

The Impact of US Tariffs on China and Emerging Markets

DRZ Emerging Markets Value

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Certain information contained in this presentation are opinions of DRZ. Past events are not guarantees of future results.

Agenda

- Where Are We Now?
- Trump 1.0
- Trump 2.0
- Tariffs and Inflation
- Emerging Markets



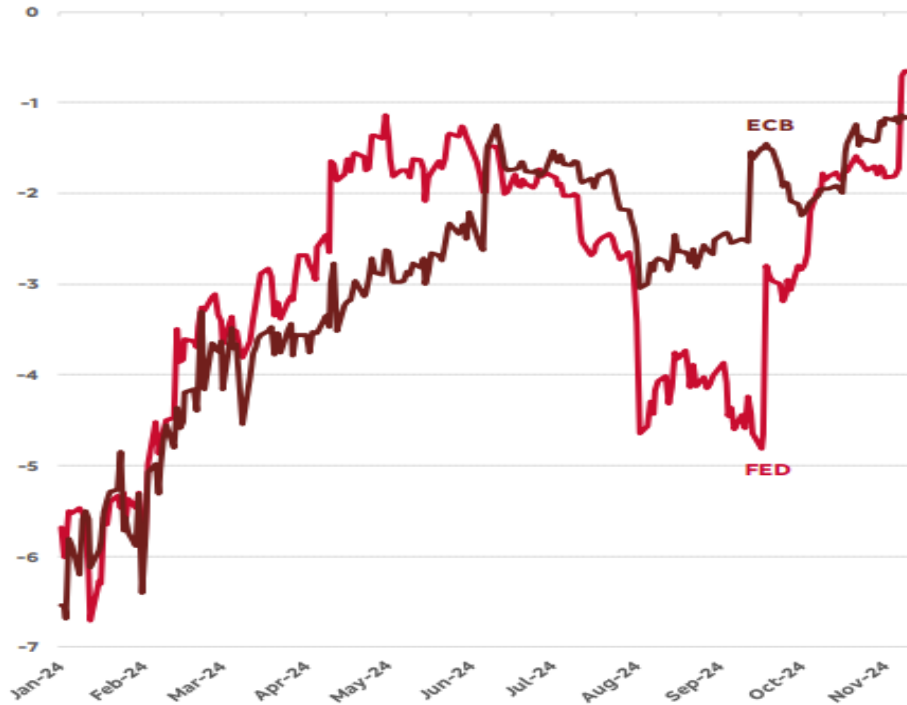
Sources: Reuters, Bloomberg

Where Are We Now?

- A more challenging economic backdrop than in 2017
- US nominal rates were 2% in 2017 vs. 4.5% now
- US government debt is higher
- Domestic equity valuations are more expensive

Where Are We Now?

2024 rate cut expectations



USD Index



Sources: Bloomberg, Bradesco BBI

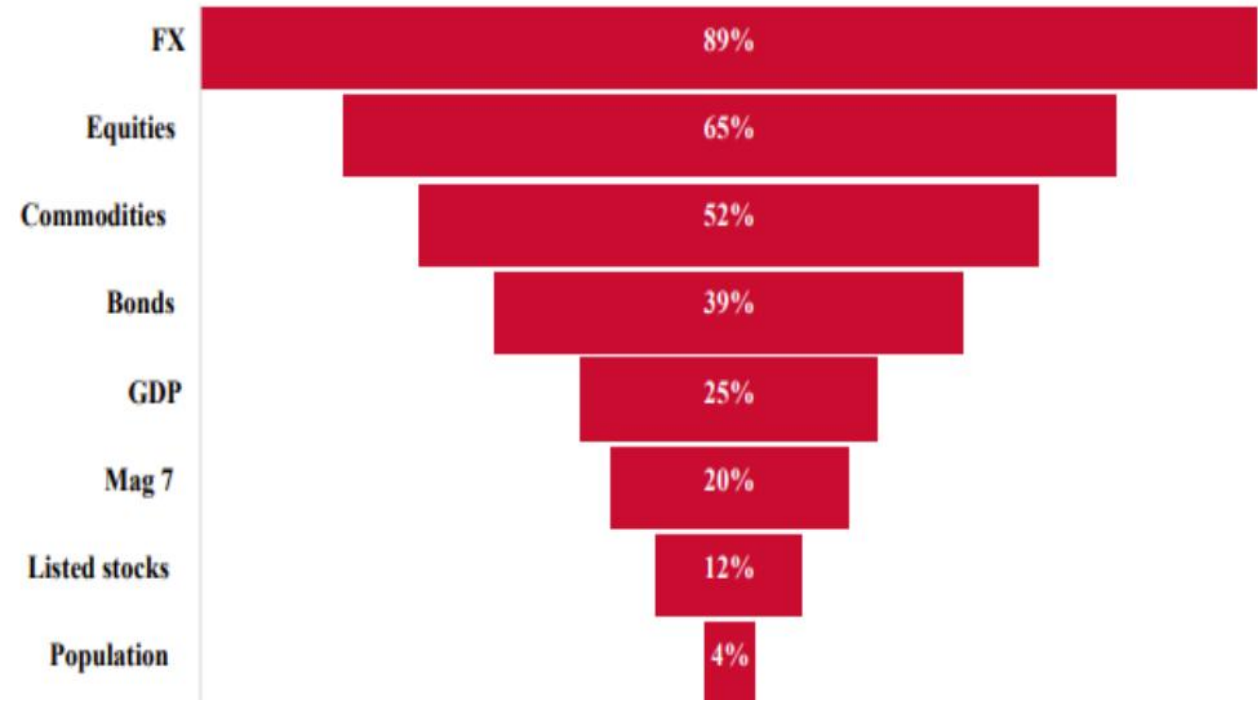
Where Are We Now?

S&P 500: Shiller P/E



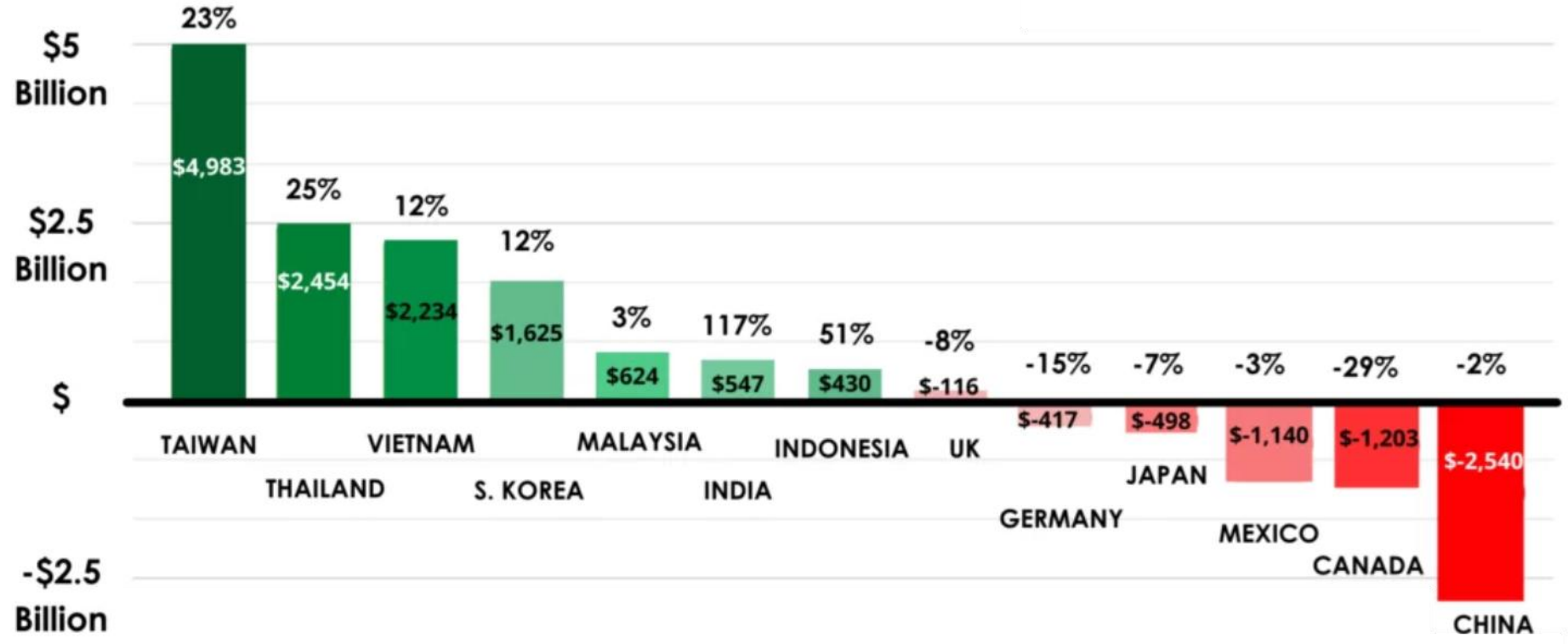
Sources: Bloomberg, Bradesco BBI, Multipl.com

USA as % of global



What Happened During Trump 1.0: China Not Prepared

US electronics imports (2020 vs. 2019)



Sources: Census.gov, Titoma

What is Happening Now - Trump 2.0

Pre-election campaign threat:

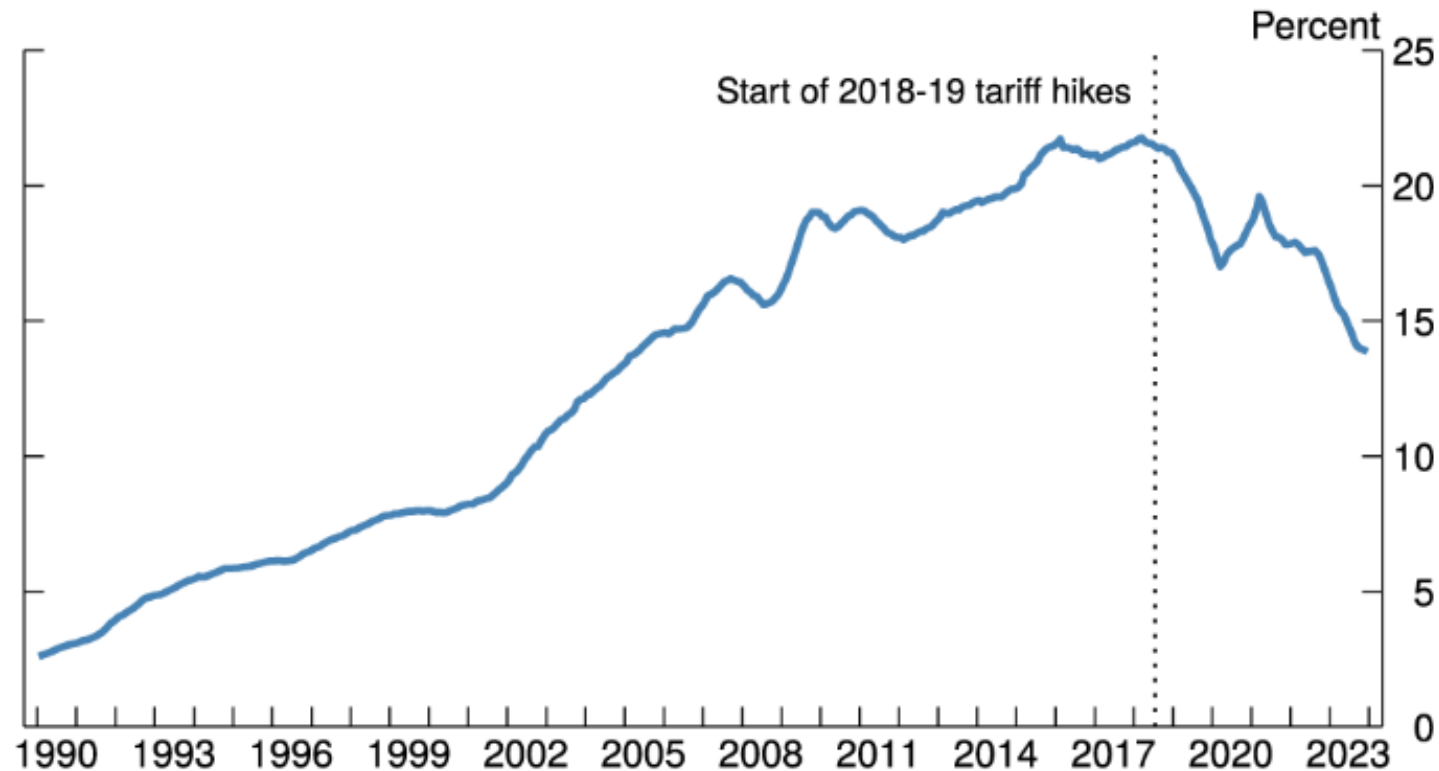
- 60% or higher tariffs on China
- 10% universal tariff on all other countries

Post-election revised threat:

- Additional 10% tariffs on China
- 25% tariffs on Mexico and Canada
- Universal tariff only to be applied to critical minerals

China is Less Exposed to the US Now

- China exports to the US decreased below 15% of total



Source: US Bureau of Economic Analysis

Are Tariffs Inflationary?

Laundry equipment CPI

Trump Tariffs Raised the Price of Washing Machines and Dryers in the U.S.

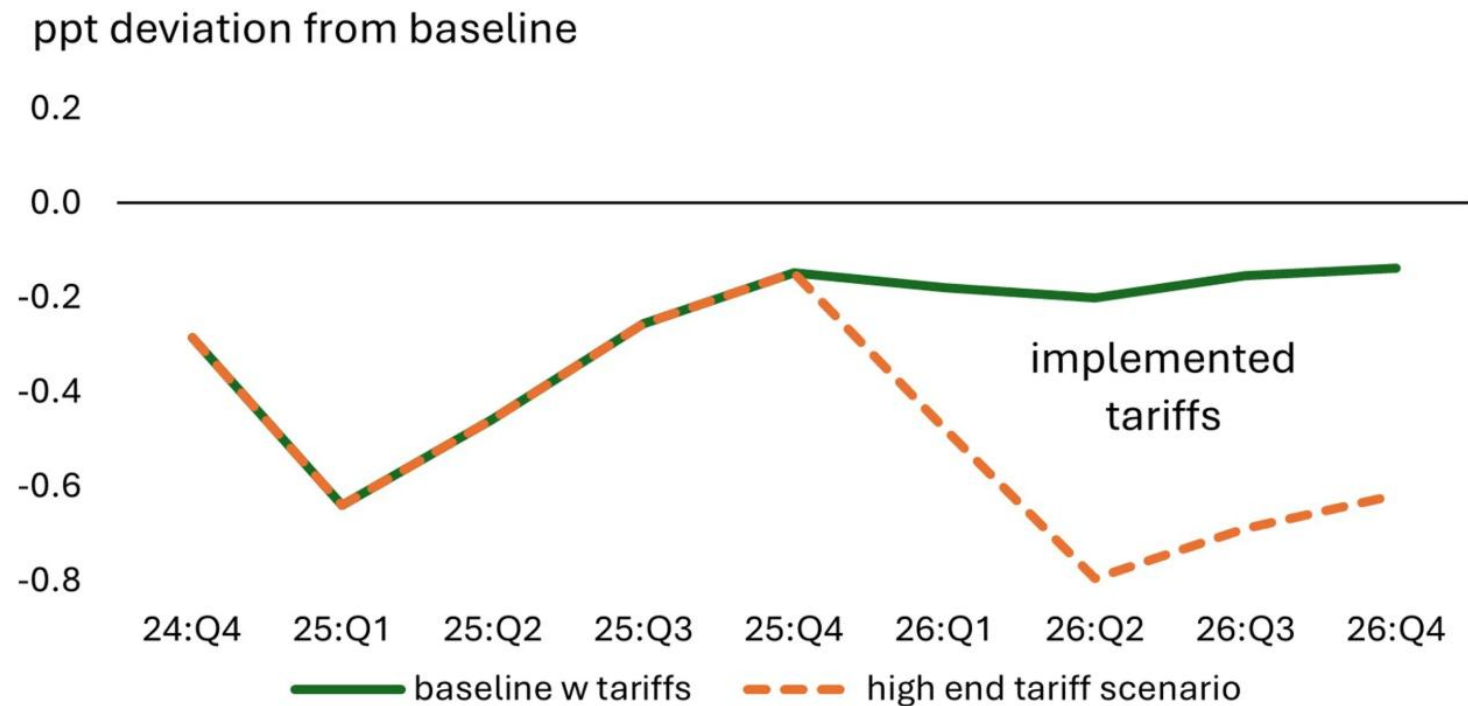
Consumer Price Index (CPI), Laundry Equipment



Sources: BLS, Bloomberg, US Global Investors

Do Tariffs Impact Economic Growth?

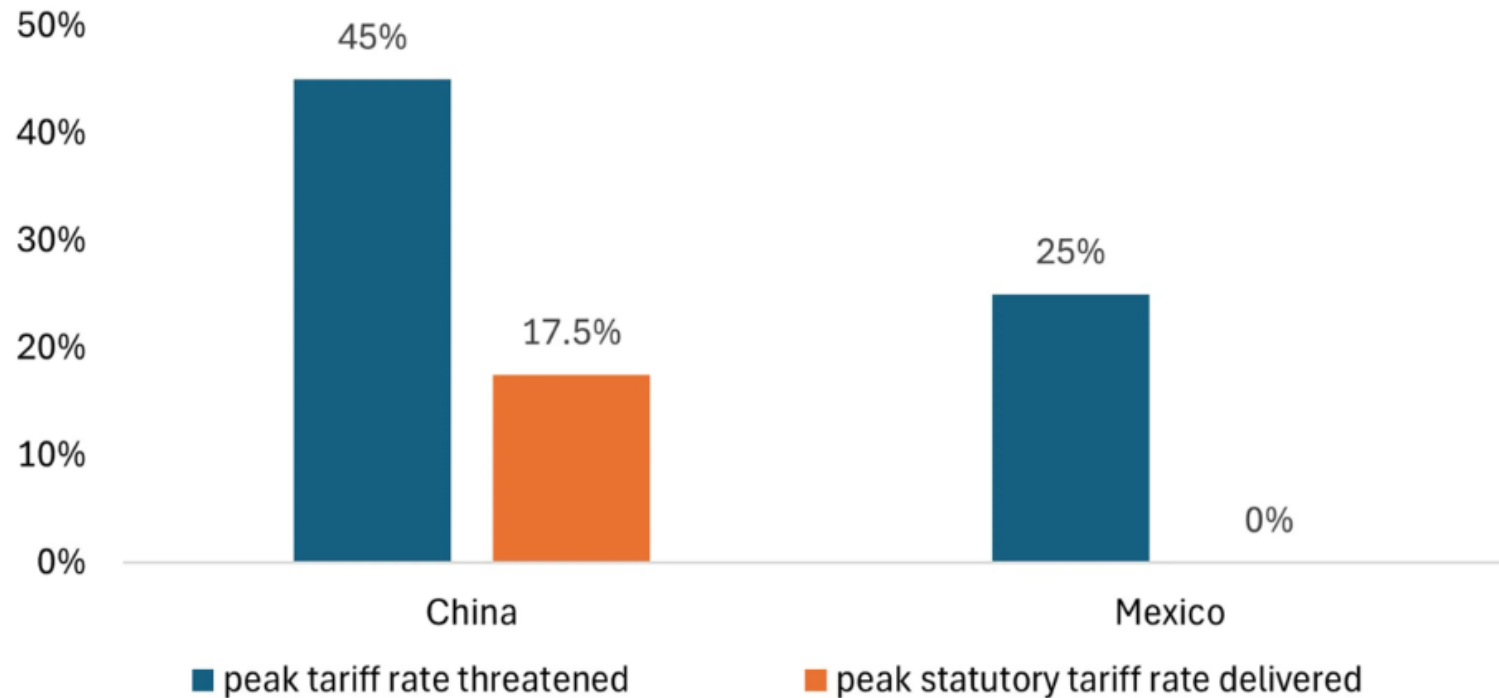
Total impact of tariffs on real GDP growth



Source: Russell Investments, December 2024

However, Trump is a Negotiator

Trump 1.0: Threats vs. Reality



Source: US International Trade Commission, Russell Investments

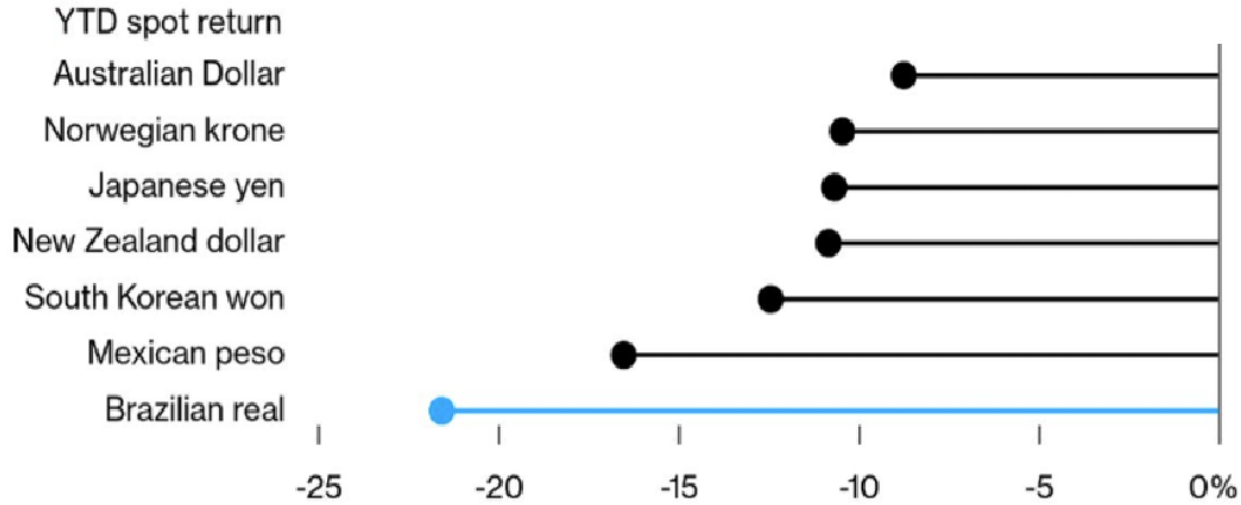
Trump 1.0

Threats	Reality
45% Tariff	17.5% Actual
US GDP to grow >4%	Below 3%
China: Currency manipulator	Rescinded
Illegal immigrant deportation	Not implemented
35% Tax on companies moving workers to Mexico	Not implemented

Implications For Emerging Markets

- Higher GDP growth than DM (4.2% vs. 1.8% in 2025)
- Higher earnings growth than DM (16% vs 11% in 2025)
- Direct China stimulus should be supportive of EM
- US fiscal deficit increasing should limit USD strength
- EM investor positioning remains extremely light

Tariff Threats Already Impacted EM Currencies

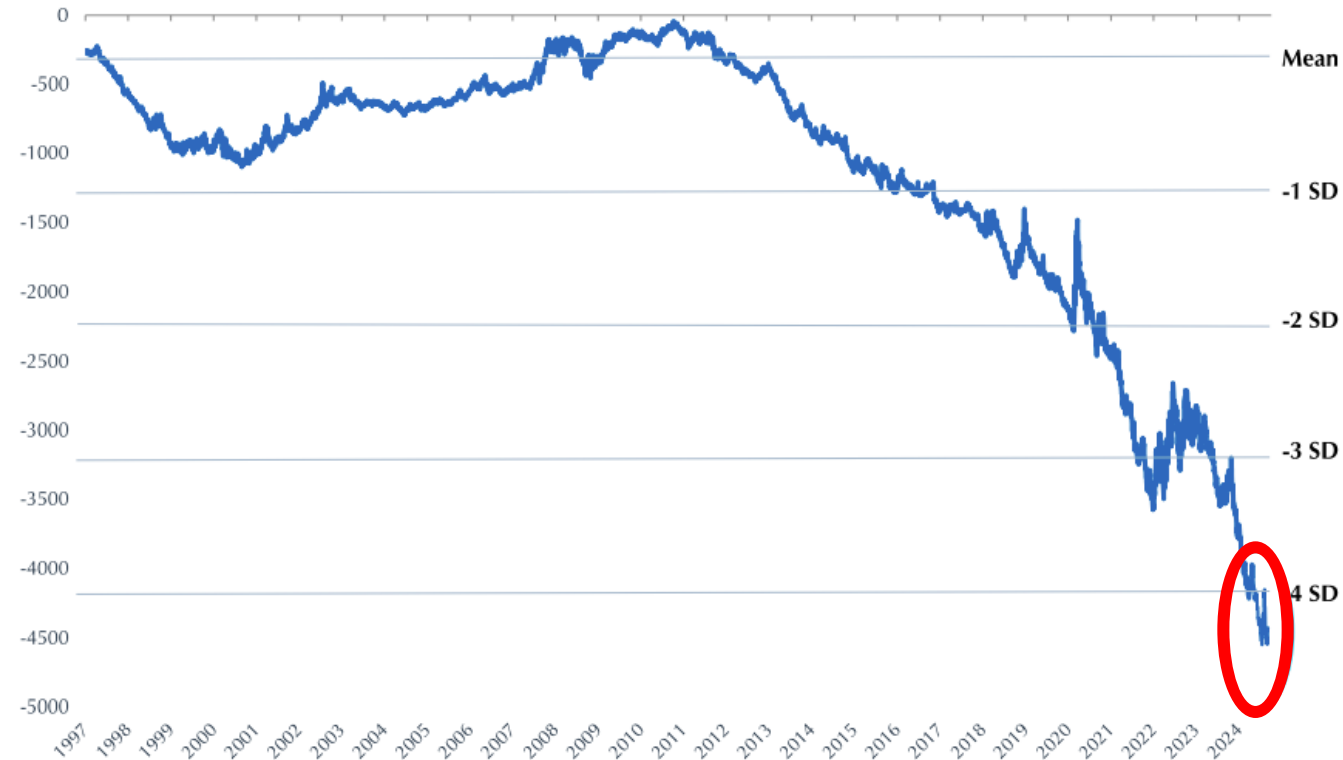


- Brazilian real, Mexican peso, and Korean won were the 3 worst performing currencies in 2024

Source: Bloomberg

EM vs. DM Valuation Spread

- Negative sentiment is reflected in valuations



Source: Bloomberg

What Can Go Right For EM?

- Interest rate cuts should be supportive for risk on assets
- 20-year average global portfolio allocation to EM would equal a 58% increase in the EM's AUM
- Lower oil prices would benefit EM (net importers)
- Continued leadership in high value-added segments in Asia
- Blue wave in Latin America?

What Happened During Trump 1.0?



- MSCI EM Index rose by 42.5% after Trump was inaugurated

Source: Bloomberg