Investment Strategy Insights

Monthly Views From Our Diverse Global Investment Teams

PineBridge® INVESTMENTS

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How Trump 2.0's Tariff Policy Could Reshape the Corporate Landscape

Hani Redha, CAIA, Global Multi-Asset Portfolio Manager

In the lead-up to the US election, polls and betting odds continue to gyrate and signal an extremely close race. Betting markets appear to price in a clearer outcome, with former President Donald Trump enjoying higher odds of a victory. Markets have begun pricing in such an outcome, in the form of higher bond yields and a steeper yield curve, as well as outperformance by sectors that would be beneficiaries of such an outcome (e.g., bank stocks).

Trump remains a strong advocate for tariffs, proposing a sweeping 10%-20% global tariff and up to 60% on Chinese goods. In terms of economic outcomes, higher tariffs could spur a negative supply-side shock, leading to a positive impulse on inflation while hurting growth. Estimates suggest that such policies could reduce US GDP growth by 0.5%-1.0% within one to two years while raising inflation by around one percentage point. Yet it's important to note that the final policy outcome is uncertain due to the potential for Trump to use tariffs as a negotiation tactic, and it is also critical to appreciate that this would presumably be a one-off exercise.

In a multipolar world, "tariff adversaries" (e.g., Europe and China) would likely ramp up their response to counter US pressure, leading to a potentially prolonged tit-for-tat process that would be damaging for sentiment and economic activity. The Trump campaign has indirectly signaled that tariffs are intended to serve as a tool to drive investment toward the US, rather than as an end in and of themselves. If so, markets must prepare for multiple rounds of disruptive headlines, yet the tariffs may end up being temporary and ultimately softened if concessions were made.

But how would such tariffs affect businesses and the competitive landscape in terms of margins, pricing, operating models, and market share?

China is obviously front and center in terms of being the target for higher tariffs. A 60% tariff on Chinese exports to the US, which total roughly $500 billion, would have a significant impact on China's growth. Previous tariff escalations since 2018 saw Chinese exports to the US drop from over 20% to 15%. However, China has managed to maintain its global market share by increasing exports to the rest of the world, particularly emerging markets and ASEAN countries, which could mitigate the downside risk. The impact on Chinese equity markets could be nuanced as well, bearing in mind that only 2%-3% of corporate revenue for listed Chinese stocks is tied to exports to the US. The equity risk premium for these stocks would surely rise (and therefore their valuation multiples would fall), hurting prices initially, but thereafter the impact on cash flows could be less severe than expected.

Beyond China, the broader impact of proposed tariffs on emerging markets would also likely be negative, with an immediate increase in risk premiums across these regions, and particularly in Mexico. Some Mexican companies in consumer goods, commodities, and cement might offset tariff costs by passing them to consumers, though this could hurt sales volumes. Others may absorb the costs, leading to tighter margins.

Uncertainty around tariffs could delay investments for EM companies, potentially slowing the near-shoring trend, though the long-term outlook remains positive. However, over time this economic and political polarization may push EM countries toward self-sufficiency as they seek to form new alliances out of necessity, fundamentally altering the global trade landscape.

About This Report

PineBridge believes that not only do differences of opinion make markets, but they also foreshadow substantial moves ahead as these differences are resolved. Once a month, investment leaders from our global multi-asset, equities, and fixed income teams meet to share their diverse viewpoints. This report reflects those discussions and debates by providing insight on the topic of the month along with snapshots of our asset class views and convictions across the firm.

In Europe, while rerouting of trade proved beneficial the first time around, universal tariffs would hit the Continent as well. A 10%-20% universal tariff could further slow industrial production, complicating economic recovery efforts. Indirect impacts could also be substantial, especially as redirected Chinese exports flood other markets. This influx might benefit certain sectors but would likely intensify competition, particularly in the automotive industry. The risk of a messy trade war, in which Europe pushes back hard to force negotiations, would clearly rise.

Within the US, the overall impact on corporate fundamentals could be more limited, as many companies have diversified their supply chains beyond China or shifted production locally to mitigate tariff effects. This helps companies to preserve margins, along with seeking alternative suppliers or passing costs on to consumers where possible. While some firms may initially see slower capital expenditures, structural trends including the green energy transition, near-shoring, and automation continue to support investment over the medium to long term.

A Trump reelection poses a complex scenario for global markets. The tariffs imposed during his previous term were largely manageable, as companies had several strategies to cushion the impact. This time around, companies have had time to adjust and will in fact be less surprised by tariffs should they arrive; however, the potential for much larger-scale tariffs and more aggressive trade conflicts could make it more challenging for companies to adapt without taking a financial hit. The magnitude of potential tariffs is perhaps the most critical determinant of the intermediate-term impact of this policy lever. Yet we remain mindful that negotiations may ultimately result in compromise. Buckle up.

Conviction Score (CS) and Investment Views

The Conviction Scores shown below reflect the investment team's views on how portfolios should be positioned for the next six to nine months. 1=bullish, 5=bearish, and the change from the prior month is indicated in parentheses.

Global Macro

Sam McDonald
Sovereign Analyst,
Global Emerging Markets
Fixed Income

CS 3.00 (unchanged)

Positive data revisions point to a more favorable outlook for the US economy than previously thought. The revised gross domestic income (GDI) figures remove a warning flag about the US economy, with a healthier savings rate and a robust consumer continuing to play out. September jobs data also point to a continuation of the "stabilization"/soft landing theme, but October and November data are likely to be volatile given the impact of hurricanes and strikes. Labor demand remains healthy overall but ongoing weakness in the manufacturing sector points to areas of the economy that are still struggling.

Strong September retail sales numbers underline the strength of the US consumer and the resilience of the US economy in general. Retail sales increased by 0.4% month over month (m/m), which was more than expected, while the control group, which excludes highly volatile auto and gasoline sales, for example, rose by 0.7%. Third-quarter retail sales are now up by 5.3% on an annualized basis, from 1.8% in the second quarter. Going into 2025, softening in average hourly earnings growth and a less-hot job market should slow the economic propulsion coming from consumption and add a modest drag on growth.

Blockbuster non-farm payrolls have calmed fears around recession, with payrolls adding 254,000 jobs, of which almost 88% came from private payrolls. Job openings remain steady, and initial claims have fallen back to 241,000 from 260,000, although the latter is likely to remain volatile in coming weeks given lags around filing claims. The quits rate has declined to 1.9%, which points to lower labor market confidence, but so far layoffs have not spiked.

On the inflation front, US CPI came in slightly stronger than expected at 2.4% but remained on a downward trajectory. Given stronger import prices, the Fed's preferred core PCE price index is expected to remain stable at around 2.6%. Shelter took a step down to 0.2% m/m in September from 0.5% in the prior month. While core CPI ticked up to 0.3% m/m, the disinflation trend in services remains intact, and much of the upside surprise in core goods prices has been driven by import price increases earlier in 2024. Given the strength of the September nonfarm payroll figure, retail sales data, and the CPI print, the Fed will likely take cuts of 50 bps off the table. The market currently is pricing just under two 25-basis-point cuts for the remainder of 2024.

China's third-quarter GDP growth was the lowest since 2023, but the base case is that this is the bottom. The deflationary situation is driving weaker fiscal revenue, and hopes of further fiscal stimulus in the short-term are low. Manufacturing remains the bright point for the Chinese economy, but risks around the US elections may undermine this strength. The US election outcome will shape the domestic and global outlook, with China, Europe, and Mexico expected to be the biggest losers in a Red-sweep scenario.

Rates

Gunter Seeger
Portfolio Manager, Developed Markets Investment Grade

CS 3.00 (unchanged)

We have been neutral duration since the US 10-year Treasury touched 3.70%, which occurred before the Federal Reserve cut rates by 50 basis points.

We maintain that neutral expression, with only a run to 3.50% leading us to turn negative on duration, as the risk/reward would be tilting to the downside, in our estimation.

Credit

Steven Oh, CFA
Global Head of Credit and Fixed Income

CS 3.25 (unchanged)

Stronger-than-expected US economic data since the initial rate cut have reset expectations for future cuts, resulting in higher yield curves. Credit spread valuations have moved inversely to rates, resulting in tightening. The European outlook, by contrast, appears more downbeat and expectations about easing by the European Central Bank (ECB) are higher. China's stimulus measures have buoyed risk assets, and EM credit fundamentals ex China appear to be improving. Overall, firm fundamentals offset by tight valuations lead us to maintain our marginally defensive CS with a bias toward being incrementally more defensive.

The focus is squarely shifting to the US elections and the economic and market impact of potential outcomes. There could be a shift in inflation/yield curve expectations as well as a global impact from more onerous tariff policies. We are in an environment of limited convictions across somewhat overvalued credit markets. Therefore, positioning becomes closer to benchmark beta, both within portfolios and across asset class allocations.

Currency (USD Perspective)

Anders Faergemann
Senior Sovereign Portfolio Manager, Emerging Markets Fixed Income

CS 3.00 (+0.25)

Recent US data and, above all, upward data revisions have changed the current narrative for the US economy and the US dollar. Since August, when the Sahm rule was triggered, financial markets have moved from pricing an imminent US recession to leaning toward a soft landing, ultimately pushing US yields back up and temporarily supporting the US dollar. While moderating inflation trends remain intact despite the last few monthly inflation prints, alarm bells over a softening labor market and the signaling effect that had on the economic growth outlook have been silenced. Data revisions to the US GDI data and nonfarm payrolls underscore this year's strength in US consumption and bolster the 2025 outlook. The data is now affirming our baseline of a stabilization/soft landing scenario over the next 12 to 15 months. From a market perspective, that unwinds the reassessment trigger from the Sahm Rule and emphatically reduces concerns about a US recession in the near term.

Accordingly, US Treasury yields have repriced, and the two-year UST/bunds differential is back in the middle of its recent range of 135-200 bps, reinvigorating the US dollar. In addition to the shift in the rate spread, US consumer strength and the extension of US exceptionalism are supporting the US dollar while the eurozone is struggling to take off, hampered by restrictive monetary policy, the energy transition, and trade competition with China. Weakness in Germany and France tends to undermine the euro, preventing it from building any upside momentum.

We maintain our euro/US dollar forecast of 1.10 over 12 months. While acknowledging the US dollar relief rally can extend in the short term, policy expectations of a faster pace of easing by the Fed than the ECB have been invalidated and we are now expecting central banks to stay in sync for most of 2025.

Emerging Markets Fixed Income

Chris Perryman
Corporate Portfolio Manager and Head of Trading, Emerging Markets Fixed Income

USD EM (Sovereign and Corp.)
CS 3.00 (unchanged)

Local Markets (Sovereign)
CS 2.50 (unchanged)

The macro environment for emerging markets (EMs) remains favorable. In the first half of the year, domestic demand proved more robust than expected, preventing a slowing of growth momentum for EMs. Into the second half, a normalization of growth rates continues to support EM assets. Our expectation for commodity prices is also optimistic for the asset class.

In October, EM spreads continued to tighten as concerns over a US recession have subsided amid data revisions and a stronger-than-expected labor market. This environment is favorable for EM assets, and we continue to see EM fundamentals as robust. We expect the market to differentiate among EM names, favoring those where fiscal and monetary policies are headed in a positive direction. For some areas, such as Egypt, international financial institutions and external support continue to provide positive momentum. We expect that a soft landing in the US coupled with a Fed cutting cycle will be positive for the performance of EM assets. The Fed's easing cycle raises the possibility of further inflows into the asset class and increases the likelihood of a reopening of market access for some lower-rated countries that thus far have been priced out. We should expect those remaining names with issuance needs to come to market before the US election.

In the corporate space, EM fundamentals remain resilient. Third-quarter earnings, which will begin to be reported soon, are expected to be broadly neutral to slightly positive, continuing a trend from the second quarter. Valuations have been mixed, but the technical picture remains very solid. As with sovereigns, supply was heavy in September but the month ended with +$15 billion in net financing for corporates.

Currently, valuations remain tight on balance. Regardless of the outcome of the US elections, high carry and robust fundamentals should offer some support to the asset class.

Multi-Asset

Sunny Ng
Portfolio Manager, Global Multi-Asset

CS 2.75 (unchanged)

We have left our score unchanged after shifting it to 2.75 last month, when we embraced a slight lean toward risk assets in response to the Federal Reserve's accelerated easing measures along with stabilizing growth fundamentals. The Fed's easing, which ended its position as the lone central bank holdout in the developed world, means that the global easing cycle has kicked off in earnest. Meanwhile, we see diminishing recession risks, with lower rates boosting wealth effects for upper-end consumers, while less affluent consumers and small businesses get relief from high floating-rate loans. Absent a recession, risk assets should outperform against this backdrop.

At the same time, China is now more aggressively rolling out measures to address its growth slump, which helps to further diminish a more severe global downturn while at the same time improving the treatment of the private sector. Policy is moving in the right direction, but it's a long game.

Regarding the US election, thus far we have been reluctant to tilt the portfolio based on poll numbers. In a matter of days, for example, predictions shifted from a double-digit Harris win to a small Trump lead. We have been positioned in a balanced manner, so as not to be influenced by either outcome, and we are watching the latest developments.

Global Equity

John Song
Research Analyst, Global Equities

CS 3.00 (unchanged)

Developed market equities have recovered from their recent volatility and resumed their uptrend. Labor markets are holding up well, inflation has come down, and we have just entered a global easing cycle. China stimulus programs should help stabilize that region.

The earnings picture looks more secure as consumer spending remains supported and inventory destocking winds down. Earnings revisions are gradually turning positive, and earnings growth is broadening out beyond Big Tech into financials, healthcare, and other areas of the market. Pockets of demand weakness remain in the low-income consumer, semiconductors, autos, and other areas where the pandemic's pull forward of demand has taken longer to normalize.

Like earnings, market concentration is gradually broadening out. Potential risks include geopolitics, election-related policy uncertainty, and high valuations.

Global Emerging Markets Equity

Taras Shumelda
Portfolio Manager,
Global Equities

CS 2.75 (+0.25)

We are raising our score due to the index advancing by more than 27% from its bottom seen in October 2023. The spot forward price/earnings ratio is now at a small premium to the historic forward P/E. Although additional multiple expansion is possible, positive earnings revisions are needed.

After reacting positively to the first stimulus announcement in China, local equities have been trailing off, as the second stimulus disappointed. We seek to mitigate this risk by looking at companies whose business models are resilient in a low-stimulus outcome.

Taking a deeper dive, China's policy easing helped drive up new home subscriptions by 200% in Tier 1 and some Tier 2 cities during October's Golden Week, a holiday celebrating the founding of the People's Republic. However, the sustainability of the increase in the number of households receiving regular deliveries of cleaning supplies and other everyday items relative to average daily new subscriptions in the third quarter is uncertain. Domestic tourist numbers were up 5.9% year over year (y/y) during Golden Week and tourism revenue grew by 6.3% y/y. In Taiwan, a large chipmaker reported a strong third quarter and gave upbeat guidance, easing some fears of a drop in demand for AI chips. In India, demand for many high-ticket discretionary items, including cars and travel/lodging, is slowing, while global demand for India's IT services seems to have bottomed and management commentary has turned cautiously optimistic.

In Latin America, investors are still debating the fallout, if any, from Mexico's legislative changes. The focus is shifting to the US elections and quarterly earnings reports. In EMEA, there have been no changes of substance. On the portfolio level, we are adding to financials and are funding it with consumer discretionary and chip manufacturers.

Quantitative Research

Qian Yang
Fixed Income
Quantitative Strategist

We improved our US Conviction Score due to curve steepening of 15 basis points and credit spread tightening of three basis points. Our global credit forecast continues to worsen and remains negative. Our relative model favors EM over DM. In DM, it favors REITs, financials, and electric and dislikes energy, consumer goods, and transportation. In EM, the model likes real estate and diversified companies and dislikes transportation, pulp and paper, and oil and gas. Our global rates model forecasts lower yield for North America, New Zealand, and the UK and higher yields for Japan, Switzerland, and Portugal. The model also leans toward a globally steeper curve forecast, except for Japan. The rates view expressed in our G10 model portfolio is overweight global duration. It is overweight New Zealand, Spain, the UK, Sweden, and Italy, while underweight France, Germany, the US, and Japan. Along the curve, it is overweight six-month, 10-year, and 20-year durations and underweight two-year, five-year, and 30-year durations.

All market data, spreads, and index returns are sourced from Bloomberg as of 21 October 2024.

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