Investment markets roiled by America's upturning of global economic architecture

March 2025

Key takeaways

- The disorderly rollout of America's new trade policy has rattled sharemarkets **(Chart 1, on the next page)**, and investors must prepare to navigate greater uncertainty and volatility through Mr Trump's four-year presidential term.

- Global sharemarket returns have been strong over the past two years driven mightily by investor appetite for US technology stocks, especially the *Magnificent Seven* (Apple, Microsoft, Google's parent Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla). This trend resulted in such stocks' valuations hitting great heights, which has left them as well as markets vulnerable to a correction.

- We estimate that for every 1% increase in effective tariffs, US GDP declines 0.05%.

- While the trade stoush is a headwind, President Trump's tax cutting and deregulatory ambitions are a counter-veiling force and thus we expect US corporate earnings to be higher over 2025, which may boost investors' morale.

- Current events are a reminder that macroeconomic factors are ever present, sometimes with more force than usual, like now.

- We actively manage all of our diversified fund[1] and Separately Managed Account (SMA) asset allocations to ensure our portfolios remain well-positioned for changing market conditions.

The post-World War II global economic architecture crafted by the United States is being undone at speed by President Trump's administration as countries engage in lose-lose trade wars. Events are moving so swiftly that what's true today can be out of date just days later.

Over recent weeks, the United States imposed 25% tariffs on Canadian and Mexican goods, then delayed them for a month, then let them take effect last week, then within days offered exemptions that could cover most trade with the countries!

Listing every tariff the US has now imposed or proposed imposing on trading partners, and countries' tit-for-tat responses, would take up pages and so we are going to avoid that level of minutiae.

As whiplash inducing as this episode has been, all signs are that there is more to come. Mr Trump set out his stall in his recent State of the Union address remarking: "We have been ripped off for decades by nearly every country on Earth, and we will not let that happen any longer."[2]

Translation for investors: prepare to navigate greater uncertainty and volatility through Mr Trump's four-year presidential term.

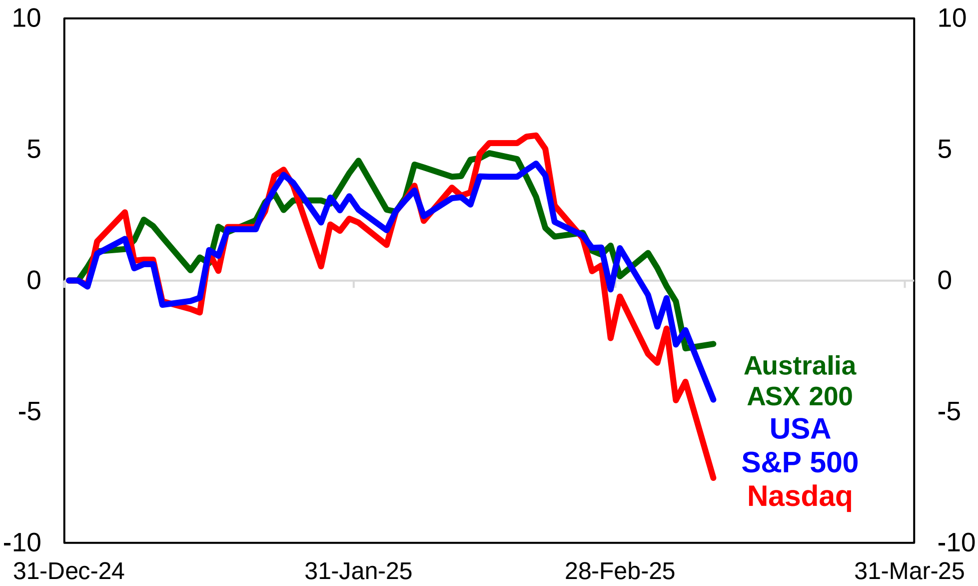
At the time of writing, the disorderly rollout of America's new trade policy has rattled markets this month with the S&P 500 index down by around 10%. Meanwhile, the technology laden Nasdaq index is down roughly 12%, while the local S&P/ASX 200 index slid by about 9% over the past month.

---

[1] In this note, 'diversified funds' refers to the MLC MultiSeries, MLC MultiActive, MLC Wholesale Horizon, MLC Real Return (previously known as Inflation Plus) and MLC Index Plus funds.

[2] Remarks by President Trump in Joint Address to Congress, March 6, 2025, https://it.usembassy.gov/remarks-by-president-trump-in-joint-address-to-congress/

Chart 1: Global share price returns in 2025



As at 13 March 2025
Source: Bloomberg

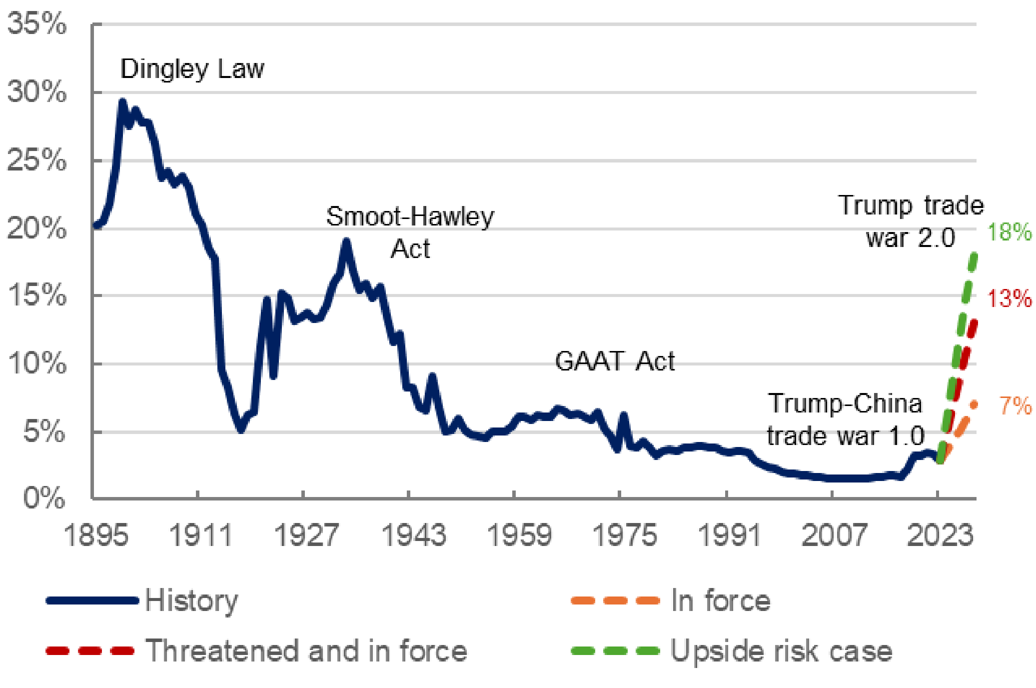
As it is, global sharemarket returns, typically measured by the MSCI ACWI index, have been strong over the past two years driven mightily by investor appetite for US technology stocks, especially the *Magnificent Seven* (Apple, Microsoft, Google's parent Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla). This trend resulted in such stocks' valuations hitting great heights, which has left them as well as markets vulnerable to a correction.

A warning from history

The Great Depression period was the last time the US resorted aggressively to tariffs via the Smoot-Hawley Act **(Chart 2)**, which increased tariffs on agricultural imports. The goal was to protect American farmers who were most affected by the Great Depression.

However, rather than improving the lot of US farmers, and others, economists and economic historians later concluded that the Smoot-Hawley Act worsened the Great Depression's effects.

Chart 2: A historic snapshot of US tariffs



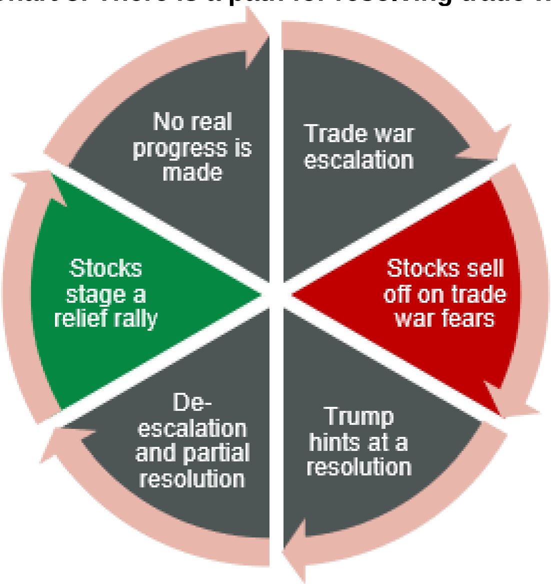
Source: MLCAM

We estimate that for every 1% increase in effective tariffs, US GDP declines 0.05%. Another way of thinking about the impact of tariffs is that they build up like cholesterol in the body — industry-by-industry, country-by-country, company-by-company.

Difficult as it seems, it's important not to become overwhelmed by recent events. These things move markets, they are not predictable, and ultimately may turn out to be less important over medium term than they seem today.

It is also possible that the trade war will eventually cool, and resolution reached as there is a path for resolving them (**Chart 3**).

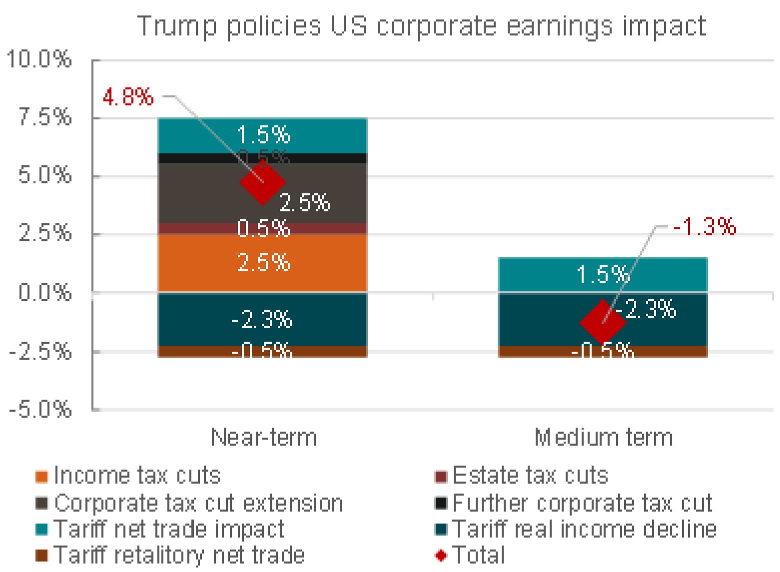
Chart 3: There is a path for resolving trade wars



Source: MLCAM, Bloomberg

While the trade stoush is a headwind, President Trump's tax cutting and deregulatory ambitions are potentially a counter-veiling force and thus we expect US corporate earnings to be higher over 2025 (**Chart 4**), which may boost investors' morale.

Chart 4: President Trump's tax cutting agenda could outweigh tariff impacts and boost US earnings



Source: MLCAM, Bloomberg

Portfolio positioning

All our diversified fund and SMA asset allocations are actively managed and are continually reviewed to ensure our portfolios remain well-positioned for changing market environments.

Some of our key portfolio positions are discussed below, noting our diversified portfolios and SMAs will each contain different combinations of these:

- In our actively managed global shares strategies, our specialist managers in aggregate hold an underweight position to US shares. They have been mindful of the growing risks posed by the dominance of the US share market on the back of investor enthusiasm for American technology stocks, especially Apple, Microsoft, Google's parent Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla.

- We maintain our exposure to alternative investments, like insurance related investments, which provide an attractive source of diversification given their extremely low correlation with share market movements. During the Global Financial Crisis and the COVID crash, shares fell but insurance-related investments performed far better providing a ballast for portfolios.

- Private equity represents another important source of diversification because returns from this asset class are not directly linked with the performance of listed global shares.

- We also allocate to real assets via unlisted infrastructure, and unlisted property investments, which provide diversification benefits, along with long-term, stable and predictable cashflows often linked to movements in inflation.

- Through our dedicated in-house derivatives capability, we have implemented strategies for some of our portfolios that provide a level of downside protection in the event of a severe correction in US share markets. Similar strategies were used during the 2020 COVID crash and served our investors well, we believe.

Times like now also enable investors with long time horizons to buy good assets at more attractive prices too, and we are scouring markets for opportunities created by recent disruptions. Positions like those discussed in this note and others provide high levels of diversification for our diversified funds and SMAs. In our view, they form important parts of well-managed portfolios and are especially relevant during the current market climate.
