TNI CIO Forum Governance - Long Term Investment Strategy Implications of Trump Administration's Policies – 3rd April 2025

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Equity markets had dropped 4.5% on the day of our meeting, which was the day following Trump's announced Liberation Day tariff hikes. Equity markets have dropped a further 10% since then (to today 7 April, 2025). So, these notes are being circulated while we are in a historic market correction. Where markets settle in the near term will be impacted heavily by the further responses from US trading partners – the most significant being China, Mexico, Canada, EU and Japan. China, Canada and the EU have already responded with tariff hikes, with a possibility of more to follow from the EU, while Japan and Mexico are holding fire for the moment. So some escalation is priced into the 18% S&P 500 correction to date.

The key points of our discussion on the Trump Administration's impact on long term investment strategy are below, not just focused on tariffs, but on deregulation, cost cutting, taxation and a reshaping of foreign relations. Since our meeting, the prospects for recession have been elevated to nearly being the base case, so the standard recession playbook needs dusting off by institutional investors, which has the institution looking at defensive strategies of securing ample liquidity to deal with further valuation declines and then going on the offensive by using excess liquidity to exploit over-corrections and distressed opportunities. We do not expect the Trump administration to moderate behaviour in response to equity market declines as Treasury Secretary Bessent has indicated that "Main Street will be their priority over Wall Street."
I capture what I took away as the general views, recognizing that each of us will have come away with differing views.

Will these policies be reversed after the Trump administration? Generally, we felt that many of these policies reflected popular US sentiment that many Americans were not better off than they were in the past and were not benefitting from globalization or past government policies. So, such policies may well outlive the current administration and may affect investment strategy more fundamentally.

Summary Conclusions: What investment implications should we debate on the 3rd of April?

1. Certainly, our active asset managers need to be analyzing tariff and reshoring cost implications for individual sectors and companies and adjusting portfolios where markets have not already done so.
2. Inflation impact will be significant. Estimates are coming out at 5% for 2025 in the US.
3. Interest Rates: Central banks may be inclined to stimulate by cutting base rates, but the prospect of further fuelling inflation will have such moves moderated. Bessent does want to bring down borrowing costs of the Federal government, but this will unlikely be enough to change the budget deficit (1% decline in rates is $100B of interest cost savings on $9-10B of refinancing – facts not checked).
4. The US dollar's dominant position as the world's reserve currency is also being called into question in light of an uncertainty-driven higher US risk premium and the Trump administration's desire to see a weaker USD in order to make the US more competitive.
5. Geographic Asset Allocation – Europe is only as cheap as it normally is vs the US (in P/E terms) and has its own challenges in the circumstances (having to finance higher defence spending). US still has the AI tailwind.

Other Key Points

1. The Trump Administration want a better deal for the US. There is a collective mindset that, historically, the US has given away too much in many different arenas including trade, defence and government spending. Its standing in the world is much lower than it should be and could be.

2. Potential long-term shifts in US foreign, economic, and trade policies could lead to a global landscape where alliances are increasingly transactional and based on a combination of security alignment and economic concessions to the US. The US is leveraging its economic power and security provision to reshape the global order, potentially leading to new forms of multilateral agreements, differentiated relationships with trading partners, and an intensified competition in the international financial system.

3. The greatest investment concern may derive from reversing the benefits of globalization. Corporate profits will suffer from both tariffs and reshoring manufacturing.

4. The Trump administration's national security focus appears to be on driving a wedge between Russia and China, by getting closer to Russia. But members of our CIO group felt this bond is unlikely to be affected by anything the current Administration does.

5. Treasury Secretary Bessent and the Administration are taking the US fiscal deficit more seriously than many previous Republican administrations. The DOGE efforts, however ambitious, will struggle to find more savings to offset the cost of the Tax Cuts and Jobs Act renewal as you can see from the JP Morgan analysis.