

Recent market volatility caused by U.S. tariffs

- **Tariff announced were higher than expectations and trigger market volatility**
- **We downgraded our view on US equity to neutral over the next 12-month horizon, maintaining regular and disciplined investments help investors reduce the impact of market fluctuations on their investment portfolios**
- **Stay calm and diversified, bonds are at better position under recession and rate cut environment**

What happened?

On April 2, U.S. President Trump announced the details of "reciprocal tariffs", which were more extreme than the market had originally expected, triggering violent fluctuations in global equity markets. This includes imposing a 10% base tariff on all goods imported into the U.S., and imposing higher tariffs on trading partners such as China (34%, or 54% if the previous 10% each in February and March is included) and the European Union (20%). The market reacted strongly to the tariffs. According to Bloomberg, the S&P 500 Index has fallen by more than 10% in two days since the details were announced, and European markets have also suffered heavy losses. Subsequently, China immediately imposed a 34% retaliatory tariff on U.S. goods. The market was worried about the escalation of the trade war, dragging down Asian stock markets. The Hong Kong Hang Seng Index opened more than 2,000 points lower on April 7, and the investor sentiment was low.

Our viewpoints

- **Global / U.S. market**

In the short term, we believe that global equities, mainly composed of the U.S., will remain highly volatile. Although the market has fallen significantly after the details of the "reciprocal tariffs" were announced, we do not rule out a short-term technical rebound in the equity market. However, there are still many uncertainties, including how the U.S. will react after China implements retaliatory tariffs, the progress of trade negotiations between the U.S. and other countries, whether the U.S. will exempt or further increase tariffs on certain goods, and the impact on the economy (especially inflation and consumption), which will be unfavorable to the investment atmosphere.

Investment Insights

In terms of economy, inflation in the U.S. has already been high before the "reciprocal tariffs" were implemented. It is expected that the implementation of the tariffs will pose an upside risk to local consumer prices. The first reason is that importers may pass on part of the tariff costs to consumers (depending on the elasticity of consumer demand). The second reason is that companies may need to rebuild their supply chains to reduce the medium-to-long term impact of tariffs, which will incur additional costs. According to Bloomberg, the Conference Board's consumer confidence index fell to 92.9 in March, a new low since COVID-19, reflecting that expectations of worsening inflation will hit consumer confidence and increase the chances of the U.S. economy falling into recession. For companies, tariffs will weigh on profits, and the related uncertainty will also depress capital expenditure. The above scenario will drag down economic growth, and the market even predicts that stagflation or recession may occur.

In the medium-to-long term, if Trump can deliver on his promise to rebuild the U.S. manufacturing industry and increase tariff revenue to lay the foundation for his tax cut agenda, this may provide investors with an entry opportunity, although this will take time to verify. In addition, long-term themes such as artificial intelligence (AI) and digital transformation will not change due to tariffs. Various types of industries require technological advances to improve production efficiency, and the U.S. still maintains its advantage in the field of technology.

We expect the global economy to weaken this year and there is possibility of a recession in the U.S. Therefore, we downgrade our view on U.S. equity over the next 12-month to neutral. In addition, downward revisions to corporate earnings may put pressure on stock market valuations. Investors should remain cautious. Maintaining regular and disciplined investments will help investors reduce the impact of market fluctuations on their investment portfolios.

"Reciprocal tariffs" announced by the U.S. on some economies

Economies	"Reciprocal tariffs" imposed by the U.S.	Economies	"Reciprocal tariffs" imposed by the U.S.
China	34%	Thailand	36%
EU	20%	Switzerland	31%
Vietnam	46%	Indonesia	32%
Taiwan	32%	Malaysia	24%
Japan	24%	Cambodia	49%
South Korea	25%	UK	10%

Source : Office of the United States Trade Representative \ SLAMHK ; 2 Apr 2025

Investment Insights

- China-Hong Kong / Asia market

The "Reciprocal Tariff" policy introduced by U.S. President Donald Trump has inflicted multifaceted systemic shocks on Asian markets. This policy mandates a baseline tariff of at least 10% on over 60 global trade partners, with elevated rates applied to major Asian economies, including 54% for China, 46% for Vietnam, 25% for South Korea, 24% for Japan, 32% for Taiwan, and 26% for India. According to Bloomberg data, following the announcement of reciprocal countermeasures by countries like China on April 7, 2025, market concerns about an escalating global trade war intensified. That same day, the Hang Seng Index in Hong Kong plummeted nearly 3,000 points, nearing the 20,000 points, while stock markets in China, Japan, Taiwan, and other regions experienced declines exceeding 10% at their lowest, signaling a collapse in market confidence.

The impact on China and other Asian markets is particularly acute. As the world's largest exporter, China faces immense pressure from the 54% tariff rate. Bloomberg data reveals that China's trade surplus with the U.S. reached \$1 trillion in 2024, and this tariff could shrink its export volume by 15% to 20%, with sectors such as electronics and machinery equipment being hardest hit. Other Asian economies, including Vietnam, Taiwan, and South Korea, are also significantly affected. Taiwan, facing a 32% tariff, may see its semiconductor and technology product exports severely compromised.

In response, Asian nations are contemplating retaliatory measures, further heightening the risk of a global trade war. Starting April 10, 2025, China will impose an additional 34% tariff on U.S. goods and restrict exports of critical minerals like rare earths, impacting U.S. agriculture and energy sectors. South Korea and Japan may follow suit by imposing high tariffs on U.S. soybeans and corn. Bloomberg analysis suggests that these actions could lead to a decoupling of trade relations between Asia and the U.S., potentially reducing global trade volume by 1% in 2025, particularly affecting energy and raw material markets.

In the medium to long term, Trump's tariff policy may accelerate regional integration in Asia, such as deepening cooperation within the RCEP and CPTPP frameworks, to reduce reliance on the U.S. market. However, such integration will require time, and before achieving independence from the U.S. market, Asian economies will face short-term challenges from tariffs, including slowed growth, employment pressures, and shrinking investment. The U.S., as the world's largest consumer market, remains difficult to replace in the near term. Trump's reciprocal tariff policy has delivered systemic shocks to Asian markets, severely impacting exports, supply chains, and financial stability. According to Bloomberg's latest forecast, Asia's overall economic growth projection for 2025 could decline by 0.7 percentage points, with export-driven economies experiencing even deeper repercussions.

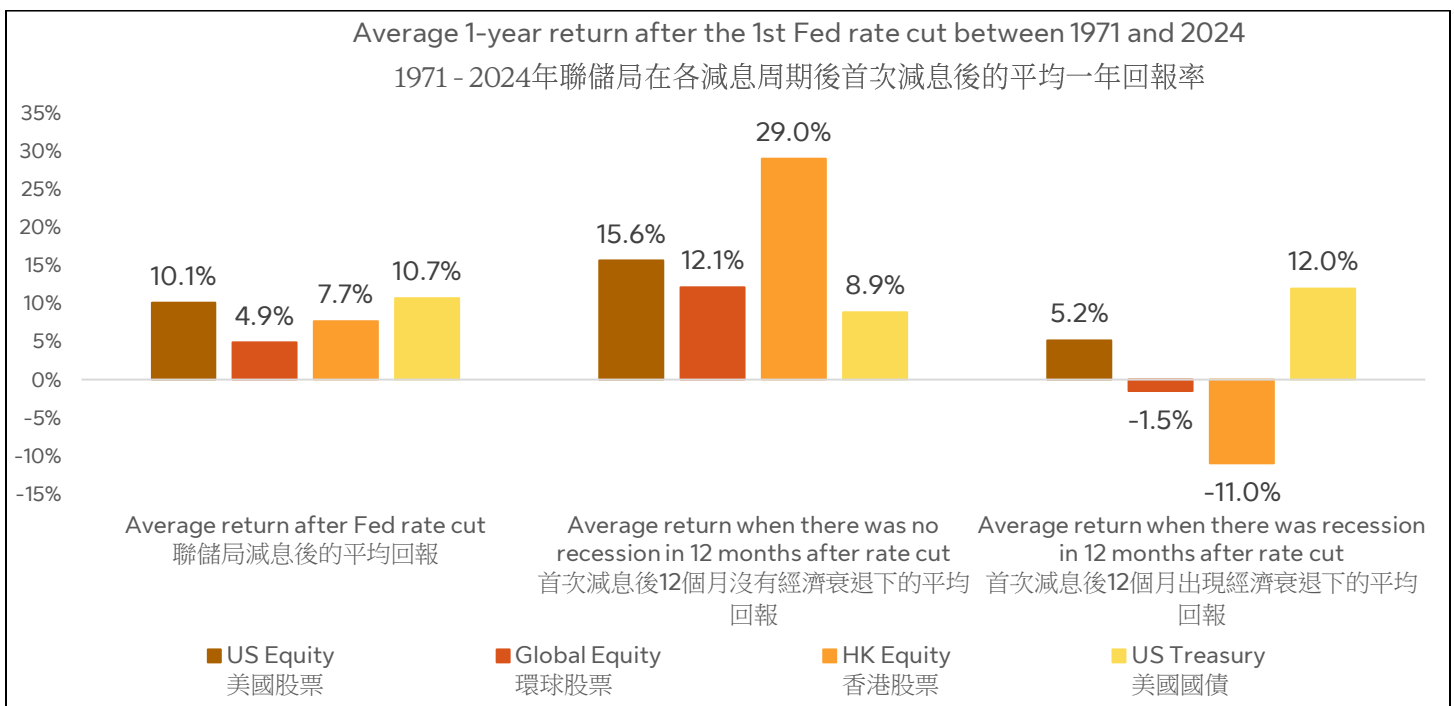
We are closely monitoring the progress of trade negotiations between the U.S., China, and other nations, as well as the severity of economic impacts from these tariffs. Consequently, we maintain a neutral outlook on Hong Kong and Chinese stock markets for the next 12-month, pending further developments in the situation.

Investment Insights

- Bond market

In the past few market commentaries, we pointed out that the policy uncertainty of U.S. President Trump is very high, and investors should consider diversifying their portfolio risks. Generally speaking, when there is market risk-off, investors turn to bonds (especially government bonds in developed markets) for safety havens. Trump's tariff policy proposed on April 2 triggered a stock market crash. According to Bloomberg, as of April 4, the S&P 500 Index recorded a decline of more than 13% YTD, while during the same period, the Bloomberg Global Aggregate (Bond) Total Return Index recorded a return of more than 4%.

The outlook of the bond market depends on global economic outlook and central bank monetary policies. It is worth noting that if the economy enters a recession, central bank rate cuts are anticipated, which would be beneficial to the bond market. According to interest rate futures trends from Bloomberg, the market expects the U.S. to cut interest rates once in June and once in July, earlier than expected a month ago.



Source : Bloomberg、SLAMHK ; 7 Apr 2025

Investment Insights

Conclusion

In summary, U.S. tariff policy had a significant impact on the global stock market and investor sentiment fell to a low point. However, long-term investors should not make hasty investment decisions due to the current volatility. Trump's policies have a history of being unpredictable. If investors follow too closely, they may suffer a double blow from his policy changes. On the other hand, as global market uncertainties increase, investors should carefully analyze the situation and adjust the degree of diversification according to their investment horizon and risk tolerance.

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