FEB 2025 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Following a challenging December, January was kind to most major asset classes with gold and equities leading the gains. Additionally, fixed-income and commodity markets also delivered positive returns.
- President Trump's inauguration sets a positive tone to the market as tariff was not part of the executive orders signed on day 1. Separately, DeepSeek triggered a shift in leadership from big tech to other sectors, indicating better breadth and supporting our broadening theme so far.
- Trump concluded the month by threatening tariffs on Canada, Mexico, and China. It's likely only a matter of time before Europe also faces similar threats. The market has been volatile since the announcement and is expected to remain so, depending on the outcomes of ongoing negotiations.

The Start of Trump Tariff 2.0!

Feb 1: US Announces New Tariffs
U.S. announces new tariffs of 25% on imports from Canada and Mexico, and a 10% additional tariff on imports from China.

Feb 2: Initial Response
Canada and Mexico respond with retaliatory tariffs against US, while China vowed to file a lawsuit against the US at the WTO.

Feb 3: Pause on Canada and Mexico Tariffs
President Trump agreed to pause tariffs on Canada and Mexico for 30 days after both countries committed to enhancing border security measures.

Feb 4: Tariffs on China Take Effect
10% tariff on Chinese imports implemented as scheduled. China announced retaliatory tariffs on U.S. goods, including crude oil and agricultural products, effective February 10.

Tariff 2.0: What We Gather So Far

- Trump's opening salvo targeted Canada and Mexico, two of its closest trading partners. Targeting Canada and Mexico alongside China could be a signal that *no one is untouchable* in the 'America first' approach.
- The return of a familiar playbook: **tariffs as leverage in high-stakes negotiations.** With the US in a stronger economic position, tariffs can be an effective bargaining tool.
- Financial markets can continue to grind higher if tariffs remain measured and global growth stays resilient.
- Under Trump, markets are more prone to quick reversals with every news headline, and more than ever it is important not to invest emotionally.

Income Investing Amid Trade Wars

- Rising costs and disrupted supply chains from tariffs create uncertainty in traditionally stable dividend sectors.
- Shifting trade dynamics increase credit risk and potential bond downgrades, making it crucial for fixed-income investors to navigate changing fundamentals carefully.
- Tariffs may fuel inflation, forcing central banks to raise rates and negatively impact long-duration bond prices e.g. Treasuries.
- We continue to find attractive opportunities such as within Emerging Market Credits. Tilting to short-duration assets can also help to mitigate rate risks while focusing on high-income.

Read the full commentary here

Finexis Asset Management