. and the global economy.

What Are Tariffs?

- **Definition:** A tariff is a tax on imports designed to raise the price of imported goods, making them more expensive in the market they are imported to. This impacts both the consumer and the producers in various ways, increasing costs for consumers and potentially leading to inflation.
- **Why They're Imposed:** Typically, tariffs are implemented to protect domestic industries from foreign competition or to pressure other countries to adjust trade terms.
- **Status Quo:** For years, the U.S. maintained relatively low tariffs, giving foreign countries (especially China) an advantage in trade terms, as they were able to access cheaper U.S. goods while imposing tariffs on U.S. exports.

Why are Tariffs Happening?

The broader theme is that the U.S. is undergoing a strategic repositioning, with tariffs being just one element of a much larger shift. While they play a role in reshaping trade dynamics, tariffs are part of a much larger effort to secure a bigger slice of the global trade pie. The U.S. aims to rebalance what it sees as unfair trade terms, but this repositioning extends beyond tariffs and includes:

- **Budget & Debt (including Musk's cuts)**: Adjustments in fiscal policy, including spending cuts and debt management, are reshaping economic priorities.
- **Ending Wars & Trade Deficit**: Reducing military commitments and addressing trade imbalances to strengthen economic resilience.
- **Foreign Aid**: Reassessing financial commitments abroad to prioritise domestic economic growth and infrastructure.

Currently, Trump believes that other countries have an unfair trade advantage over the U.S.. They impose tariffs on U.S. goods, but the U.S. does not reciprocate, thus creating a trade imbalance. For the U.S., this means higher costs for imports, which harms its own industries and people. Historically, the U.S. has allowed low tariffs, even during Trump's first term administration, where tariffs were implemented but still remained relatively low. Historically the United States maintained high tariffs, particularly from the 19th century until the mid-20th century to protect its burgeoning industries and generate government revenue. For instance, between 1861 and 1933, the U.S. had some of the highest average tariff rates on manufactured imports globally.[1]

However, a significant shift occurred post-World War II. The U.S. began promoting worldwide free trade, leading to a substantial reduction in tariffs. This change was influenced by several factors:

- **Economic Strategy**: The U.S. aimed to foster global economic growth and stability, believing that open markets would benefit all nations, including itself.
- **International Leadership**: As a dominant global power, the U.S. sought to lead by example in reducing trade barriers, encouraging other countries to follow suit.
- **Shift in Revenue Sources**: The introduction of income taxes and other forms of internal revenue reduced the government's reliance on tariffs as a primary income source.[2]

During this period, the U.S. economy also shifted toward technology and services, where it held a competitive advantage. As a result, the need for protective tariffs on manufactured goods diminished. However, with increasing global competition, particularly from countries with lower production costs, many U.S. industries struggled to remain competitive.

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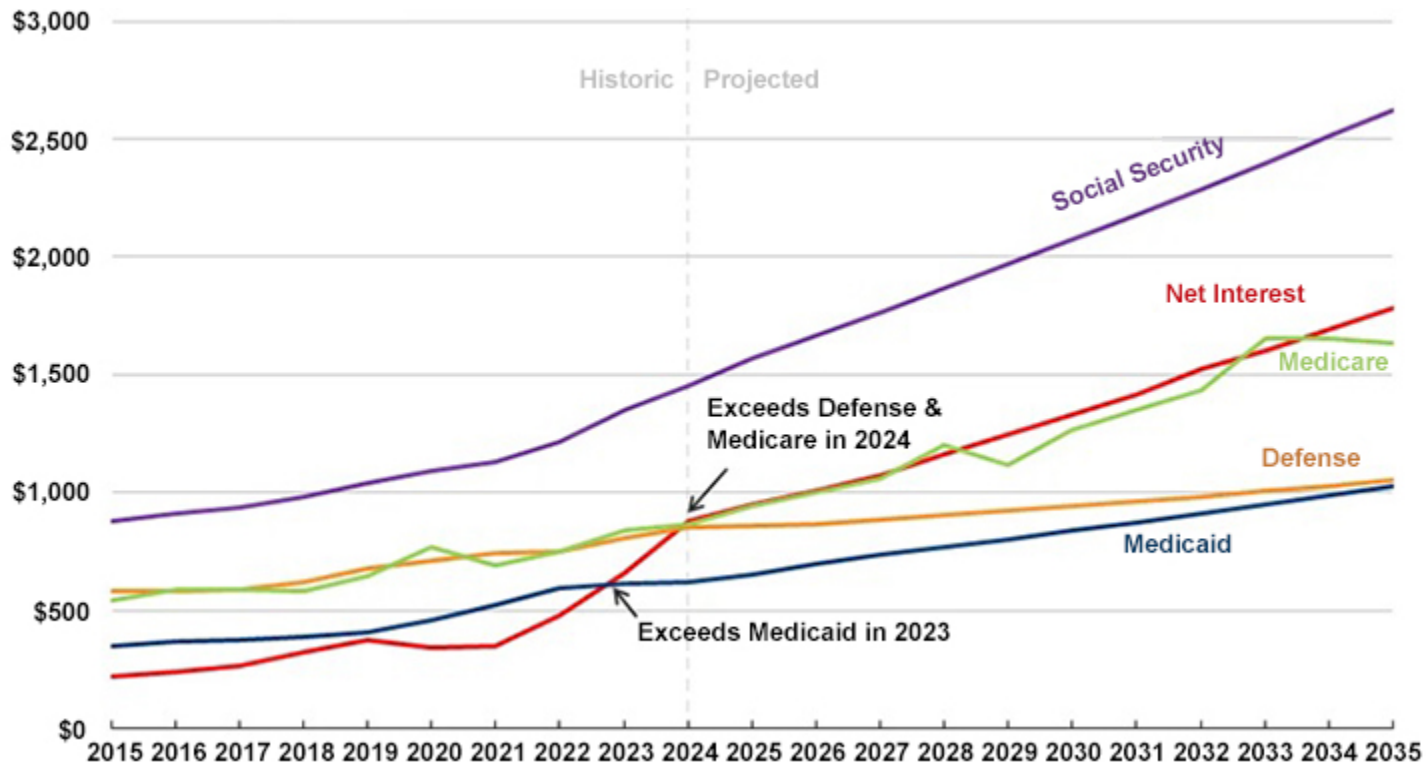
This dynamic created a status quo where other countries hold a trade advantage over the U.S. Trump views this as the U.S. effectively subsidising the rest of the world - spending money abroad while neglecting its own industries and workers. Meanwhile, the country faces a mounting debt crisis, with a growing budget deficit and rising borrowing costs.

In 2025, the U.S. Congressional Budget Office (CBO) projects that net interest will total $952 billion, accounting for 15-20% of government spending, approaching a near-record high. By 2026, interest payments are expected to surpass this record as a share of the economy. As shown in the chart below, in 2024, interest payments were so substantial that they exceeded spending on Medicare – the nation's largest federal health care program for seniors and people with disabilities – as well as the entire national defense budget.[3]



Source: U.S. Congressional Budget Office (CRFB.org)

President Trump's strategy includes reducing national debt to improve the United States' balance sheet and promoting local industries to strengthen the income statement. This approach encompasses cost-cutting measures to lower debt, renegotiating trade deals to secure favourable terms (such as those with Ukraine), and imposing tariffs to enhance U.S. financial stability.

Chart 2 below shows the countries with the largest trade surplus and deficits. A trade surplus occurs when a country exports more than it imports, boosting its economy, while a trade deficit means it imports more than it exports. Fuelled by an export boom, in just two decades China's trade surplus has ballooned from $33.7 billion to $593.9 billion in 2023.4 On the opposite end, the U.S. - the world's largest economy imports about $1.1 trillion more goods than it exports, making it the world's highest trade deficit. The trade deficit is largely driven by strong domestic demand for goods such as electronics, crude oil, apparel, and automobiles.

Beyond economic goals, tariffs are also used as a foreign policy tool. For example, the U.S. has linked tariffs on Mexico to its handling of drug cartels, pressuring it to curb trafficking and improve border security.

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Chart 2: Top 10 countries with largest trade surplus and deficit



Source: Visual Capitalist; World Bank

What is The Perceived Impact on Investments?

Tariffs are more likely to be inflationary, as they raise the cost of imported goods, pushing up domestic prices. This can lead to sustained inflation, which typically weakens the currency if interest rates remain elevated. Since supply chains can't shift quickly, the U.S. will likely continue importing goods at higher prices for some time.

Inflation is generally bad for consumers and businesses, so it's important to be careful about what you buy. There are a few ways to hedge against it, but there will be both winners and losers, and it remains uncertain whether the winners will ultimately succeed.

Prolonged inflation erodes the purchasing power of the dollar, making everything more expensive for U.S. consumers and businesses. That said, bonds have not entirely lost their appeal. If markets were truly pricing in a major inflation shock, bond prices would likely have sold off significantly. The fact that they haven't, suggests bonds are still viewed as a safe haven during periods of equity market stress.

The implementation of tariffs exerts additional pressure on inflation, which has already been persistently above the long-term average. This situation necessitates maintaining higher interest rates, thereby exacerbating the existing debt burden. Furthermore, tariffs typically lead to a reduction in global trade, resulting in decreased GDP growth and adversely affecting certain sectors due to diminished demand and increased prices.

Reactions and retaliations to tariffs create additional knock-on effects. For example, just two days after Trump's "Liberation Day" tariff announcement, China imposed a 34% tariff on all U.S. imports, effective April 10, 2025. Additionally, China suspended poultry imports from two U.S. companies due to banned substances and added 27 U.S. firms to its sanctions or export control lists.[5]

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Recent markets shifts – not all a tariff story!

The threat of tariffs comes on the back of several recent developments that have reshaped the global investment landscape. Here are some of the most significant impacts:

In Europe, Germany introduced economic stimulus measures, fostering renewed optimism—especially amid hopes for a potential ceasefire.
Impact: European equities (e.g., the DAX, Euro Stoxx 50) have seen modest gains recently, rotating into more value- and manufacturing-driven names.

China has been trying to revive its economic momentum and regain investor confidence, especially after years of regulatory crackdowns on big tech. The government recently pivoted to more pro-business policies, offering direct support to companies like Alibaba.
Impact: Chinese tech stocks (Alibaba, Tencent, JD.com) have rebounded from depressed levels. The Hang Seng Tech Index rose notably in late 2024 and early 2025 as sentiment improved.

The emergence of Chinese AI firm DeepSeek also marked a major turning point. Its R1 model, developed at a fraction of the cost typically incurred by U.S. firms, challenged the perceived "moat" around the U.S. AI industry. By showing that high-quality AI systems can be built with far fewer resources, DeepSeek effectively reshuffled the deck chairs in the AI race, signalling that the competitive landscape may be more open than previously believed.

Impact: U.S. AI-related stocks have seen significant volatility. Investors are becoming more selective—less "AI hype", more focus on who can sustain margins and moat. Some rotation has occurred from AI infrastructure to AI applications and enablers. These shifts suggest a more balanced global market may be emerging, as U.S. dominance is subtly challenged and other regions gain relevance.

Winners, Losers and Real World Examples

Domestic U.S. industries, such as steel, may benefit from reduced competition due to tariffs, potentially leading to job creation within these sectors. However, identifying clear winners and losers is not always straightforward. While U.S. industries might experience short-term gains, countries that rely heavily on exports to the U.S., including Canada, Mexico and certain European nations, may face currency devaluation and economic difficulties. The broader economic impact can be complex, as these tariffs can also hurt certain U.S. sectors, particularly those reliant on imported goods.

Take the semiconductor industry, for example. TSMC's decision to build a $40 billion semiconductor plant in Arizona, aimed at boosting U.S. chip manufacturing and creating thousands of jobs, highlights the complexities of reshoring production. While this shift is beneficial for job creation and reducing dependence on foreign chip production, especially from Taiwan, it also raises concerns about higher operational costs and potential geopolitical tensions.

The operational costs at TSMC's Arizona plant are expected to be approximately 30% higher than those at its Taiwan facilities, driven by increased tariffs and transportation costs for importing materials from Taiwan.[6] Similarly, Samsung's planned chip plant in Taylor, Texas, has seen its projected costs escalate to over $25 billion, exceeding initial estimates by more than $8 billion. Inflation, along with higher construction and material costs, has contributed significantly to these increases.[7]

These elevated costs pose challenges for profitability. Transferring these expenses to customers, especially for advanced chips produced in Arizona, may be difficult. TSMC's founder, Morris Chang, has expressed concerns that production costs in the U.S. can be 50% higher than in Taiwan, which raises questions about the long-term economic viability of U.S. semiconductor manufacturing.[8]

In summary, while the U.S. government's push to bolster domestic semiconductor production is commendable, the substantial costs involved in establishing manufacturing plants in the U.S. present significant challenges for companies like TSMC and Samsung. These financial pressures could impact profitability and potentially influence the global competitiveness of U.S.-based semiconductor manufacturing.

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Success? Is This a False Economy?

A successful outcome may benefit the U.S., but not the world. Rebalancing trade could strengthen the U.S. dollar, improve debt levels, and boost productivity, but it would likely make everything more expensive globally. While the U.S. has the power to push this agenda, its relevance to our clients remains uncertain.

Success is uncertain.For instance, if tariffs are placed on German cars, will U.S. consumers stop buying them? The U.S. may struggle to meet demand with a workforce capable of producing enough. While short-term policies can achieve goals, long-term success is about profit maximisation. If China's risks decrease, many companies will return there for lower costs, leading to a cycle of re-shoring and offshoring.

Higher U.S. costs, due to tariffs, pose challenges. U.S. wages are too high to compete with countries like China. Tariffs create a false economy, forcing products back to their origin, but if the domestic market can't absorb these goods at the right price, profitability will suffer, and the strategy will unravel.

Another important consideration is how governments use the revenue generated from tariffs. Unlike private businesses, which typically allocate capital with efficiency in mind, governments often struggle to invest these funds productively - leading to potential waste. Ultimately, the broader impact of tariffs is global inflation and likely economic inefficiency.

While the U.S. aims to secure a larger share of global trade through tariffs, this strategy often involves protecting less efficient domestic producers, leading to widespread inflation and the devaluation of financial assets.

Historically, globalisation has suppressed inflation and enhanced financial asset performance; however, the current trend toward deglobalisation is reversing these benefits. The Trump administration views market corrections as a necessary adjustment. Notably, the recent tariffs on Chinese goods, which have raised U.S. levies to over 60%, are projected to reduce China's GDP growth by up to 2.4% and decrease exports by over 15% in 2025[9]. This underscores the significant and uneven global economic impacts of such tariff policies.

How Does One Position Against Tariffs?

There is still a lot of water to go under the bridge before the tariffs are finalised, and we should expect changes to the announcement made on 2 April 2025 as countries negotiate, react, and implement countermeasures.

If we isolate Trump's strategy of trying to secure a larger share of the global market, in the short term, it might have encouraged more investment in U.S. industry assets. However, relying solely on politics, macroeconomic factors, and tariffs is not a sustainable investment strategy.

The "de-globalisation" impact of tariffs and countermeasures creates one very significant hurdle to overcome: that of considering the globe as your free trade/open target market. Businesses which have succeeded on the global stage - for instance the hyperscalers like Google, Meta, Apple and Amazon who easily travel beyond borders - may find their valuations and prospects materially dented when the growth prospects are curtailed by government policy, especially when your allies such as Europe turn into your rivals.

This does serve as a stark reminder of being valuation sensitive, especially when your growth path gets impeded, you can suffer material capital loss.

For now, there are likely some attractive opportunities ahead of us as most of the world's investment asset classes react negatively to the event. This does entail patience and calm decision making. Fortunately, we have been conservative in our positioning for some time, and this should serve us well as these opportunities arise.

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[2] Reference: Wikipedia news.law.fordham.edu
[3] Reference: Interest on the Debt to Grow Past $1 Trillion Next Year
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[5] Reference: China retaliates against Trump with 34% tariff on U.S. imports
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[7] Reference: Samsung's new Texas chip plant will cost U.S.$25 billion, U.S.$8 billion more than expected because of inflation
[8] Reference: TSMC new U.S. fab to dent profits, hard to transfer costs to customers
[9] Reference: Donald Trump's trade onslaught imperils chance of China 'grand bargain'

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MARKET REPORT

31 03 2025

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
SA Equity	ZAR	5.8%	5.8%	22.1%	8.7%	18.2%	8.2%	14.9%	14.3%
SA Listed Property	ZAR	-3.6%	-3.6%	19.2%	11.2%	18.3%	1.0%	20.1%	21.3%
SA Bonds	ZAR	0.6%	0.6%	19.6%	9.3%	11.1%	7.8%	7.7%	8.0%
SA Cash	ZAR	1.9%	1.9%	8.4%	7.5%	6.2%	6.7%	0.5%	0.4%
Balanced Benchmark	ZAR	2.6%	2.6%	16.6%	9.9%	14.9%	8.6%	10.3%	9.8%
SA Inflation (1 month lag)	ZAR	1.3%	1.3%	3.2%	5.2%	5.0%	5.1%	1.8%	1.8%
GLOBAL MARKET INDICES BASED TO USD									
Global Equity	USD	-2.1%	-2.1%	7.1%	7.7%	16.3%	9.6%	16.3%	15.1%
Emerging Markets Equity	USD	2.7%	2.7%	8.2%	1.1%	7.6%	3.5%	16.8%	17.3%
Global Property	USD	2.2%	2.2%	3.9%	-4.3%	6.2%	2.0%	18.5%	17.1%
Global Bonds	USD	2.6%	2.6%	2.9%	-1.7%	-1.5%	0.5%	7.8%	6.4%
US Cash	USD	1.1%	1.1%	5.1%	4.4%	2.7%	2.0%	0.7%	0.5%
MAJOR INDICES BASED TO RANDS									
SA Equity	ZAR	5.8%	5.8%	22.1%	8.7%	18.2%	8.2%	14.9%	14.3%
Global Equity	ZAR	-4.0%	-4.0%	4.1%	16.3%	16.9%	14.3%	16.0%	15.9%
Emerging Markets Equity	ZAR	0.1%	0.1%	5.1%	9.2%	8.2%	7.9%	13.9%	13.8%
Global Property	ZAR	0.1%	0.1%	1.0%	3.3%	6.8%	6.3%	17.3%	17.3%
SA Bonds	ZAR	0.6%	0.6%	19.6%	9.3%	11.1%	7.8%	7.7%	8.0%
Global Bonds	ZAR	0.0%	0.0%	0.0%	6.1%	-0.9%	4.8%	10.8%	13.7%
COMMODITIES									
Gold (US Dollars)	USD	19.3%	19.3%	40.5%	16.9%	14.0%	9.9%	14.9%	13.9%
Gold (Rands)	ZAR	16.3%	16.3%	36.5%	26.2%	14.6%	14.6%	15.6%	16.9%
CURRENCIES									
Rand / Dollar	ZAR	2.9%	2.9%	3.0%	-7.8%	-0.6%	-4.2%	12.2%	14.7%
Rand / GBP Pound	ZAR	-0.2%	-0.2%	0.8%	-7.2%	-1.4%	-2.8%	10.6%	14.1%
Rand / Euro	ZAR	-1.5%	-1.5%	2.9%	-7.0%	-0.3%	-4.3%	9.4%	12.9%

KEY

Asset Class	Represented By:
SA Bonds	Satrix Bond Index Tracker
SA Cash	STeFi
SA Equity	Satrix ALSI Index Tracker
SA Listed Property	Satrix Property Index Tracker
Emerging Markets Equity	iShares Emerging Markets Equity Index Tracker
US Cash	Fidelity Institutional Liquidity The United States Dollar
Global Bonds	iShares Core Global Aggregate Bond ETF
Global Equity	iShares Developed World Index Tracker
Global Property	iShares Developed Real Estate Index Tracker

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REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

March 2025

Spot Rates		31-Mar-25	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US$	Rand	18.4	18.9	18.9	17.9	12.1	6.2
Rand/GBP	Rand	23.7	23.6	23.9	22.2	18.0	11.8
Rand/EUR	Rand	19.9	19.5	20.5	19.6	13.0	8.1
RATES							
SOFR 6m $	US$	4.5	4.6	5.4	0.0	0.5	2.6
Repo Rate	Rand	7.50	7.75	8.25	5.25	5.75	7.50
Prime	Rand	11.00	11.25	11.75	8.75	9.25	11.00
All Bond Index Yield	Rand	9.9	9.7	11.6	11.2	8.1	9.7
COMMODITIES							
Gold ($/oz)	US$	3,125.3	2,625.4	2,214.3	1,612.1	1,187.6	427.7
Platinum	US$	993.0	914.0	907.0	727.0	1,129.0	864.0
Oil (Brent Crude) $	US$	74.8	74.7	87.4	22.6	54.8	53.6
INFLATION							
SA Inflation	%	3.2	2.9	5.3	4.2	4.0	9.4

data provided by FE Analytics

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