Market Insights: Trump Presidency

June 2025

THE ORANGE SWAN

Frontier Advisors

About us

Frontier has been at the forefront of institutional investment advice in Australia for 30 years and provides advice on around $800 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Frontier's purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing, customisation, technology solutions and an alignment and focus, unconstrained by product or manager conflict.

Alexandra Veroude – Senior Consultant

Alexandra joined Frontier in 2025. She works in the Capital Markets and Asset Allocation team, focused on macroeconomic and market analysis and research.

Alexandra has over a decade of experience working as an economist and in financial markets. She started her career in the economics graduate program at the Reserve Bank of Australia. Her most recent role was in the Netherlands as an energy analyst with environmental commodity trader, STX Group, She has also been an economist at Bank of America Merrill Lynch and JP Morgan and also spent time at Bloomberg as an Economics Editor for the Asia region.

She holds a Bachelor of Economics (First Class Honours) from the University of Adelaide and was awarded the University Medal for outstanding academic achievements.

Chris Trevillyan – Director of Investment Strategy

Chris joined Frontier in 2004. His responsibilities include leadership of the Capital Markets and Asset Allocation Team, Chair of Frontier's Investment Committee and he oversees the firm's investment strategy research program.

Chris has previously filled the leadership roles of Frontier's infrastructure specialisation team and Quantitative Solutions Group. Prior to Frontier, Chris was employed by Primary Superannuation Services as a Finance and Business Analyst working with industry superannuation funds and spent time working in London with Close Brothers and Granville Baird private equity firms.

Chris holds a Bachelor of Commerce from the University of Melbourne, is a qualified CPA and has completed a Master of Applied Finance at the University of Melbourne.

Summary

Risks to downside – uncertainty and swings in sentiment weighing on growth outlook

The purpose of this paper to review the potential impacts of the likely Trump Presidency policy agenda, particularly focussing on trade tariffs given their scale.

The second Trump Presidency is only months old but is having a major impact.

The risk outlook is to the downside and the risk of a major policy, geopolitical misstep is increased. However, there are potential supportive policy responses too.

The risk of a recession has increased. It is unclear where the level of trade tariffs will finally settle, but it will be significantly higher, and this will have a negative impact on growth and push up inflation. The uncertainty on its own will have a negative impact on business investment and confidence.

The Trump Administration policy agenda is driven by ideology rather than economic fundamentals. The threat to the outlook is not about underlying economic fundamentals (as was the case in the GFC), which are still relatively solid, or an external exogenous shock (e.g. COVID-19). The Administration can take actions to try to rectify the outlook if it decides to.

There are potential policies that could counterbalance against the downside risks. Policies could be introduced such as tax cuts and deregulation. Monetary policy can be loosened with further interest rate cuts, although the US Federal Reserve may be restrained by balancing the inflationary and growth impacts of tariffs. Fiscal support globally could increase as observed with announced spending by Germany, and the potential of stimulatory action from Chinese Authorities.

Key takeaways

- Uncertainty is high and we expect large swings in sentiment to continue going forward. There is a risk of a major break in confidence that triggers a larger response.
- This suggests caution on risk allocations is warranted; moderate conviction in positions given the uncertain outlook; and build portfolio resilience, diversification for different potential scenarios.
- We continue to advocate for diversifying concentrated US allocations, including large currency and equities exposures.
- Frontier recommends that in periods of volatility, maintaining a focus on long-term strategy is particularly important, while there is also a need to be adaptative, to consider being more tactical in rebalancing, and targeting opportunities.
- Liquidity management is of increased importance.

Trump policy agenda

Trump Presidency

Uncertainty challenging confidence as new trade policies are introduced, altered and paused

Trump has demonstrated a strong desire to execute on policy, after experiencing restrictions to implement his plans in his first term. Appointments in the Administration demonstrate strong alignment to Trump views. To date, Trump has relied almost exclusively on 'executive orders' to achieve his objectives, rather than pass legislation through Congress. He has issued more than 150 executive orders in the first four months in office, compared with 220 in total during his last term, and 160 in total during the Biden Presidency.

The Republican party has narrow majority control of both the Senate and the House in Congress. Dissent from Republican representatives is limited by threats from Trump to influence primary nomination processes. The Congress holds the 'power of the purse'; approving the budget and the debt ceiling appears to be an authority it will maintain. However, Congress technically holds the power in other areas, but the Trump Administration is relying on legal ambiguity to unilaterally take actions. In the case of imposing tariffs, it is using the International Emergency Economic Powers Act, declaring that a "lack of reciprocity in our bilateral trade relationships" is the "unusual and extraordinary threat, to the national security and economy of the United States". In the case of deportation of immigrants it is using the Alien Enemies Act of 1798, declaring that the Venezuelan gang Tren de Aragua (TdA) is "perpetrating, attempting, and threatening an invasion or predatory incursion against the territory of the United States". Elon Musk was designated as a 'special government employee', not legally in charge of the Department of Government Efficiency (DOGE) so he does not go through the process of Senate confirmation. His 130-day mandate expired on 30 May, with limited tangible outcomes.

There are many legal cases (more than 200) challenging Trump's executive actions and claims of judicial threats. Concerns are being raised of the risk that as cases move to the Supreme Court, the Administration may defy its rulings, triggering a constitutional crisis. When asked in an interview if he needed to uphold the Constitution as President, Trump replied, "I don't know." There have been various news items questioning the independence of the Justice Department, including a wave of resignations and dismissals of senior officials. There have also been statements from the Administration challenging the independence of the Federal Reserve, including Trump saying that Reserve Chair, Jerome "Powell's termination cannot come fast enough!".

Trump responded to the potential detrimental impact of tariffs on the US people, by saying "maybe the children will have two dolls instead of 30 dolls". However, it was apparently the large moves in the bond market (although not the earlier correction in equities markets) that persuaded him to reverse and pause some of the tariffs. This potentially indicates that he is less concerned by public opinion but may respond to financial markets. Trump does not need to court popularity for himself for a future presidential election (although he has suggested the possibility of a third term and hinted at Trump family political dynasty). Mid-term elections in November 2026 could impact Republican party power in Congress (although this may be less important as Trump is utilising executive orders).

To date, the focus has been on the negative economic impact of tariffs and government spending cuts. However, the initial positive sentiment to the Trump election was driven by expectations of tax cuts and deregulation that are potentially ahead.

There is an overwhelming stream of news from the Administration. This is a part of a designed strategy to "flood the zone', overwhelming the public (often with misleading, distracting, or false information) so that it becomes disoriented, cynical, and disengaged. It means that a high level of uncertainty and volatility in policy is likely to persist and that there will be large swings in sentiment depending on what Trump has said one day to the next (or intra-day). Although largely 'noise', ultimately the uncertainty challenges confidence, which can trigger market reactions.

Trump policy impact

Uncertainty and instability is elevated and is expected to weigh on investment and economic activity if it persists. Policies have opposing impacts on the economy, so scale of implementation will matter.

Policy	Summary	Growth	Inflation	Interest rates*	USD
Trade	• Escalation of a broad global trade war is a key risk to growth. • Tariff policy will push up prices and risk of inflation outbreak. • Positive for some domestic industrial and manufacturing sectors but will negatively impact sectors with significant offshore supply.	↓	↑	↑	↑
Taxation	• Expect tax cuts for households and business but may depend on overall fiscal position, which is strained.	↑	↑	↑	↑
Deregulation	• Deregulation to support growth and equities. • Cryptocurrencies and AI to receive favourable regulatory support.	↑	–	–	↑
Fiscal deficit	• Concerns around the fiscal deficit are front of focus. Tax cuts will need to be matched with expenditure reductions or revenue increases.	↓	–	↑	↓
Capital flows	• A challenge to Federal Reserve independence, via pressure to cut rates, could trigger market concerns, capital outflows and increase yields.	↓	–	↑	↓
Fossil fuels	• Strong support by Trump to boost oil and energy production, increasing supply, placing downwards pressure on prices. • Increased production would need to offset lower prices to boost returns.	↑	↓	↓	–
Immigration	• Population growth to slow. Inflationary impact will depend on number of workers deported and skilled migrant intake. • Deportations may not be as widespread as rhetoric.	↓	?	–	–
Climate change	• Climate aligned initiatives and investing to face greater challenges.	↓	↓	–	–
Geopolitics	• Increased risk of broader geopolitical conflict as backlash to the Trump policy agenda, although defence spending will boost growth. • Energy prices could fall if agreements reached in Ukraine and Middle East.	?	?	↑	↑

* Not necessarily that the FOMC will hike rates, but that rates could be higher than otherwise would be.

Trump Administration – hierarchy of motivations

House holds

Focus on cost of living and employment

Have shown little regard to date for impact on population that voted for Trump. Tariff policy increasing cost of living is 'medicine' need to take.

May increase focus on households as approach mid-term elections in November 2026.

Pro-business

Tax cuts, deregulation
Lower interest rates

Republican party historically aligned with business interests.

Corporations pressured to align with Administration, stepping back from Diversity, Equity and Inclusion (DEI).

Tariffs

Rebalance trade deficits, promote domestic manufacturing, revenue to balance budget
Lower value of USD?

Strong believers in tariffs for negotiation leverage, revenue raising and shift production domestically.

Reduced imports would push up USD but lower value of USD supports domestic industry. While reserve currency status is a global strength, uncertainty reduces confidence in the US.

American First

Nation interests ahead of global considerations -
retreat from foreign aid and multi-national agreements; anti-immigration;
combative geopolitics, Greenland, Panama canal, Canada 51st state

Mercantilism – "reassert American sovereignty".

Directing the economy to increase national wealth and strength. Promote self-reliance and defense. Support national corporate champions.

Trump primary beliefs are self interest

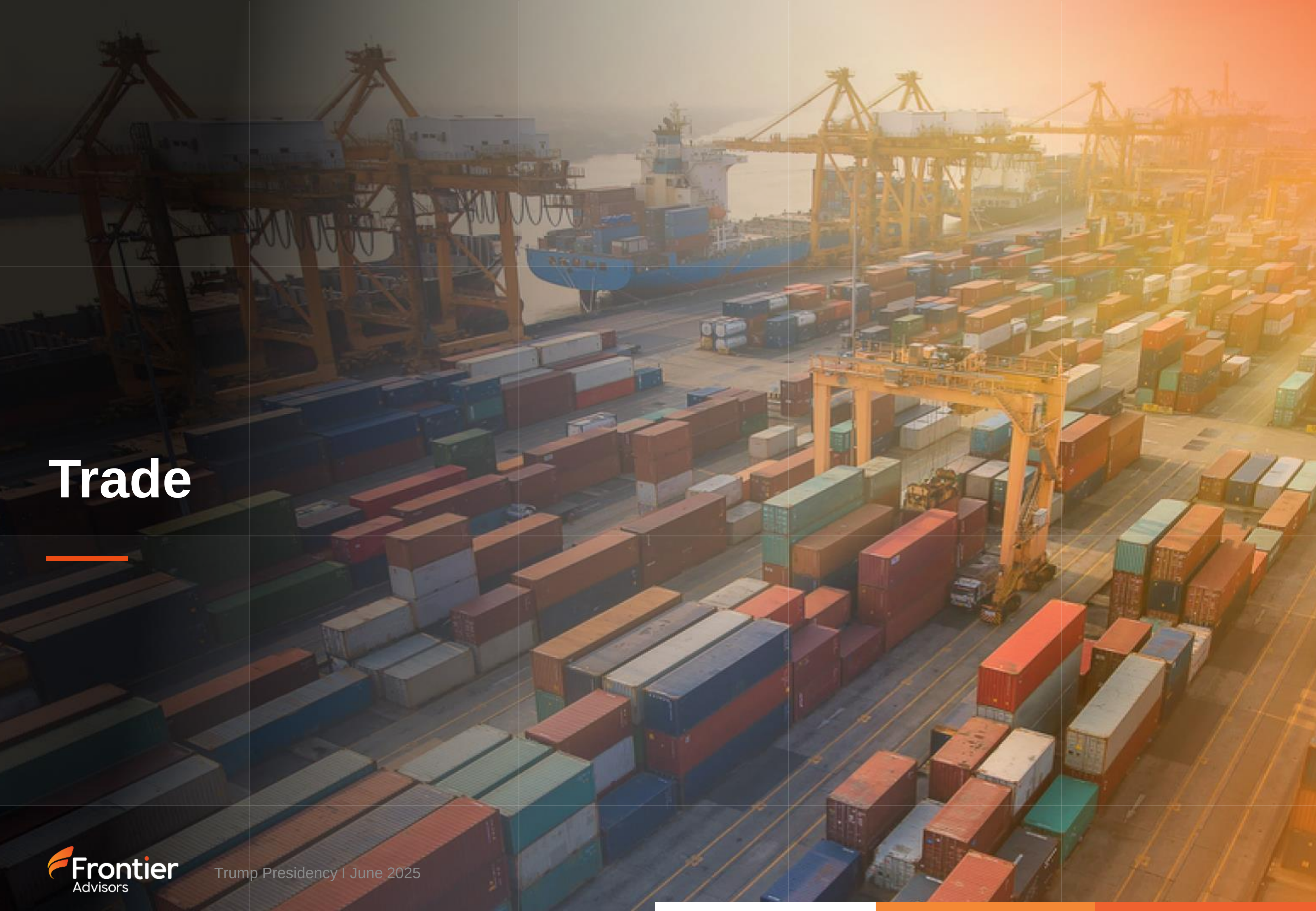
Trump – Personality Psychology

Self aggrandisement, egotistic, attention-seeking, vindictive

Administration – Political Ideology

Small government, dismantle bureaucracy, favour fossil fuels, end DEI (diversity, equity and inclusion), use of military for law enforcement, criminalise abortion and birth control, anti-LGBTQIA+ rights

Administration has strong political ideology linked to Heritage Foundation Project 2025, authoritarian conservative nationalist plan.



Trade

Global trade flows

Globalisation slowed, stalled, reversing, redirecting

Globalisation, expanding global trade, has been a key secular trend that has driven global economic growth and pushed down inflation. It was propelled by the end of the Cold War in the 1990's and accelerated with China's entry to the World Trade Organisation (WTO) in 2001. However, over the past decade, the expansion of global trade has stalled. Opposition to trade, particularly the dominance of China, and the hollowing out of domestic manufacturing industries has driven political change.

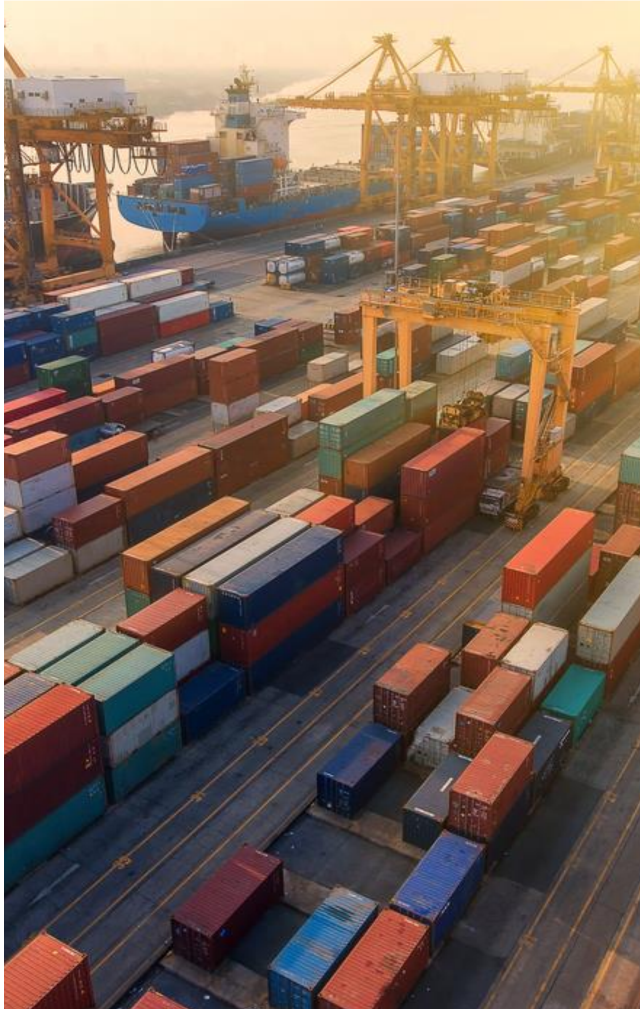
Surprisingly, the US is a relatively closed economy, with trade a small proportion of economic activity. However, as the wealth and size of the US economy has grown, its trade deficit has expanded, particularly with China but it also has a large deficit with the EU.

The initial trade war in Trump's first term in office did not reduce the trade deficit. Countries such as Vietnam, Mexico, Taiwan, Malaysia and South Korea were beneficiaries of the trade war with China, and the EU also increased its share of trade with the US. This was in part due to rerouting of trade from China to these nations but also the maturing of the Chinese manufacturing economy, as it was no longer the cheapest producer of low value items.

China remains the world's major exporter, but given its overall size, its economy is also not as dependent on trade. Countries with a greater reliance on trade could be more impacted by Trump's second term trade war. 'Reciprocal tariffs' are focused on reducing the US trade deficit and could be significantly disruptive on emerging trade economies, such as Vietnam. Mexico and Canada will be particularly hard hit, and Europe and Japan have sizeable trade with the US that will be impacted.

The confrontational actions of the US, will push countries to explore other partners, including China. Trading (and strategic) relationships between non-US nations are likely to expand. Some of the goods that were destined for the US may now be redirected to other markets, including Australia, providing a deflationary benefit.

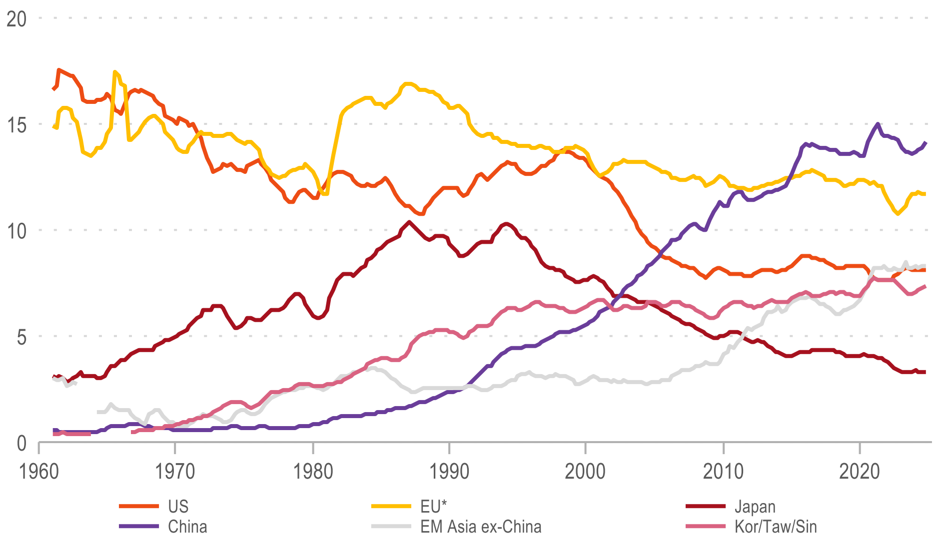
Australia is one of the few countries where the US typically has a trade surplus. This should to some extent immunise the direct impact on Australia, although the 10% minimum tariff is still being applied, and Australia has not been exempted from the tariffs on steel and aluminum imports. The greater impact on Australia will flow from its largest trading partners (China, Japan, Korea) and how these economies react to the US trade policy outcomes. US immigration policy will likely negatively impact its tourism and education industries, providing opportunities for Australia if its immigration settings are supportive.



Shifting global trade

China's risen to be the exporter to the world, globalisation typically reduces prices

Chart 1: Proportion of world exports



Source: LSEG Datastream

*excluding intra-EU trade

Chart 2: Global merchandise trade and inflation

Source: LSEG Datastream

Globalisation, expanding global trade, has been a key secular trend that has driven global economic growth and pushed down inflation. It was propelled by the end of the Cold War in the 1990's and accelerated with China's entry to the World Trade Organisation (WTO) in 2001. However, over the past decade, the expansion of global trade has stalled. Opposition to trade, particularly the dominance of China, and the hollowing out of domestic manufacturing industries has driven political change. A greater share of trade has stemmed from Asia ex-China in recent years, with factories shifting to nations with lower operating costs.

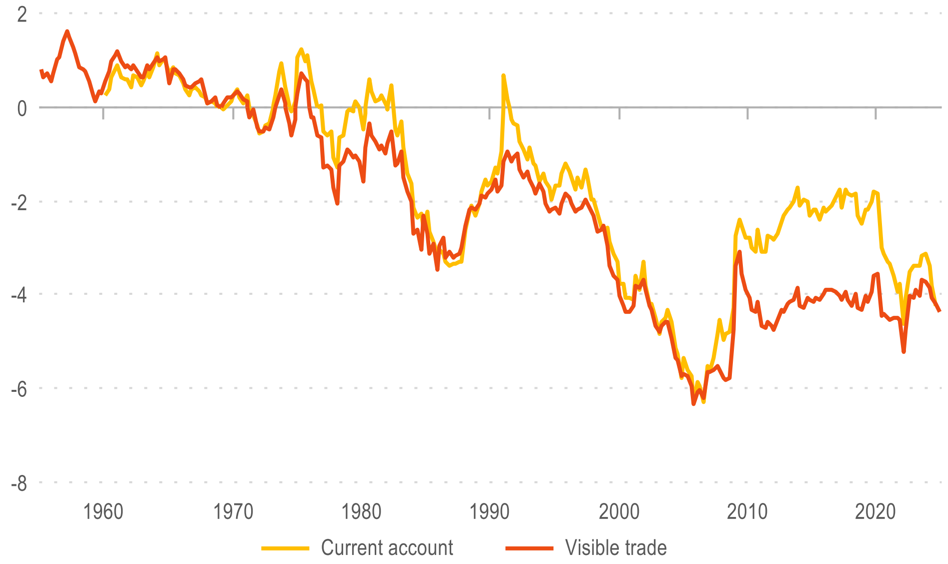
However, US consumers have benefited through globalisation with increased trade typically coinciding with lower rates of inflation. Chart 2 showcases the inverse relationship between trade and inflation.

Simply factoring in the difference of labour costs between producing items in developing nations versus in the US adds a significant price premium onto goods currently imported. It has been estimated that the cost of the iPhone could increase 3.5x if production is forced to the US, with 25% of the cost increase attributed to higher labour costs.

Trade deficit

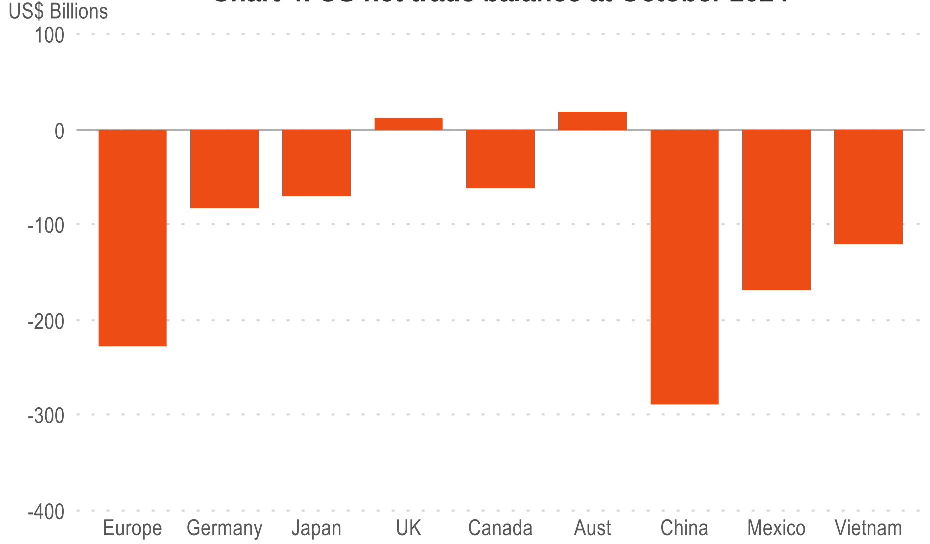
Reducing the perceived one-way flow of trade is a key motivation behind the tariff policies

Chart 3: US balance of payments (% of GDP)



Source: LSEG Datastream

Chart 4: US net trade balance at October 2024



Source: LSEG Datastream

Fundamental to the shaping of the administration's policies, President Trump sees the trade environment as unfair. The President believes that many exporting nations take advantage of the relatively easy to access US market to dump cheaply produced goods, while it prevents US exports in accessing their markets with their own trade barriers. The trade deficits that the US holds with China and Europe, in particular, are points of contention for the President.

These views surround Trump's long-standing grievance against the US current account deficit, which at around 5% of GDP is often compared against China's current account surplus of around 3% of GDP.

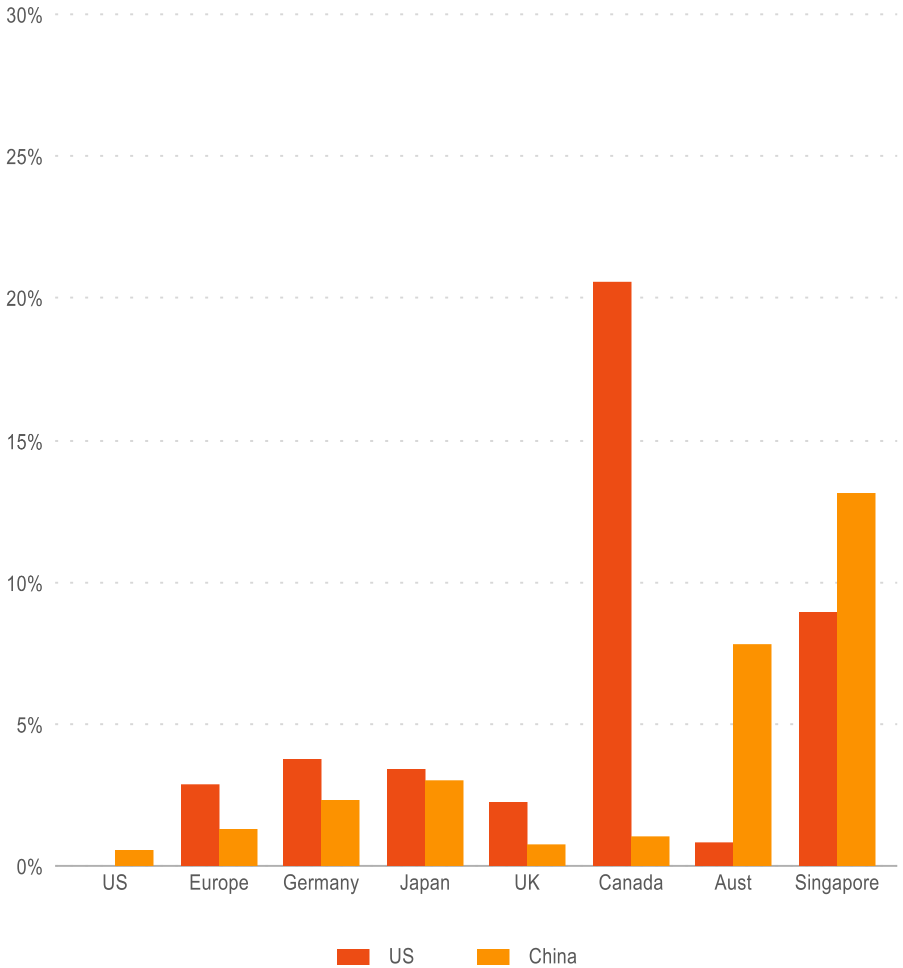
This narrow views fails to take into account the benefit from its capital account surplus, where foreign demand for assets like treasuries lowers the cost of borrowing than would otherwise be the case.

Surprisingly, the US is a relatively closed economy, with trade a small proportion of economic activity. However, as the wealth and size of the US economy has grown, its trade deficit has expanded, particularly with China but it also has a large deficit with the EU.

US and China trade dependence

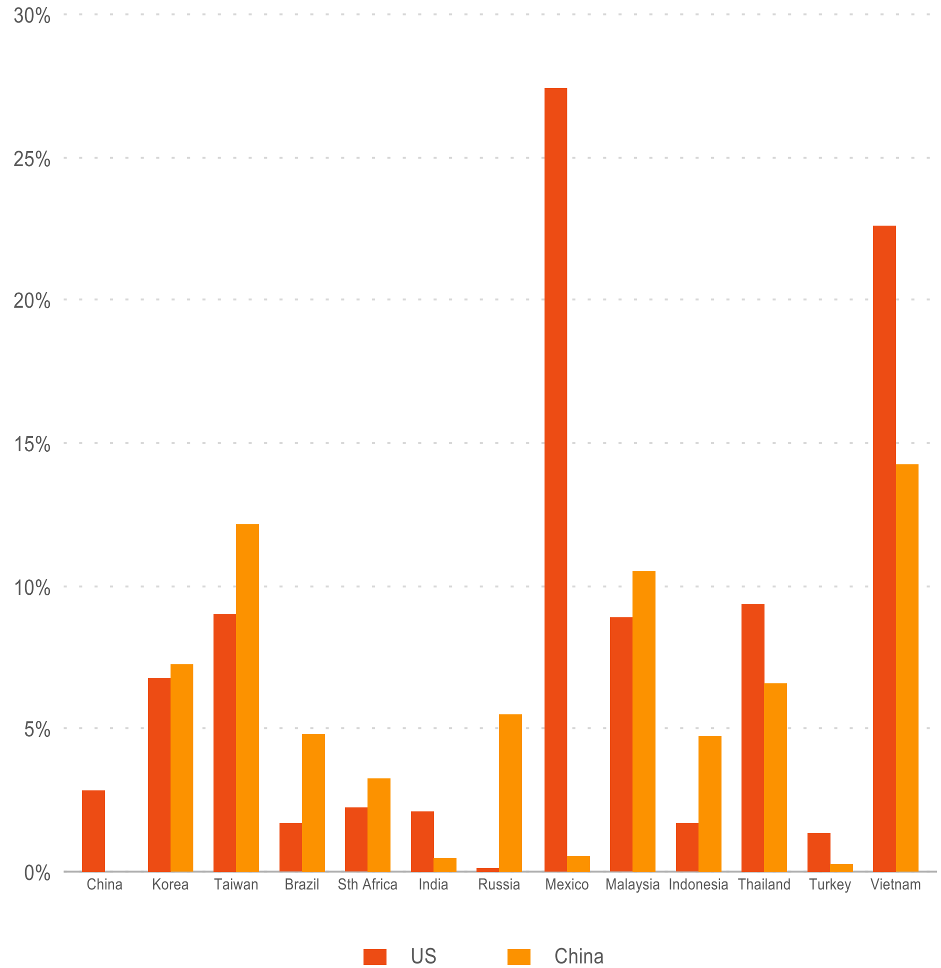
EM countries are mostly reliant on both US and China for exports

Chart 5: DM country exports (% of GDP) to US and China



Source: LSEG Datastream

Chart 6: EM country exports (% of GDP) to US and China

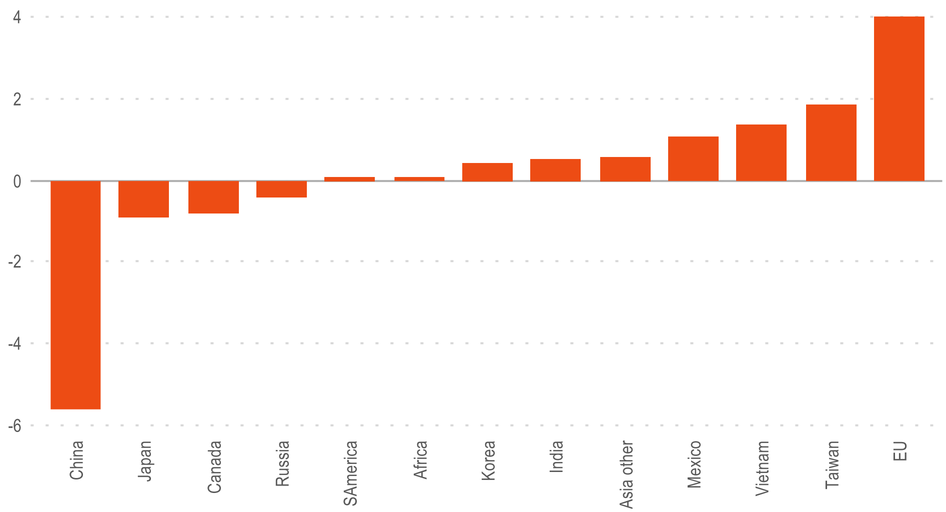


Source: LSEG Datastream

Redirecting trade

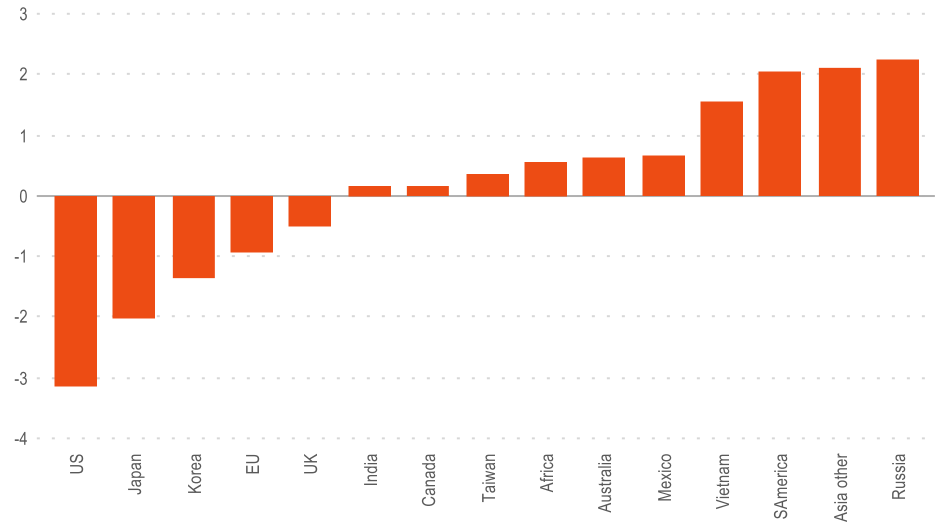
Trade flows moved across Asia and Latam in response to China tariffs under Trump 1.0

Chart 7: Change in share of trade with US 2016 to October 2024



Source: LSEG Datastream

Chart 8: Change in share of trade with China 2016 to January 2025



Source: LSEG Datastream

The initial trade war in Trump's first term in office did not reduce the trade deficit. Countries such as Vietnam, Mexico, Taiwan, Malaysia and South Korea were beneficiaries of the trade war with China. This was in part due to rerouting of trade from China to these nations but also the maturing of the Chinese manufacturing economy, as it was no longer the cheapest producer of low value items. China also shifted production towards Mexico to access the US market at a more favourable tariff and cost rate. Depending on where tariffs settle, it could be that parts of Central and South America are the latest recipients of trade redirection.

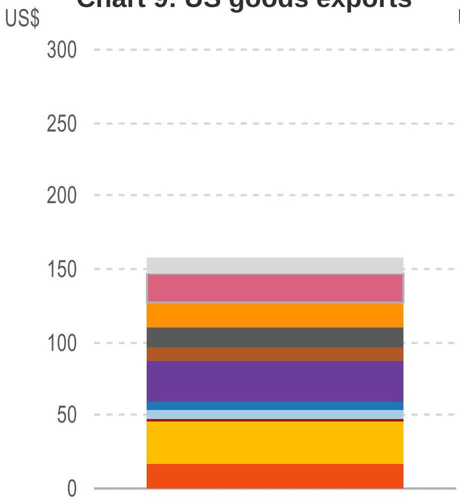
China remains the world's major exporter, but given its overall size, its economy is also not as dependent on trade. Countries with a greater reliance on trade could be more impacted by Trump's second term trade war. 'Reciprocal tariffs' are focussed on reducing the US trade deficit and could be significantly disruptive on emerging trade economies, such as Vietnam. Mexico and Canada will be particularly hard hit, and Europe and Japan have sizeable trade with the US that will be impacted.

The confrontational actions of the US, could push countries to explore other partners, including China. Trading (and strategic) relationships between non-US nations are likely to expand. Some of the goods that were destined for the US may now be redirected to other markets, including Australia, providing a deflationary benefit.

US trade composition

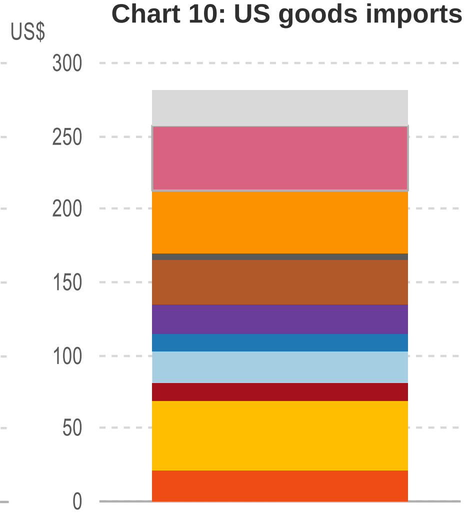
US imports are spread across many sectors making it challenging to redirect production

Chart 9: US goods exports



Source: LSEG Datastream, Global Trade Tracker

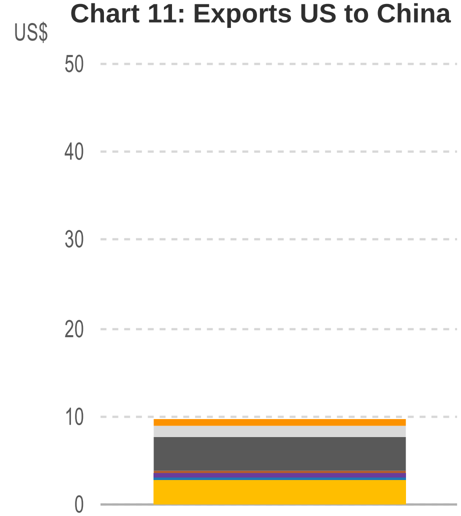
Chart 10: US goods imports



Source: LSEG Datastream, Global Trade Tracker

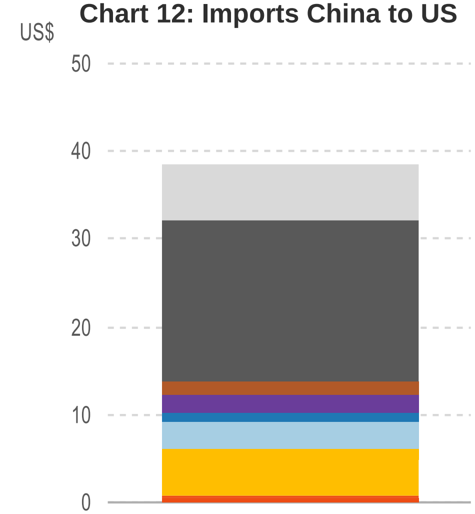
Food, Materials, Apparel, Natural goods, Commodities, Fuel, Auto, Transport, Electrical equip, Nuclear, Other goods

Chart 11: Exports US to China



Source: LSEG Datastream, Global Trade Tracker

Chart 12: Imports China to US



Source: LSEG Datastream, Global Trade Tracker

Food, Materials, Fabric, Apparel, Natural goods, Commodities, Auto, Machinery, Other Goods, Fuel

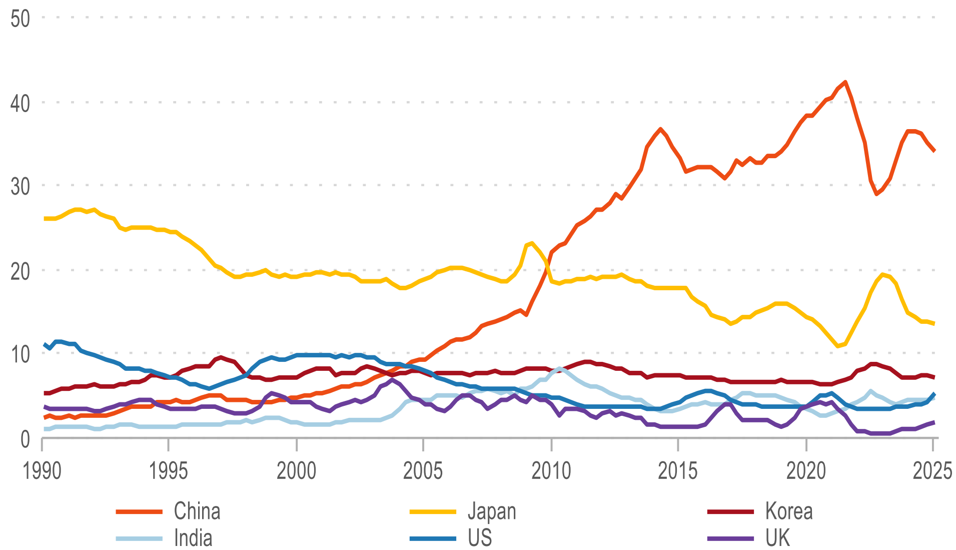
Tariffs on autos, steel, aluminum aim to boost domestic production of these goods where existing operations are in place. However, many domestically produced goods will still have global supply chains. It will also be challenging to redirect production towards the US in industries where the US does not currently have any operations within the supply chain.

In some cases, a trade deficit exists because the US cannot produce the imported good. For example, the US has a trade deficit with Colombia that is predominately due to coffee bean imports.

Australia trade exposure

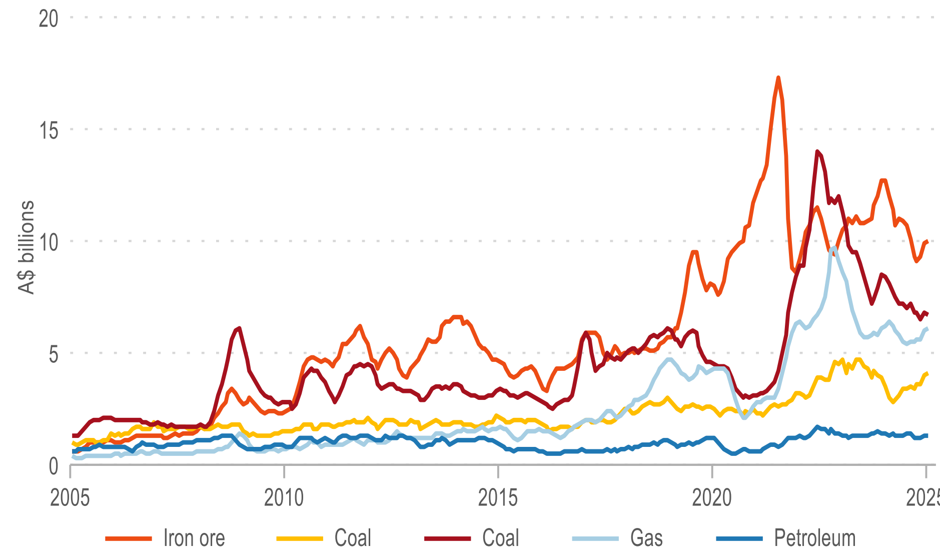
Slower growth in Australia's trading partners, due to tariffs, would indirectly hit domestic growth

Chart 13: Australia exports proportion by country



Source: LSEG Datastream

Chart 14: Australia resources exports (3MMA) to January 2025



Source: LSEG Datastream

The US generally has a trade surplus with Australia, meaning that Australia buys more from the US than the US buys from Australia. This dynamic was flipped at the beginning of 2025, when heightened demand to import gold into the US was partially sourced from Australia. This is expected to be temporary, and the US will resume a trade surplus with Australia.

The direct impact of the 10% tariff on Australia will be minimal but the greater indirect impact is likely through the response of Australia's largest export destination, China, to the US trade policy. However, Australia has not been exempted from the tariffs on steel and aluminum imports.

The greater impact on Australia will flow from its largest trading partners (China, Japan, Korea) and how these economies react to the US trade policy outcomes. US immigration policy will likely negatively impact its tourism and education industries, providing opportunities for Australia if its immigration settings are supportive.

Trade negotiations strengths and weaknesses

Countries will negotiate or settle depending on individual circumstances

Policy	Strengths	Weaknesses
China	• Rapidly expanding its AI and technology capabilities, which could be in direct competition to US companies. • Largest producer of rare earths, used in batteries, consumer electronics. • Largest trading partner is the US, but exports to US account for less than 3% of GDP.	• China economy weaker than under Trump 1.0. • Currency depreciation, previously used to shield tariff impact, would hurt already weak consumer. • Stimulus needed to support economy even before tariff impact. • Trump paying closer attention to re-routing via third countries.
Mexico	• Mexico is the second largest export market for US goods and services, supply chains are already heavily integrated. • Major supplier of fresh produce to US. • Significant importer of US gas and oil products.	• Heavily dependant on trade with US, ~80% of exports sent to the US; around 28% of GDP and limited retaliatory capability. • Internal disputes with the drug-cartels possible if trade routes are disrupted.
Canada	• Canada is the largest export market for US goods and services, supply chains are already heavily integrated. • Major supplier of grains, meat and dairy to US. • US domestic steel and aluminum industry unlikely to cover domestic demand without imports.	• Largest trading partner is the US, exports to US account for 19% of GDP. • Limited diversification to other trading partners. • Canadian economy operating with excess supply, with weak outcomes over 2024.
EU	• The EU is a significant importer of US LNG; it could agree to import a greater share from the US. • Unified negotiation power of the EU bloc and strong retaliatory capability.	• Vulnerable to tariffs, especially with automobiles, where soft conditions in German manufacturing is already dragging on EU GDP. • Coordination complexity in aligning member states.
Australia	• Australia usually has a trade deficit with the US; it imports more from the US than it exports. • Key strategic ally with US – AUKUS agreement, Australia purchasing defence equipment from US.	• Australia is heavily reliant on China as an export market, 30-40% of total exports. Weakness in China's economy would flow onto Australia.
ASEAN	• Many US clothing and footwear companies have factories in South-East Asia – these products are likely to have direct impacts on prices for American households. • Threaten closer ties with China if US market closes.	• Tariffs disproportionately directed towards Asia to stifle the relocation of Chinese manufacturing to cheaper locations that was designed to avoid earlier tariffs on China. • Coincide with previous weakness in business cycle.

Tariffs

US trade war versus the world

Tariffs (and uncertainty) reduce growth and increase inflation for the US

The Trump administration is upholding its election promise to use tariffs as a key policy tool. Tariff threats were used in negotiations with Mexico and Canada on immigration and drug trafficking, as well as with Colombia to force it to accept deportation flights. Strategic and non-trade related considerations are likely to factor into negotiations with each nation. A trade deal was announced with the UK on 8 May, although an agreement of final details could still be some time away.

Increases in tariffs increase consumer prices, reduce imports and exports. Output reduces as private domestic demand contracts and investment is lower. The reduced demand for imports appreciates the exchange rate, which works against trade balance improvement. The exact impact depends on the pass-through of higher costs onto the consumer, substitution of demand and supply, and retaliatory actions. Trade policy uncertainty also affects macroeconomic dynamics. However, this tends to depreciate the exchange rate as precautionary responses impact domestic consumption and external capital flows.

As it is still only a short time since the new tariffs have been enacted, the actual impact on economic activity is not clearly observable yet. There was a surge in imports to the US in the first quarter of the year, in advance of the expected tariff increases, and there are reports that cargo ships leaving China for the US have dramatically fallen. It seems unlikely that the tariffs will drive the domestic manufacturing investment surge that Trump promotes. The policy turmoil has caused sentiment to fall, triggered large swings in markets, and outlook surveys have turned negative. The uncertainty, reducing confidence in the US, has seen capital outflows, depreciating the US dollar.

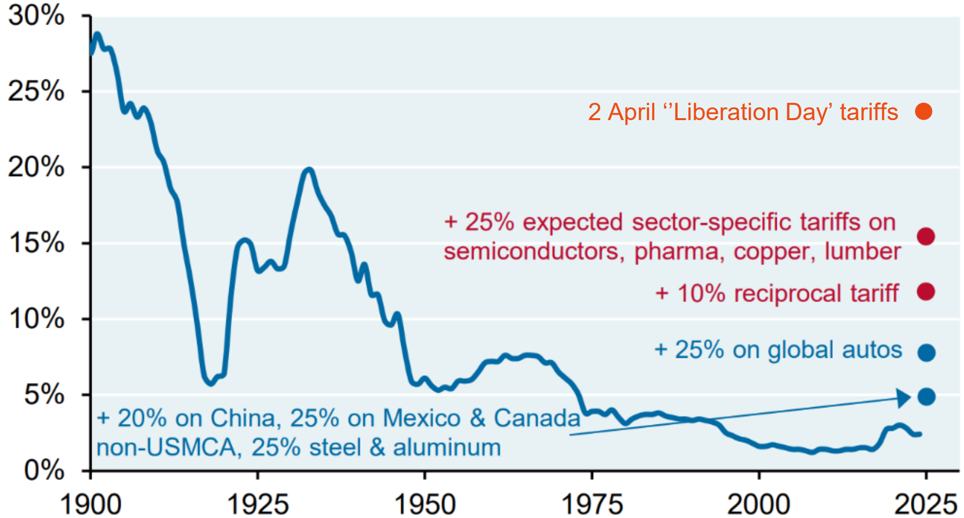
Although the final level of tariffs is unknown, it will be significantly higher than previously and this will have a negative impact on growth and push up inflation. Even if tariff increases were removed, there would still be a negative impact from the uncertainty. Uncertainty has real economic impacts, as investment stalls reducing growth.

Other policy actions could somewhat offset the impact of tariffs. Interest rate cuts will be supportive, although may be restricted by tariff-induced inflation pressures. Pro-growth policies of tax cuts and deregulation are expected from Trump, and expansive fiscal policy globally is likely, notably around defence spending.

Tariff rates

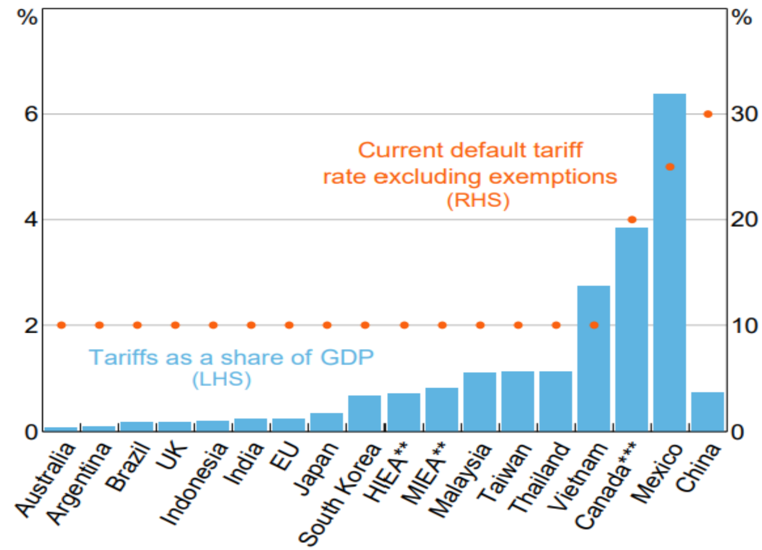
Tariff rate increasing significantly, though final position unknown

Chart 15: US effective tariff rate on goods imports



Source: JP Morgan, Tax Foundation, GS Global Investment Research

Chart 16: Direct exposure to US tariffs

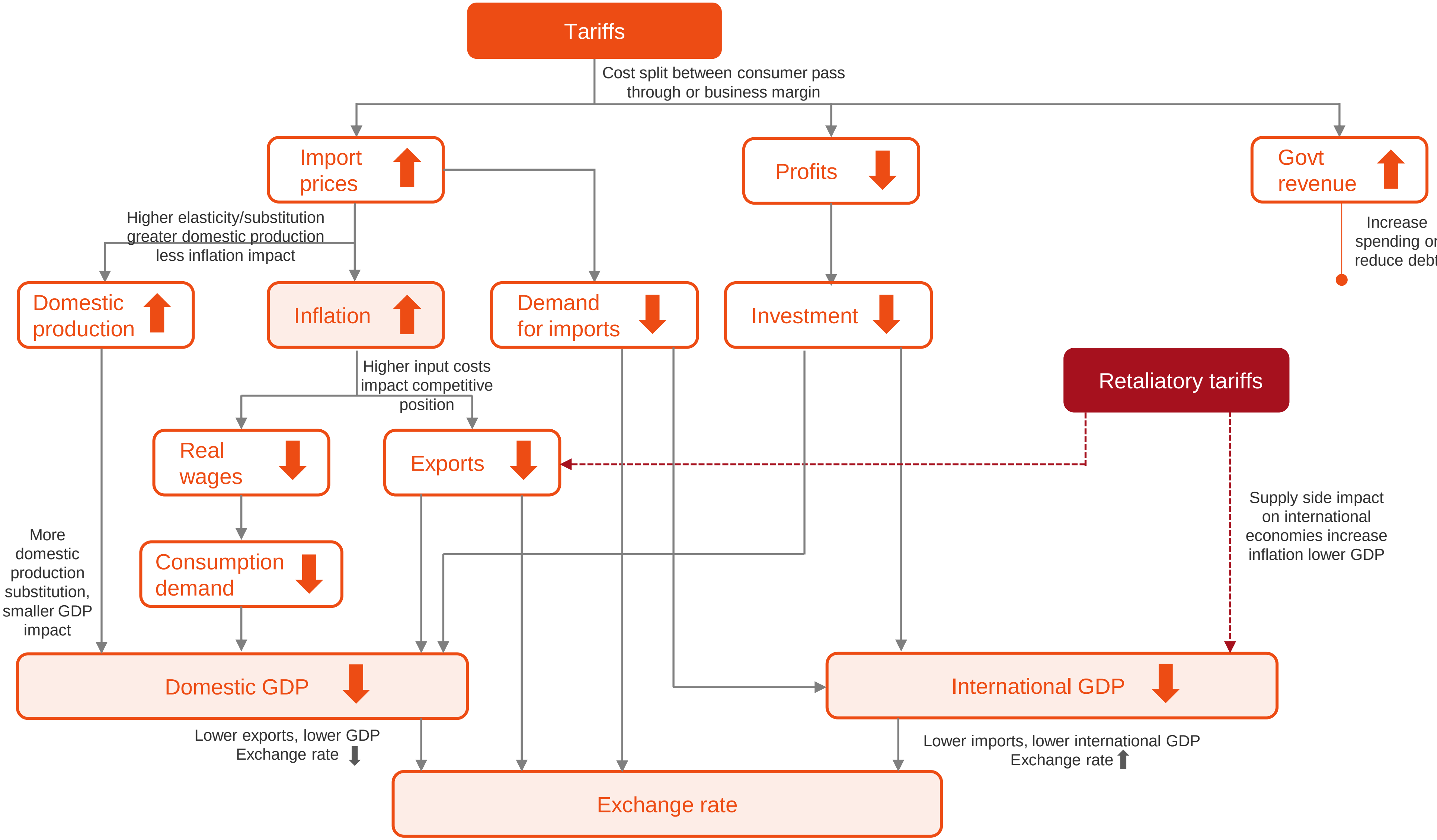


Source: RBA, OEC, UN Comtrade, World Bank

The first round of tariffs were 25% on America's nearest trading partners, Canada and Mexico, as well as sector specific tariffs on all car, steel and aluminum imports. China was next inline, and US action was met with tariff retaliation from Beijing, as well as restrictions on exports of rare earths. On 5 April, 'Liberation Day', Trump announced a minimum 10% tariff on all imports, and much higher 'reciprocal tariffs', based on the size of the US trade deficit. Tit-for-tat tariff increases with China ended with a tariff rate at 145%. Trump also announced a 100% tariff on foreign produced films, threatened to impose 100% tariffs on toy-maker Mattel, after the company said it would diversify its production to countries other than the US, and a 25% tariff on Apple iPhones not manufactured in the US.

On 9 April, after several days of market turmoil, a 90 day pause on the higher tariffs for most countries was announced, and Trump later exempted many electronics imports. On 9 May, China and the US agreed to significantly wind back tariffs for 90 days. The 10% tariff seems likely to largely remain as a minimum base, bringing its effective tariff rate to around 15%. This would be the highest level since the 1930s, when the Smoot-Hawley Tariff Act was implemented. It is argued this Act contributed to the Great Depression and was perceived globally as a hostile act, undermining international cooperation and generating long-term resentment within the US.

Tariff impact transmission mechanism



Tariffs forecast impact on growth

GDP expectations have been revised lower with large downgrade on the US

GDP forecasts, annual average 2025, %

	IMF in January (%)	IMF in April (%)	Difference between Jan, Apr (ppt)	IMF revision rationale	Current consensus (%)
US	2.7	1.8	-0.9	Policy uncertainty, normalization of private consumption	**1.4**
China	4.6	4.0	-0.6	US tariffs offsetting fiscal expansion	**4.5**
Euro area	1.0	0.8	-0.2	Rising uncertainty and tariffs, with German fiscal spending partially offsetting weakness	**0.8**
Canada	2.0	1.4	-0.6	Tariffs, uncertainty and geopolitical tension	**1.2**
Mexico	1.4	-0.3	-1.7	Tariffs, weaker-than-expect 2024 activity, tightening of financial conditions	**0.6**
Vietnam	N/A	5.2	N/A	Specific reasons not given	**6.1**
Australia	2.1	1.6	-0.5	Specific reasons not given	**2.0**

IMF forecasts are from World Economic Outlook in January 2025 and April 2025. Consensus is taken from Reuters polling, accessed 23 May.

Forecasts for global growth have been revised lower since the tariff announcements in April, with the US expected to bear the brunt of its self-induced slowdown.

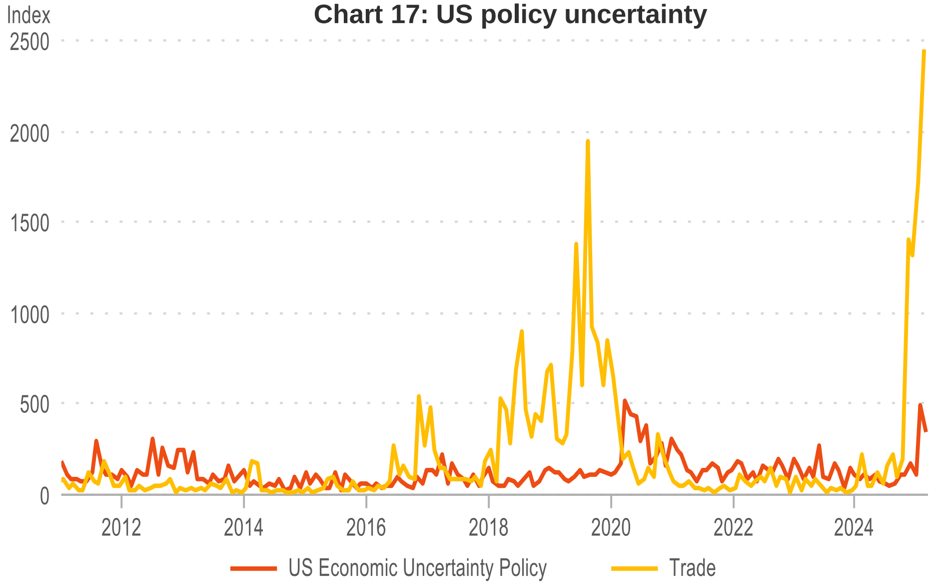
The IMF released its updated World Economic Projections in April, and it was still constructive of US growth at this time, despite substantially lowering its forecast from the elevated position in January. More recent consensus estimates from Reuters polling suggest a sharper slowdown of US growth.

While China faces the largest tariffs from the US, the value of its imports to the US are small share of its GDP, unlike Canada and Mexico. Vietnam's economy is heavily reliant on exports to the US but should continue to benefit from a lower tariffs relative to China.

Uncertainty

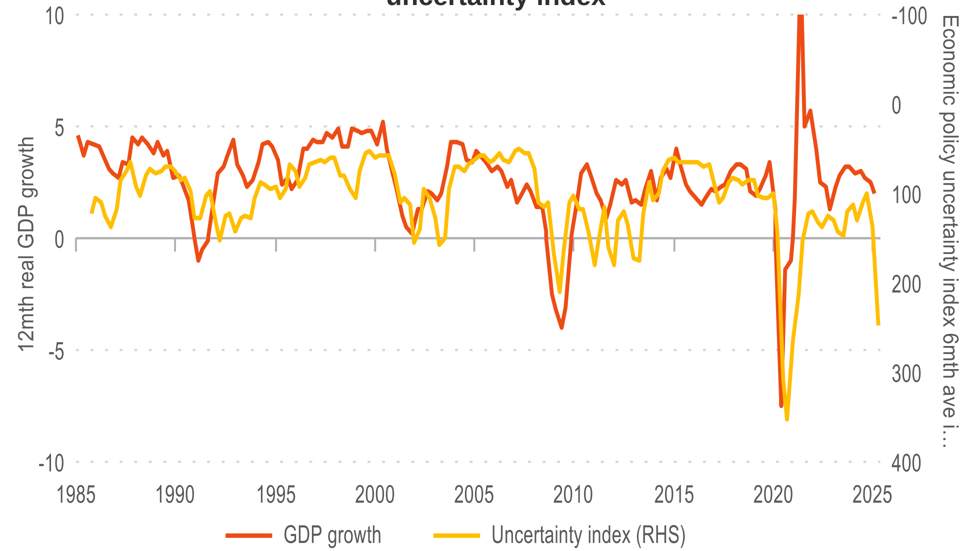
Relationship between heightened inflation and slower GP growth

Chart 17: US policy uncertainty



Source: LSEG Datastream

Chart 18: US annual GPD growth versus economic policy uncertainty index



Source: LSEG Datastream

Trade policy uncertainty is obviously extraordinarily high. Economic policy uncertainty in general is also particularly elevated.

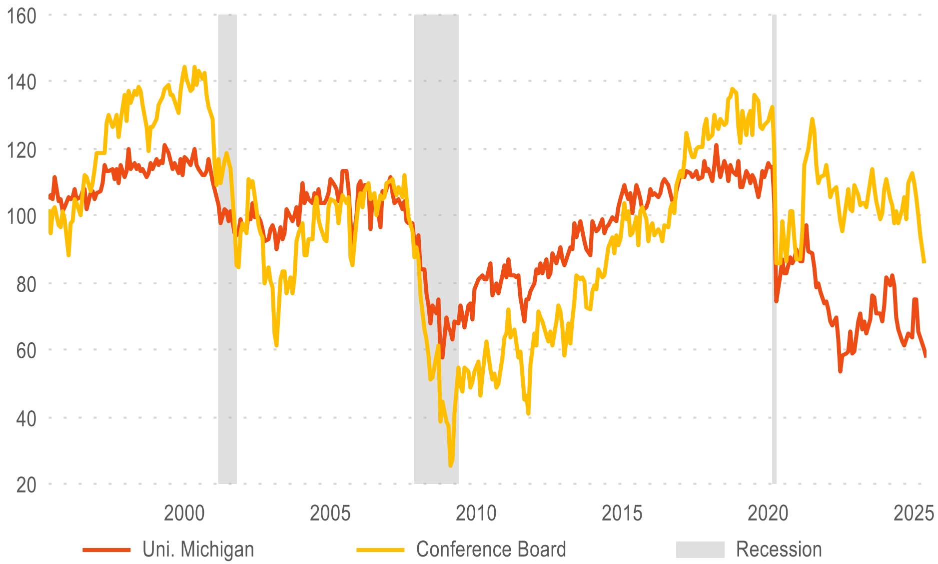
'Measuring Economic Policy Uncertainty' (Baker, Bloom, and Davis) modelled increases in economic policy uncertainty related to falls in industrial production, employment and investment.

When the economic policy uncertainty index is higher (inverted in chart above), GDP growth is lower.

Sentiment impact

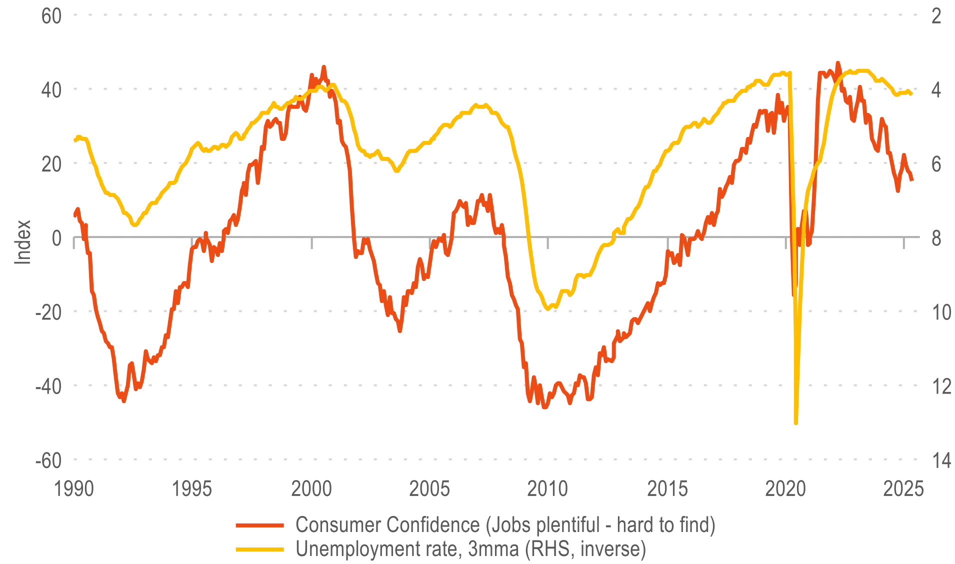
Confidence waning as job opportunities are perceived to be less abundant

Chart 19: US consumer confidence



Source: LSEG Datastream

Chart 20: US consumer confidence and employment



Source: LSEG Datastream

Measures of consumer confidence have weakened for several consecutive months as households are increasingly more concerned about the impact of trade policies on the economy and future income prospects.

Households expect the labour market will become more challenging in the upcoming six-months, albeit the deterioration comes from a favourable position.

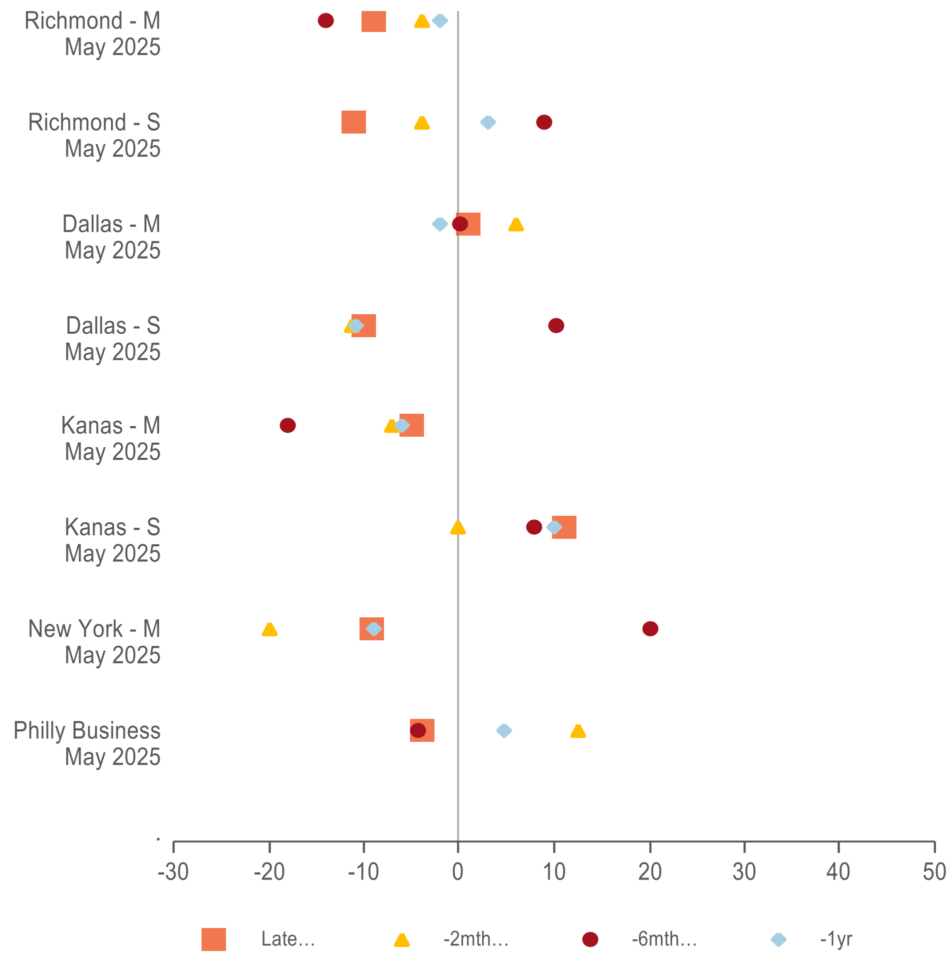
Announced layoffs have so far been absorbed with only a minor increase in the unemployment rate, keeping consumption buoyant. Households have been reported to be pulling forward purchases to avoid anticipated higher prices.

The unemployment rate can increase quickly during downturns, risking a delayed response from the Federal Reserve in lowering rates to support the economy. Monitoring hiring intentions and the sentiment from businesses suggests that the situation for households could become more challenged. The renewed sell off in the equity market would create a negative wealth effect, leading to lower consumption.

Business surveys less optimistic

Investment expectations weaker (some latest regional surveys less negative after tariff reversals)

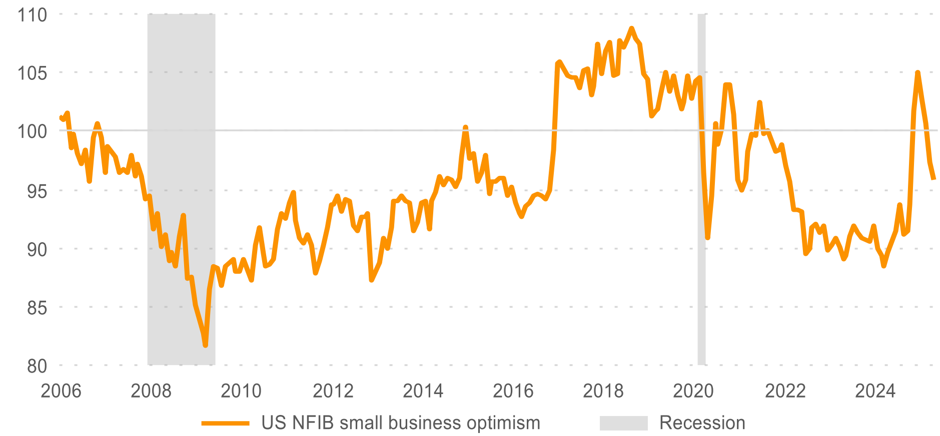
Chart 21: US Regional Fed Business Surveys



Source: LSEG Datastream

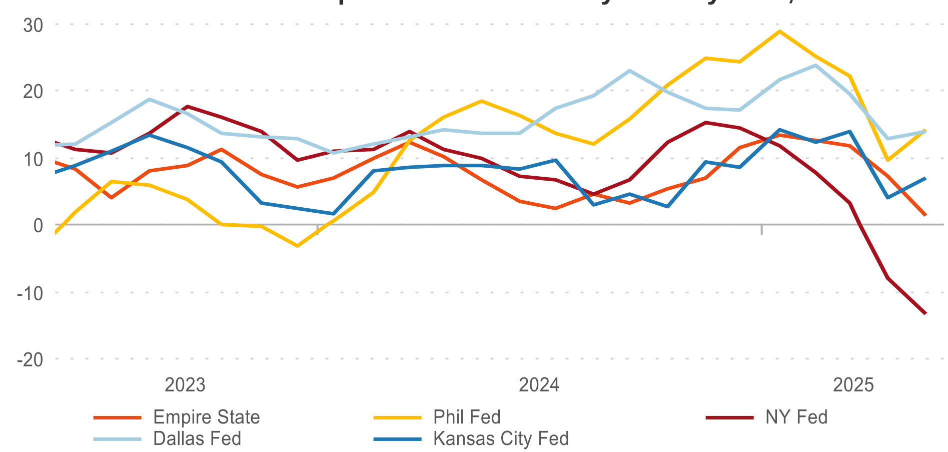
M = Manufacturing, S = Services

Chart 22: NFIB small business optimism index to April 2025



Source: LSEG Datastream

Chart 23: US expected CAPEX surveys to May 2025, 3MMA

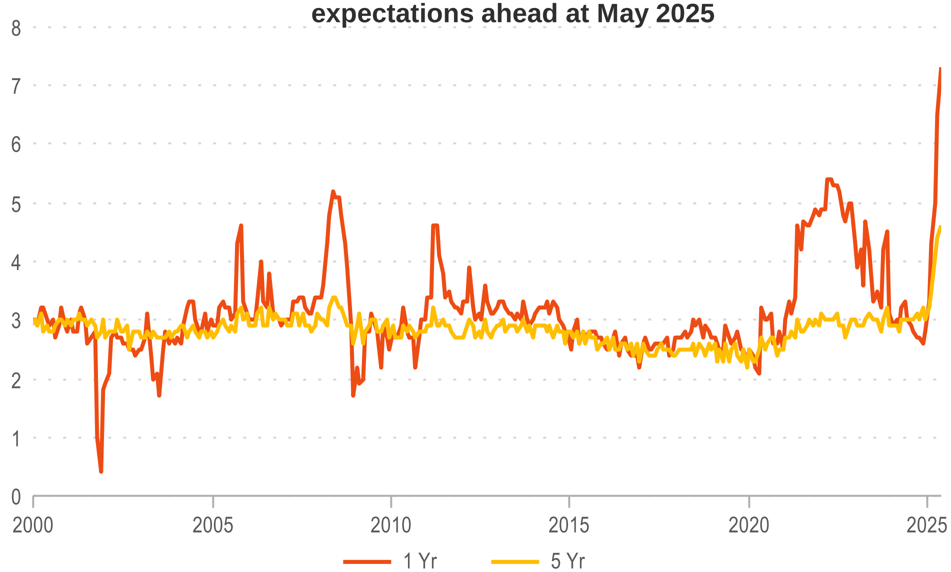


Source: LSEG Datastream

Inflation impact

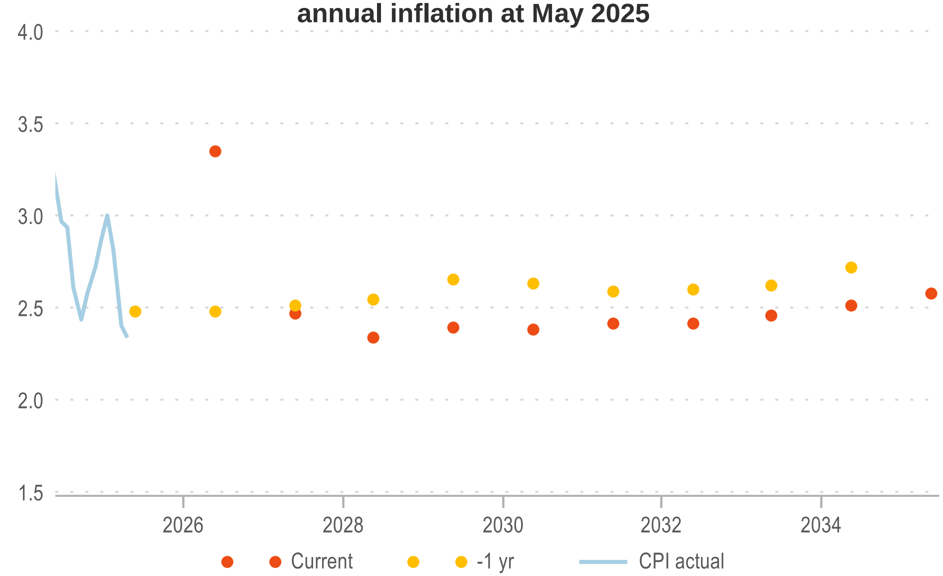
Inflation expectations spiked since initial tariff announcements

Chart 24: University of Michigan Survey median inflation expectations ahead at May 2025



Source: LSEG Datastream

Chart 25: US zero coupon inflation swaps – implied future annual inflation at May 2025



Source: LSEG Datastream

Inflation expectations have surged since the inauguration of President Trump. While it has been difficult to quantify the exact impact of the tariffs on growth and inflation, the expectation that prices will rise has been a clear signal throughout the noise.

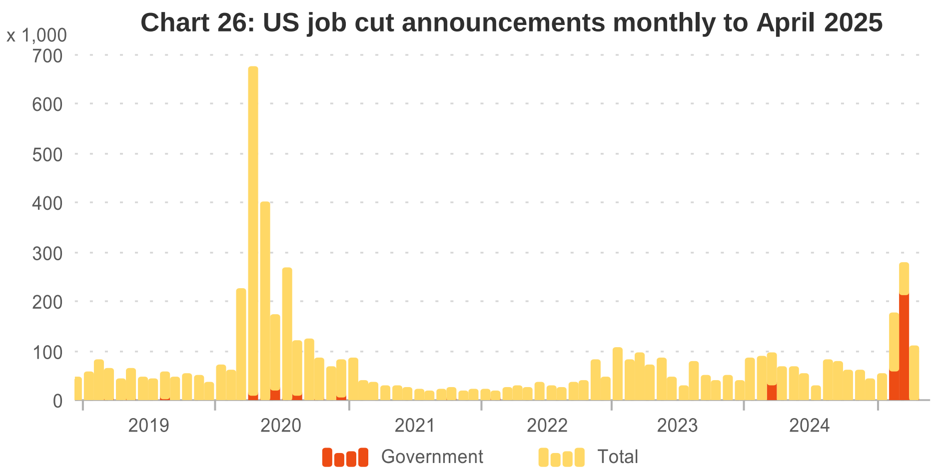
The Federal Reserve had been on a cutting cycle over 2024, as the moderation of inflation allowed the central bank to loosen the restrictiveness of monetary policy. However, interest rates have remained unchanged since the beginning of the year as Fed official assess the impact of the policy agenda and upside risks to inflation.

Rising inflation expectations has challenged the perception of the Fed's ability to respond to a slowing economy, but some flexibility around the inflation mandate could be adopted, if the tariff impact of inflation is perceived to be temporary.

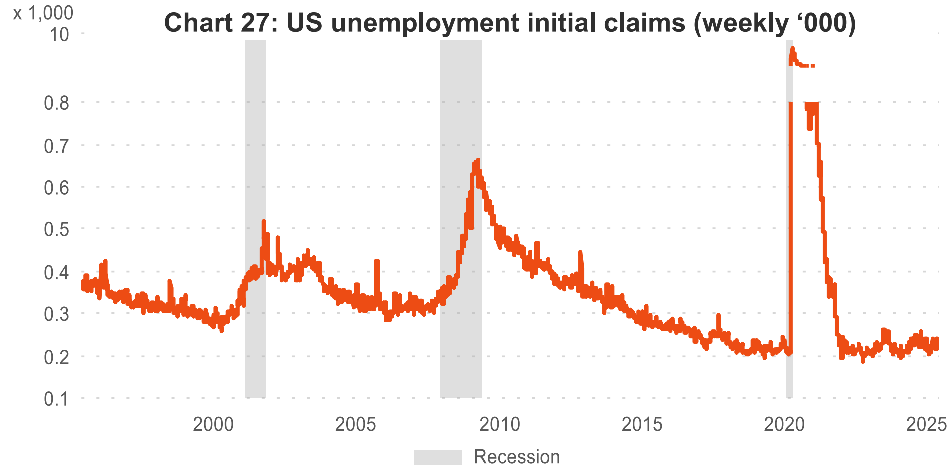
Inflation was finally making marked progress towards the Fed's 2% target in recent months, which now looks to be progress wasted!

Job layoffs announced amid low unemployment

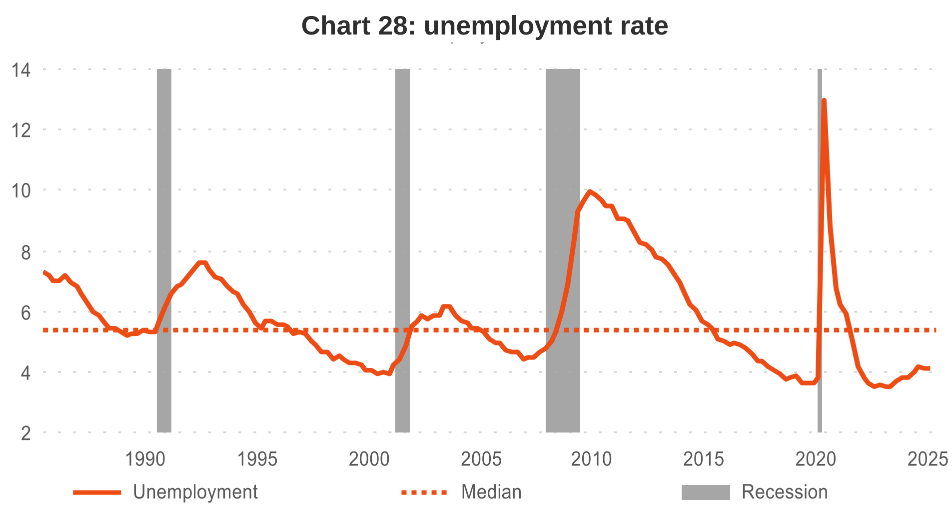
Fewer job openings, but jobless claims contained so far. Unemployment moves rapidly in a recession



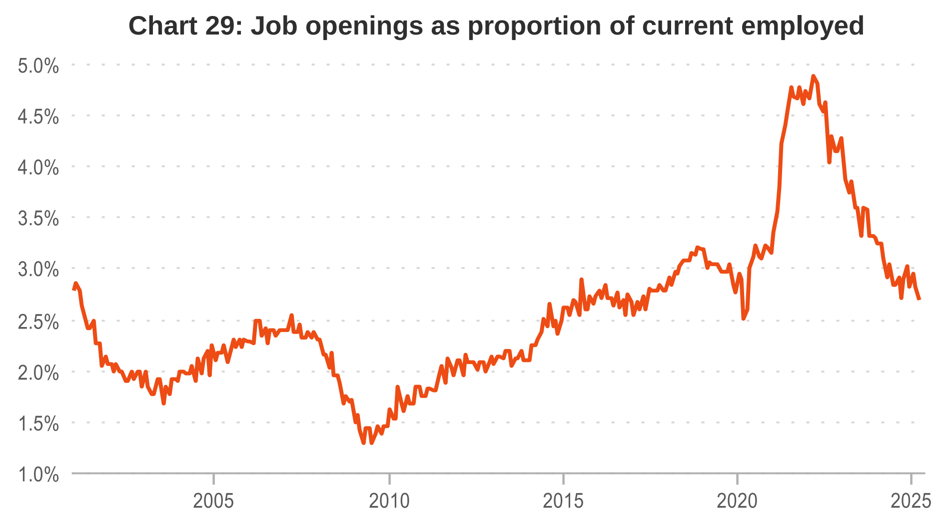
Source: LSEG Datastream



Source: LSEG Datastream



Source: LSEG Datastream

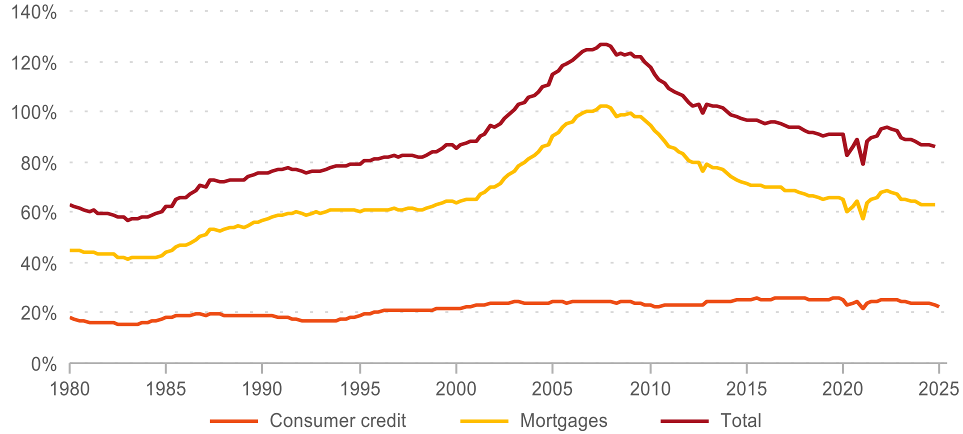


Source: LSEG Datastream

Consumers deleveraged since GFC, increased wealth in equities & property

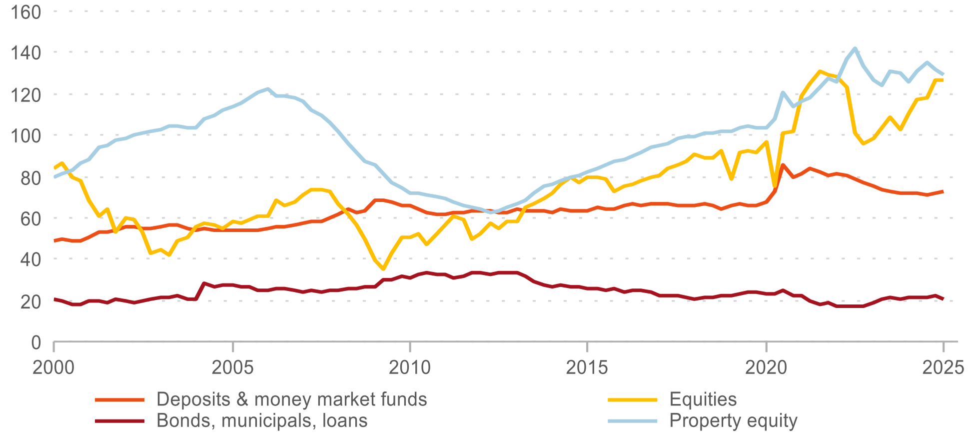
But savings rate falling and credit card balances higher

Chart 30: US household credit as % of disposable income



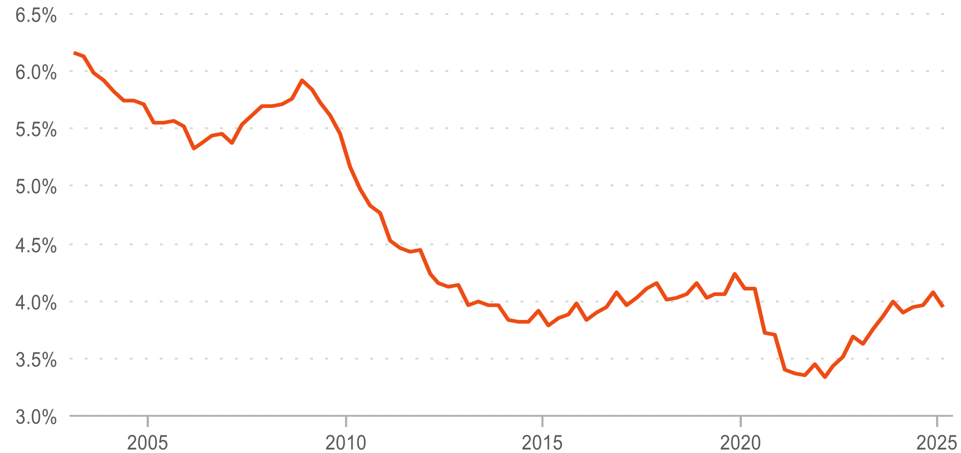
Source: LSEG Datastream

Chart 31: US personal financial assets (% of GDP) to Q4 2024



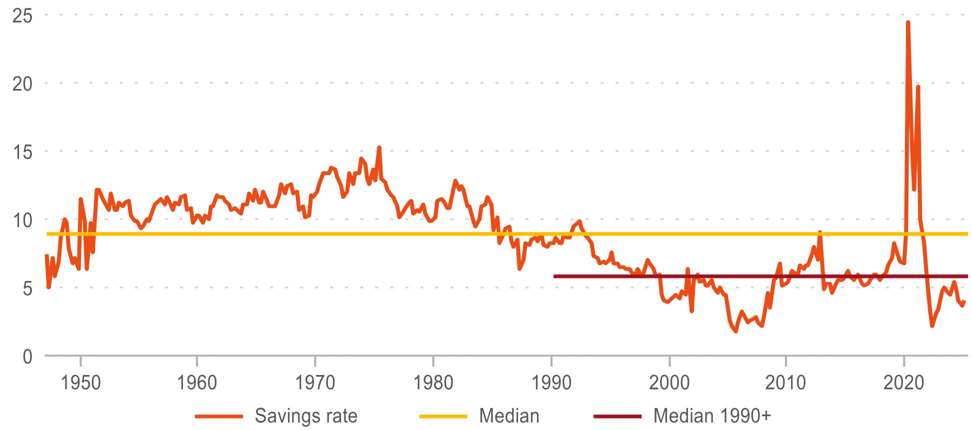
Source: LSEG Datastream

Chart 32: US credit card balances (% of GDP)



Source: LSEG Datastream

Chart 33: US personal savings rate



Source: LSEG Datastream

Health of consumer

Consumer spending held up in April through tariff news

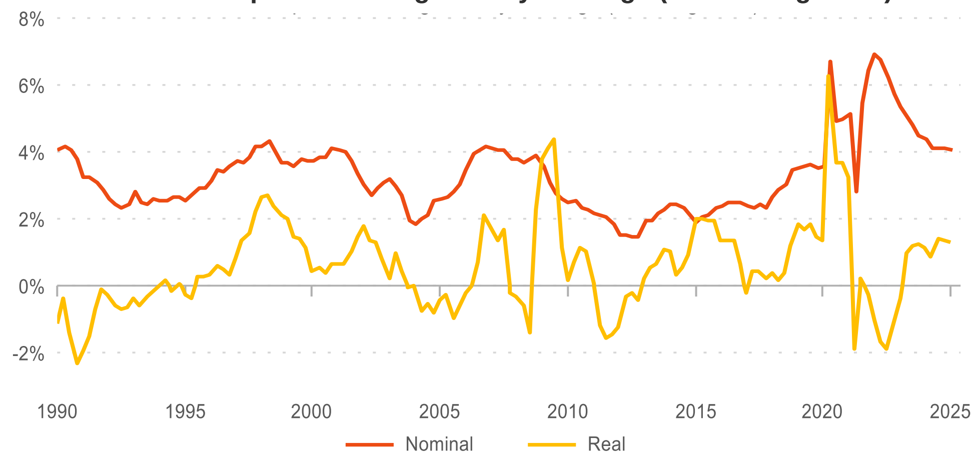
Chart 34: US personal income and consumption real 12-month growth

Source: LSEG Datastream

Chart 35: US retail sales 12-month growth

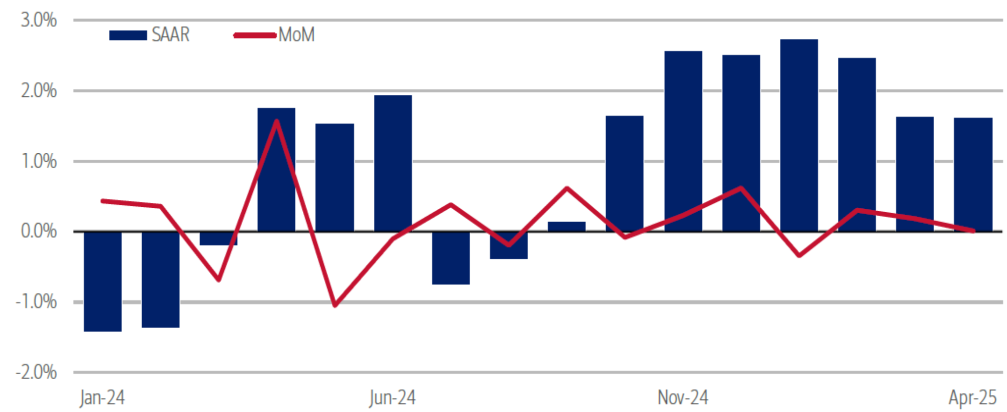
Source: LSEG Datastream

Chart 36: US private average hourly earnings (12-month growth)



Source: LSEG Datastream

Chart 37: BoA consumer credit card spending (annual & MoM growth)



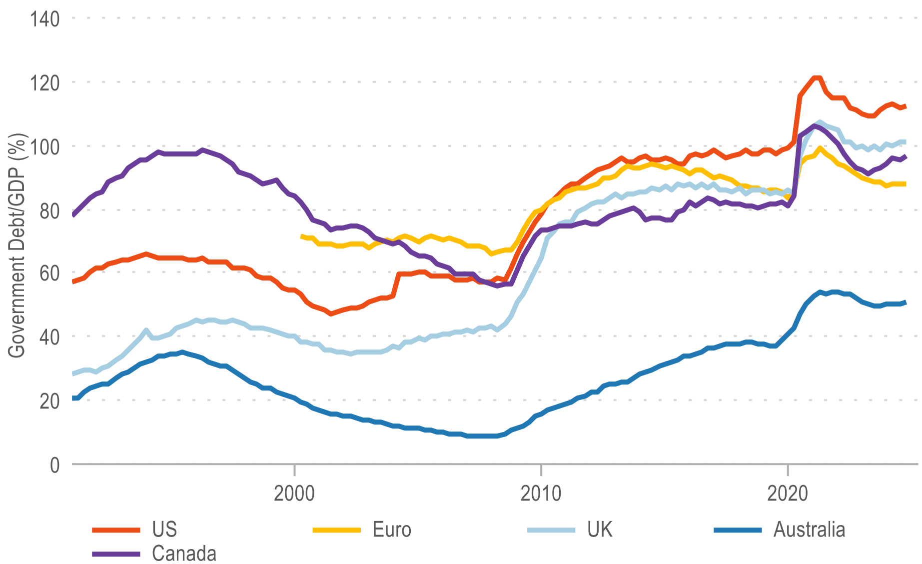
Source: Bank of America internal data; SAAR = seasonally adjusted annual rate

Other policies

US debt burden

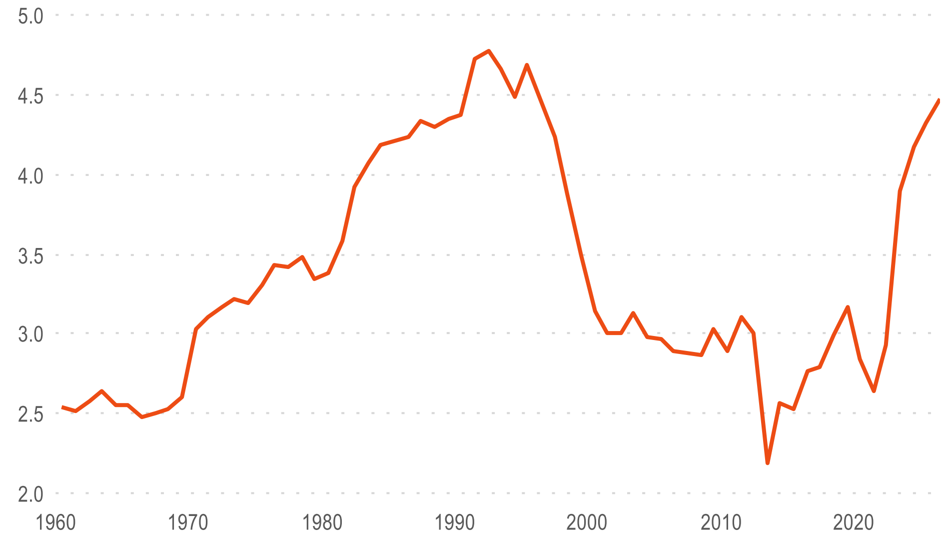
Elevated government debt restricts the ability of the Administration to freely increase spending

Chart 38: Government debt/GDP of key developed countries



Source: LSEG Datastream

Chart 39: US net government interest payments % GDP, OECD forecast 2025, 2026



Source: LSEG Datastream

Reducing the government debt burden has been one of the key motivations behind the Trump administration's desire to cut unnecessary expenditures and raise revenue from overseas economies.

Domestic and foreign investors have been expressing concern on the sustainability of the growing debt pile, where interest repayments are expected to approach 4.5% of GDP – or around 20% of revenues.

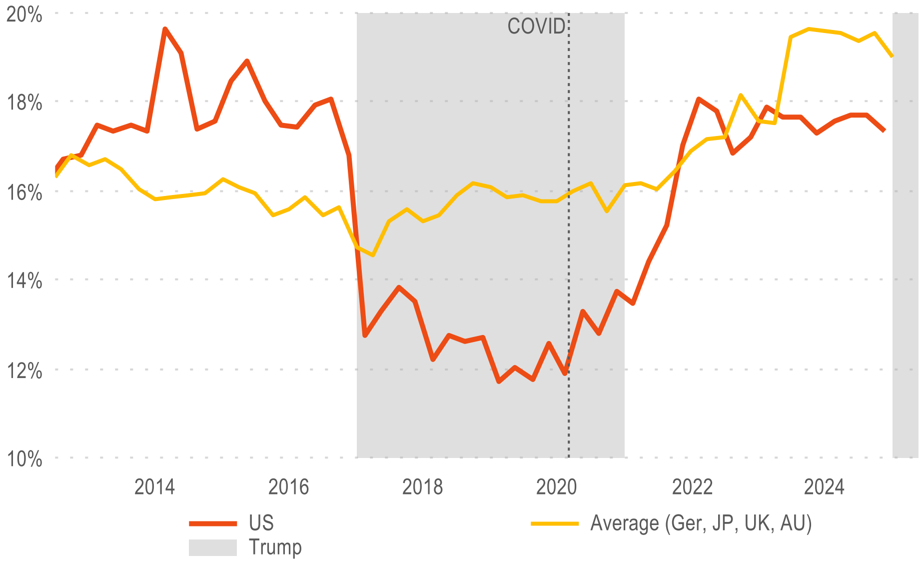
The Federal Reserve lowering interest rates would act to reduce the internet repayment burden of the government debt. Apollo Global Management estimated a 2%-point decline in interest rates would create US$568 billion in savings for US government. However, this needs to be viewed in conjunction with the economic backdrop that would be associated with this sharp decline in rates. The fall in government revenues during an economic downturn, due to lower corporate tax and income tax receipts, would be expected to offset any net interest payment savings.

Loss of faith in the US Treasury market would cause an upheaval of global financial markets and a repricing of assets.

Business support

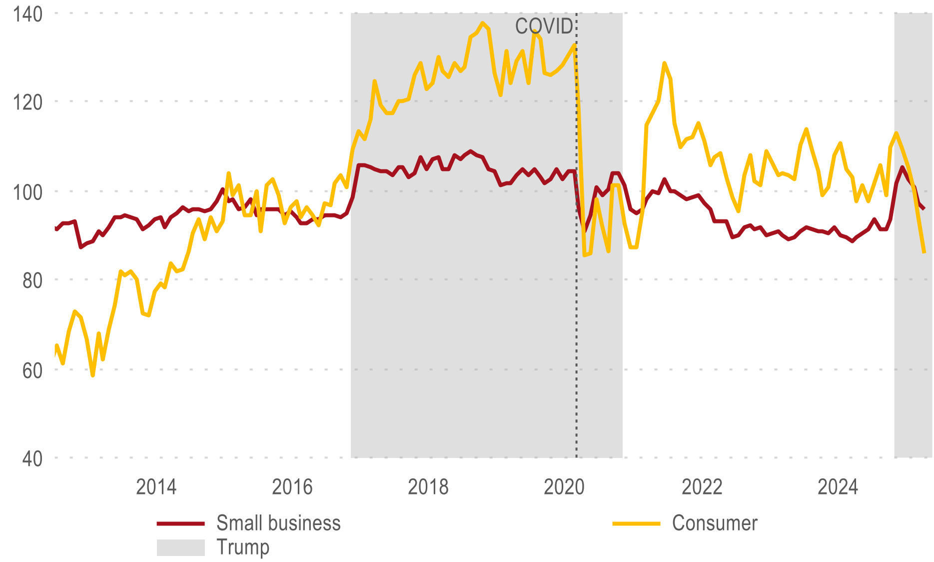
Lowering taxes and reducing red tape was expected when Trump was elected

Chart 40: Corporate tax rate collected



Source: LSEG Datastream

Chart 41: Sentiment confidence indices



Source: LSEG Datastream

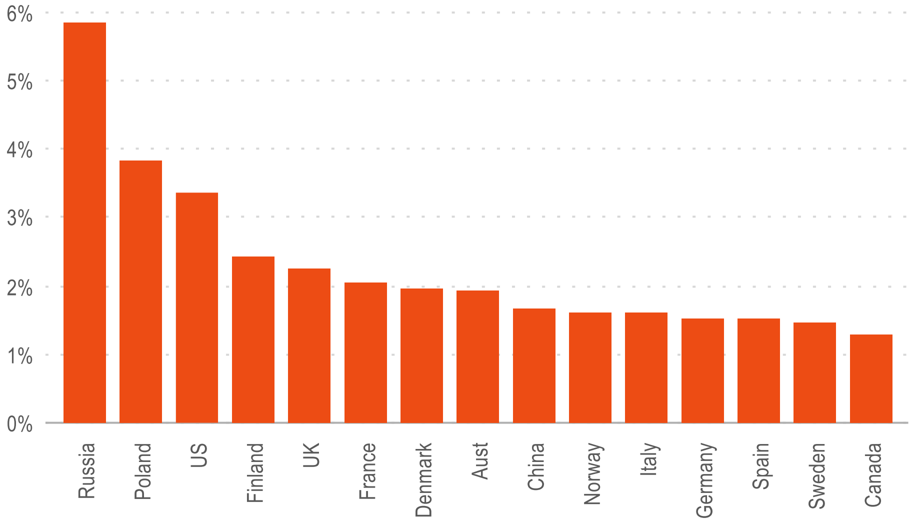
Optimism among US businesses and corporate America surged following the election. Given the campaign rhetoric, the Trump administration was believed to provide a supportive business environment, driven by corporate tax cuts, deregulation and encouraging of investments in artificial intelligence and cryptocurrencies.

However, the pro-business backdrop is being drowned out by the trade agenda, as many US companies assess the impact of tariffs on supply chains. Confidence will need to rebuilt to create a stable environment that is supportive for investment.

European fiscal support

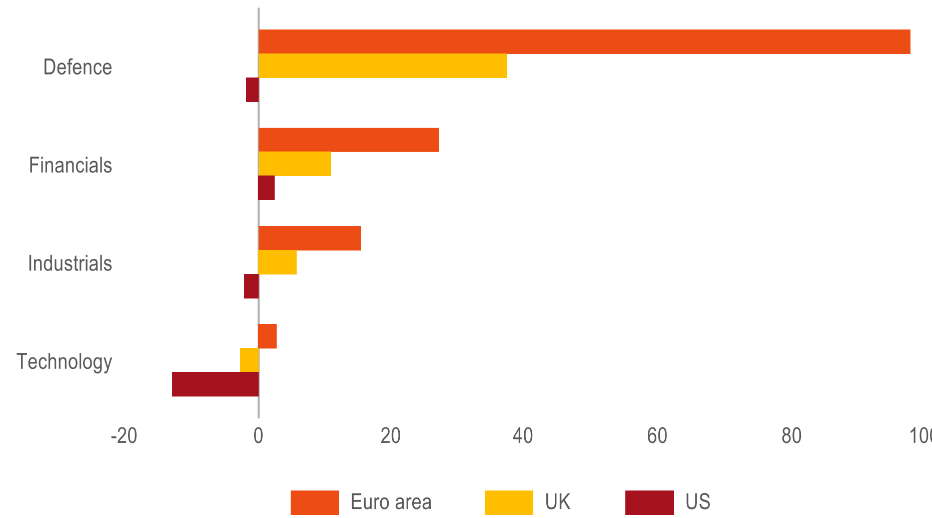
US rhetoric driving Europe to rethink building domestic military capabilities

Chart 42: Military spending % of GDP 2023



Source: LSEG Datastream

Chart 43: Sectoral equity shifts
3mnth % change to end of March 2025 in total return USD indices



Source: LSEG Datastream

European nations are rethinking defence capabilities as President Trump expresses reduced appetite to provide ongoing aid to Ukraine, as part of the US reassessment of expenditures.

In March, an announcement by the German political officials to increase fiscal expenditure, specifically to allow for higher defence and infrastructure spending, triggered large moves in markets over Europe and across the world. The amended constitution will allow defence spending above 1% of GDP per annum (above €43 billion) to be exempt from Germany's strict cap on borrowing, known as the 'debt brake.'

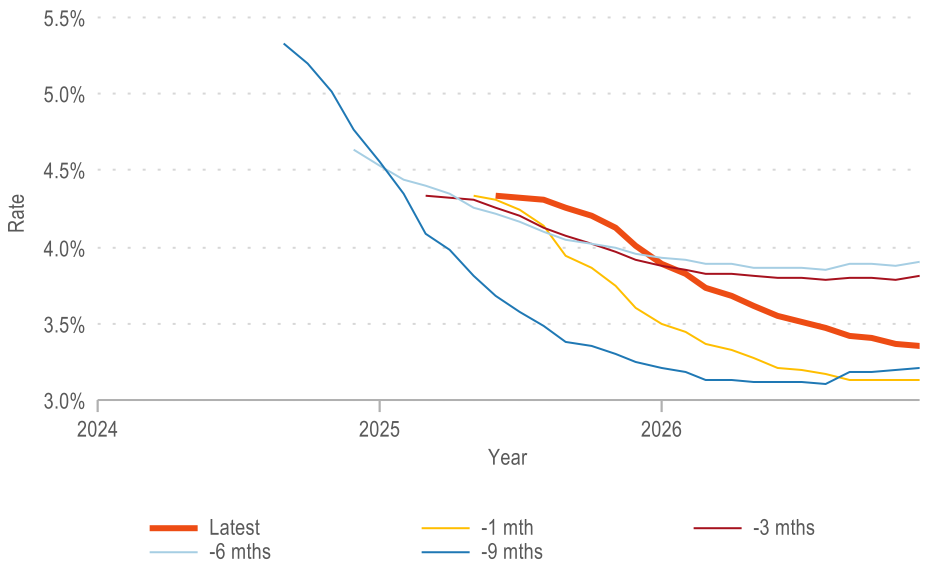
Denmark and other Nordic nations have also announced increased defence expenditure. Prior to the recent equity market sell-off, investors were increasing exposures to this sector.

The announcement was described as a game changer for the outlook of the German economy, which had been struggling to grow over much of the past two years. However, in the face of a global growth slowdown, increasing defence expenditure may simply be a necessary action to avoid a protracted economic contraction.

Monetary policy support

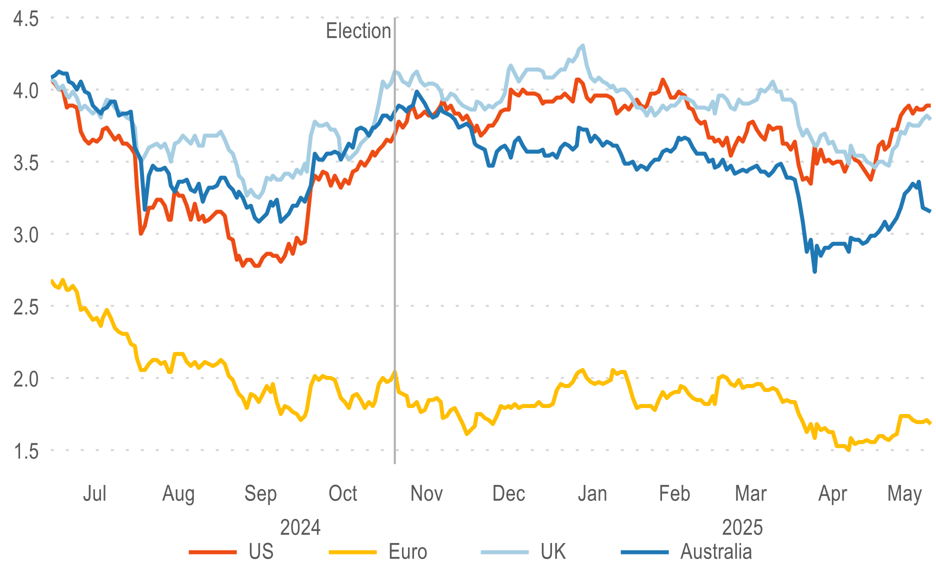
Central banks are expected to lower interest rates to support global growth

Chart 44: US Fed Funds rate futures curve at 23 May 2025



Source: LSEG Datastream

Chart 45: Futures December 2025 interest rate as at 22 May 2025



Source: LSEG Datastream

Globally, central banks are expected to respond to the challenged growth outlook by lowering interest rates.

Market interest rates have been volatile. Pricing of the expected future Fed Funds rate briefly moved lower alongside downgrades of US economic growth. However, expectations of future Fed rate cuts have been pushed back, as the uncertainty of policy impacts and tariffs inflationary effects, are digested by the Federal Reserve. Fed officials are yet to provide clear indication of the future path of interest rates. Fed Chairman Jerome Powell said, “the timing, the scope, the scale and the persistence of those effects are very, very uncertain” and “it's not at all clear what the appropriate response for monetary policy is at this time.”

Reserve Bank of Australia Governor Michele Bullock has also said that it is too early to determine how the global trade dynamics will impact decision making of Australian businesses and households, ultimately determining the path of interest rates in Australia. However, with inflation moderating, the RBA has started cutting interest rates and is expected to cut further through 2025.

Appendix

Tariff and trade table – major trading partners

Trading partner	Import 2024 (US$b)	Share of total US imports (%)	Effective tariff rate 2024 (%)	Announced tariff rates (%)*	Export from Aust. (US$b)#	Import to Aust. (US$b)#
EU	606	18.5	1.4	20	10.7	37.7
Mexico	506	15.4	0.5	25 (non USMCA)	0.7	3.0
China	439	13.4	10.9	34 + 20 previously	135	73.5
Canada	413	12.6	0.3	25 (non USMCA)	1.9	2.8
Japan	148	4.5	1.7	24	57.8	18.4
Vietnam	137	4.2	4.1	46	7.8	6.9
Korea	132	4.0	0.4	25	26.4	18.5
Taiwan	116	3.6	1.1	32	14.6	6.6
India	87	2.7	2.6	26	16.5	6.4
UK	68	2.1	1.2	10	3.8	5.7
Switzerland	63	1.9	0.8	31	1.6	3.0
Thailand	63	1.9	1.8	36	6.0	13.6
Malaysia	53	1.6	0.8	24	7.4	13.1
Singapore	43	1.3	0.3	10	11.5	11.4
Brazil	42	1.3	1.5	10	1.3	1.0
Indonesia	28	0.9	5.1	32	7.8	3.9
Israel	22	0.7	0.3	17	0.2	0.6
Turkey	17	0.5	3.5	10	0.9	1.1
Australia	17	0.5	0.3	10		
South Africa	15	0.5	0.5	30	1.1	1.1
Philippines	14	0.4	1.5	17	3.4	0.7

* Tariff rates announced on 2 April
# 2023 data

Global trade

Exports 2024 (US$ billions)

Exports to

	US	EU	Japan	UK	Aust	Canada	Korea	Sing	China	EM Asia ex-China	Vietnam	India
US	-	355	85	73	36	291	72	56	165	130	15	41
EU	606	-	78	397	44	66	65	45	269	138	17	49
Japan	148	67	-	9	18	16	48	22	156	114	21	18
UK	68	178	8	-	5	7	5	10	20	13	1	6
Australia	17	12	53	3	-	2	30	8	142	57	8	15
Canada	413	30	13	8	3	-	7	3	47	15	1	7
Korea	132	74	31	7	17	13	-	29	182	125	56	22
Taiwan	116	46	31	3	7	6	30	63	218	89	23	11
Singapore	43	18	8	4	11	1	11	-	32	101	5	6
Rest of DM	69	149	11	14	8	7	5	9	68	31	1	14
China	439	562	167	74	77	68	140	57	-	574	143	122
EM Asia ex-China	408	252	120	34	57	32	77	100	402	-	46	69
Vietnam	137	53	27	7	8	11	28	6	99	44	-	11
India	87	77	6	13	8	6	6	9	18	52	6	-
Indonesia	28	19	23	2	6	2	13	16	71	77	10	26
Malaysia	53	30	19	2	12	3	14	52	111	61	9	14
Mexico	506	32	6	2	3	36	8	4	19	9	1	4
Brazil	42	49	10	4	1	8	7	7	117	28	5	5
Argentina	7	7	1	1	1	2	1	0	7	11	4	3
Chile	16	10	8	1	0	2	5	0	40	5	0	3
Africa	39	193	9	20	3	7	12	5	117	73	5	43
Russia	3	39	6	0	0	0	7	4	128	86	2	73

Source: LSEG Datastream

Global trade growth

Growth in exports % 2016 to April 2025

Exports to

	US	EU	Japan	UK	Aust	Canada	Korea	Sing	China	EM Asia ex-China	Vietnam	India
US	-	67.2	22.4	27.4	58.3	29.8	67.4	88.4	22.7	86.8	68.0	106.4
EU	71.7	-	17.7	21.2	33.5	54.5	39.4	36.0	42.3	35.7	62.2	36.8
Japan	13.0	9.9	-	-31.4	13.7	24.5	0.2	16.4	7.5	13.9	37.7	74.4
UK	28.1	-11.9	30.1	-	-3.3	9.9	-17.0	82.8	5.2	21.3	21.1	32.3
Australia	123.9	60.2	72.0	-51.3	-	-3.3	96.5	140.9	94.2	99.0	245.3	69.4
Canada	51.1	65.6	41.3	-32.8	-68.4	-	71.7	131.2	144.3	93.8	183.7	104.2
Korea	88.7	99.1	28.8	23.0	90.8	53.2	-	65.9	16.3	64.2	77.9	84.4
Taiwan	218.8	86.8	36.5	-21.6	88.5	38.7	89.8	189.8	63.0	144.5	109.8	235.2
Singapore	153.0	2.3	6.2	81.6	91.7	37.0	63.5	-	24.6	56.4	1.8	-11.2
Rest of DM	139.1	38.3	10.2	-46.0	-3.1	58.7	48.6	65.5	9.8	1.5	40.9	-21.0
China	-0.7	74.9	10.9	31.3	67.2	33.7	62.6	44.9	-	123.3	196.9	99.2
EM Asia ex-China	117.4	81.0	30.9	28.3	65.6	97.2	79.6	51.2	115.1	-	103.4	106.4
Vietnam	243.3	109.9	71.5	57.3	141.2	193.7	128.9	126.7	169.1	120.1	-	241.7
India	93.8	121.6	46.6	66.6	149.2	94.3	51.9	51.8	40.1	61.0	106.5	-
Indonesia	51.5	34.3	26.9	-7.8	54.9	87.4	49.7	17.8	242.5	116.5	243.7	114.5
Malaysia	50.3	63.9	11.6	2.9	71.4	48.8	90.5	65.0	129.8	55.2	61.4	63.4
Mexico	74.5	58.5	4.9	-26.3	66.0	35.5	127.8	140.8	87.5	112.3	83.1	37.1
Brazil	65.0	74.4	44.9	16.0	66.5	169.2	118.0	604.1	148.8	95.6	170.9	2.4
Argentina	54.7	9.7	-35.6	60.0	2.0	35.4	83.5	115.1	44.0	32.7	65.4	0.9
Chile	88.3	32.9	62.0	-8.1	-42.7	29.1	26.7	-38.9	117.7	134.1	67.6	144.4
Africa	56.7	79.8	33.1	26.3	32.5	33.8	114.0	158.5	103.8	95.0	118.1	57.9
Russia	-81.4	-69.6	-51.9	-98.2	-98.9	-91.5	-21.1	51.3	296.1	688.5	86.5	1,412.2

Source: LSEG Datastream

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