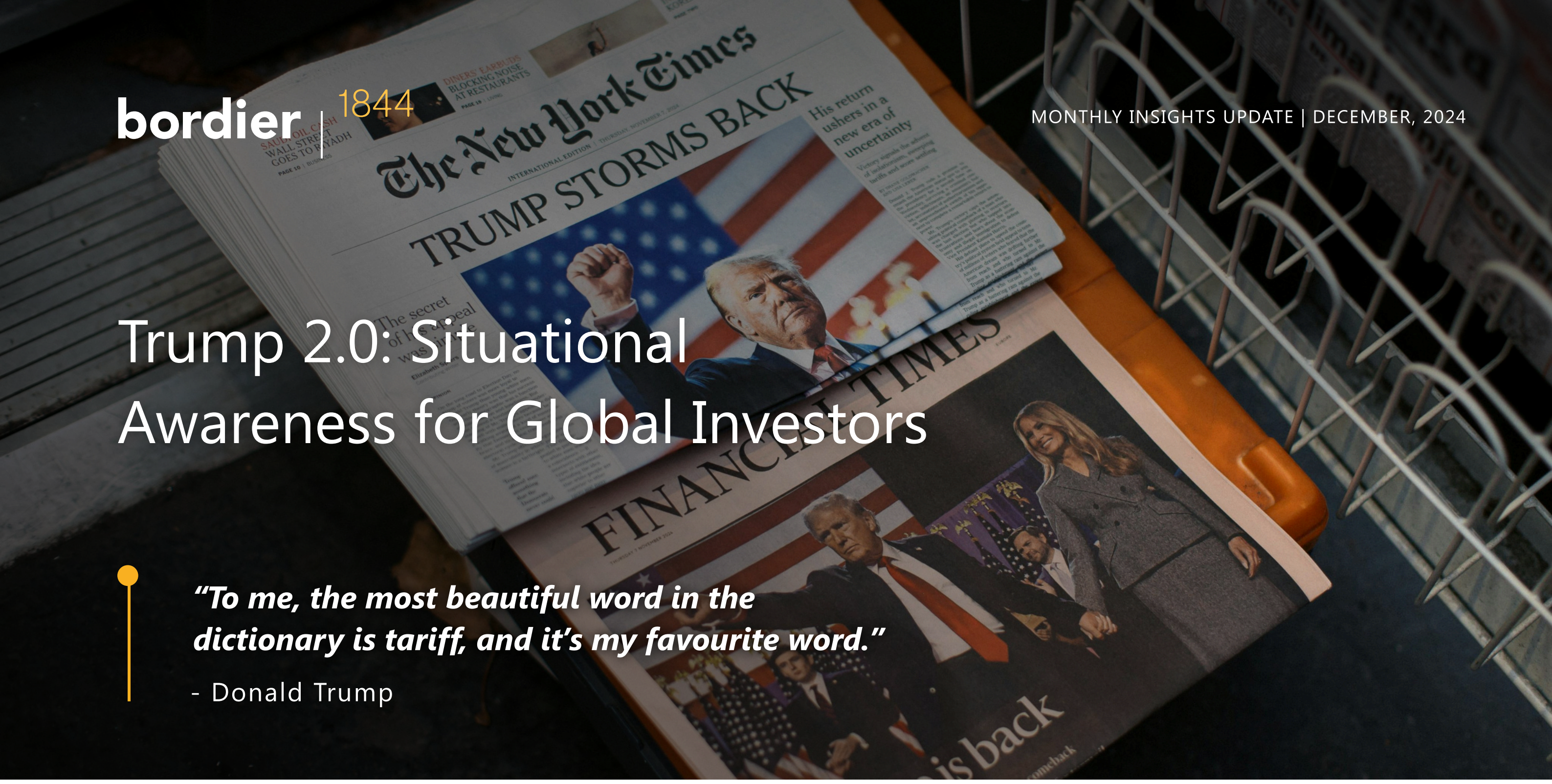


Trump 2.0: Situational Awareness for Global Investors

> ***"To me, the most beautiful word in the dictionary is tariff, and it's my favourite word."***
>
> \- Donald Trump

Insights

The 2024 US Presidential Election saw the return of Former President Donald Trump, winning both the electoral and popular vote, alongside with a complete Red Sweep, where the Republican party controls both the House and Senate.

This also marked the second time in US history where a US president served two non-consecutive terms. This result is significant as it gives both President Trump and the Republican party a strong mandate to govern by passing legislation and implementing their policy agenda with minimal opposition.

Significant policy changes are expected, but the economic and market impact depends on the sequence of policies and the severity. Trade, immigration, taxes, and deregulation are the fourprimary channels which will be influenced by US policy changes. Looking at President Trump's campaign promises, and previous policies, tariffs and immigration curbs are expected to be announced and implemented quickly. Deliberations on how to extend the provisions of the Tax Cut and Jobs Act (TCJA) expiring at the end of 2025 could drag on for much of 2025. Regulation rewriting tends to move slowly, but changes in regulatory posture and enforcement could quickly change how companies are planning their investments, such as a potential pickup in M&A activities. Tariffs are growth negative, while tax cuts are pro-growth. A combination of faster policy implementation and fewer limiting factors drives more significant impacts. In addition, factors such as legal and procedural constraints, and/or appointees who support a gradualist approach could lead to lags and less severe policy implications for markets and the economy.

Tariffs and Trade policy

Tariffs and Trade policy are at the forefront of investors' mind given they introduce high market volatility and economic impacts. President-elect Trump suggested imposing 60% tariffs on China and blanket tariffs of 10% to 20% on virtually all imports during his campaign. However, recently through his Truth Social posts, President -elect Trump announced that he intends to levy a 25% tariffs on all import from Mexico and Canada due to their "Open Borders" and an additional 10% tariff on import from China due to its failure to curb the number of drugs, in particular Fentanyl, coming into US. In another post, Trump threatened to impose 100% tariffs on BRICS countries and restricted access to the US market, if BRICS intend to create a new BRICS currency to rival USD or support alternatives to USD. The recent events are just a reminder of Donald Trump's unpredictability and the many paths tariffs could ultimately take. Market reactions have so far been muted, as these tariffs threats have been assessed as a point of negotiation and less likely to pass.

The president has significant power to determine and assess tariffs under many different statutes. Most statutes require that there be some finding or determination before the president can modify/impose tariffs. During his first term, President Trump imposed additional tariffs on various articles using these "traditional" statutes, such as Sections 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962. Because of the process requirements under these statutes, duties were imposed a year or more after the investigations were first announced. These tariffs were part of Trump's broader "American First" trade policy, aimed at protecting American industries and reducing trade deficits.

Key tariffs imposed during Trump first administration:

1. Steel and Aluminium Tariffs
2. China Tariffs: Multiple rounds of tariffs on a wide range of Chinese goods (USD 360 billion worth) (weighted average tariff rates of 10%)
3. Tariffs on European Union (USD 7.5 billion worth)
4. Tariffs on Canada and Mexico

The second Trump administration is expected to act more swiftly after inauguration day in imposing tariffs by using statutes that do not require much process, such as Section 338 of the Tariff Act of 1930 and/or Section 203 of the International Emergency Economic Powers Act. However, a blanket import tariffs is not our base case scenario given potential legal constraints. Even if tried and ultimately succeeded, the adjudication process would slow implementation. It is likely that the initial tariffs would focus on more China Tariffs and product-specific tariffs in Europe, with a ramp up period over multiple quarters.

Recent Cabinet picks with Scott Bessent to serve as the next Treasury secretary has been read as a Wall Street friendly choice to prioritize market stability over economic disorder. Tariffs are still likely, but higher probability that they are more strategic and phased in, given his support for fiscal prudence via the 3-3-3 rule. This rule has 3 components: Cut budget deficit to 3% of GDP by 2028, push GDP growth to 3%, pump an extra 3 million barrels oil per day. This would be hard to achieve if tariffs disrupt supply chains and hit consumption.

Immigration

Announcement should come quickly regarding limiting asylum-seeking and more aggressive border-crossing enforcement, potentially including cooperation from Mexico. Deportation plans would likely develop more slowly, given logistical constraints of organizing state and local law enforcement and potential political concerns about disruption the labor force. Some state and local governments have already indicated they plan to not cooperate with deportation plans proposed by incoming administration members.

Tax policy

Tax policy should take delayed implementation compared to trade policy and immigration its complexity and legal constraints. Factors contributing to slow implementation include

1. myriad interested parties making for complex negotiation;
2. Republicans will be operating with slim majorities;
3. complexity of negotiation will be amplified by the need to operate through rules of budget reconciliation.

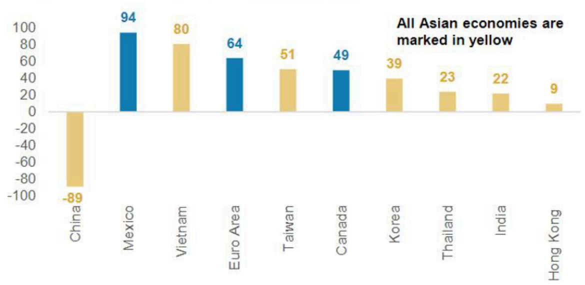
At the very least, we would still expect TCJA extension for a few more years.

Potential Market impacts

US Equity: Tariffs are typically risk-negative, hitting growth, corporate profit, especially on sectors reliant on global supply chains, while tax cuts would boost domestic growth, benefiting US-centric sectors. Deregulation is generally positive for US equities, especially in sectors like financials and manufacturing where compliance costs have historically been high. These sectors could see operational efficiencies and improved profitability as regulatory burdens ease. The impact on small cap is less clear given that small caps are generally more exposed to supply chain disruptions but would benefit from tax burden reduction.

International Market: We expect outsized negative impacts on China/HK equities, given the direct trade exposure, along with broader weakness in Asia and other China proxies such as Europe and Australia. China would still be the biggest loser in a trade war, but Asia has been increasing its dependence on US.

Change of trade surplus with US
(USSbn, Sep-24 vs. Dec-17, 12M trailing)



Fixed Income: Anticipated policies such as tax cuts, tariffs on certain imports and immigration policy changes are inflationary, and should support higher bond yields, which is negative for fixed income. Potential deficit expansion, coupled with US GDP growth should support a higher term premium, leading to a steepening of the curve.

FX: The USD may benefit as a "safe haven" currency, while high-beta and cyclical currencies like EUR, CNY, AUD and MXN could weaken under trade pressure. Strength of USD would be correlated on the severity of imposed Tariffs. However, compared to first tariffs implementation in China, CNY depreciation would likely to be more modest this time round. In 2018-19, USDCNY depreciated 11.5%, which fully offset the 10.3% increase in trade-weighted effective tariff rate on all China imports. The current levels of USDCNY are much weaker, and the interest rate differential between US and China remains deeply negative.

Some economists advise for a BRCIS currency to use gold price as a reference value, when other economists are saying that it would be preferable to build a BRICS currency as a basket of currencies, similar to the IMF's Special Drawing Rights.

An initial BRICS currency will not be used for personal consumption but only for international trade settlements. A BRICS currency might be launched as a digital currency, and if not, different central banks within BRICs are developing alternative cross-border payment system to SWIFT (mBridge).