



INVESTMENT INSIGHT | INTERNATIONAL EQUITY TEAM | March 2025

There has been no shortage of headlines in President Donald Trump's first month back in the Oval Office. In his first 30 days, the returning U.S. President has signed more than 70 executive orders, with immigration and tariffs seemingly at the top of his priority list.

At the time of writing, signed executive orders include those imposing a (so far suspended) 25% tariff on all goods imported from Mexico and Canada (excluding Canadian energy resource exports which will face a 10% tariff), a 10% tariff on all imports from China, and expanded tariffs on steel and aluminum. In addition, President Trump has announced plans to implement reciprocal tariffs for U.S. trading partners considered to be adopting "unfair practices",<sup>1</sup> and has recently told reporters that a further 25% tariff on autos, chips and pharmaceuticals is under consideration. With talk of a 25% tariff on the European Union (EU) and another 10% on China, and tariffs being used for broader policy aims, such as the war on drugs rather than just trade goals, we anticipate that the tariff landscape will continue to evolve in the coming months.

As fundamental bottom-up investors, we seek to assess the potentially material impact of such government actions on our portfolio companies. Below, we reflect on the historical backdrop that has contributed to the implementation of tariffs and evaluate their potential impact on our portfolio companies—both direct and nuanced.

### A shift away from the "free trade" world

The General Agreement on Tariffs and Trade (GATT) was established in 1947 as a way to encourage world peace following World War II and to shift away from the protectionist policies, including tariffs and quotas, that halted international trade prior to the war. The U.S. joined the agreement at the start of 1948, at a time when the U.S. trade balance was in surplus, making its

<sup>1</sup> <https://www.dlapiper.com/en/insights/publications/2025/02/president-trump-announces-plan-for-reciprocal-tariffs>

<sup>2</sup> Source: World Trade Organisation

#### AUTHORS



**BRUNO PAULSON**  
*Managing Director*



**MEGAN MCCARTHY**  
*Senior Associate*

large and growing market more accessible.<sup>2</sup> In the post-war era, many countries within the GATT, such as Japan, were able to achieve fast economic expansion, in part thanks to desirable exports for which the U.S. was willing to run a trade deficit. In subsequent years, the strengthening of the U.S. dollar against foreign currencies (a trend that began in the 1980s and has continued to the present day) has made importing more attractive, at least from the perspective of the American consumer, contributing to the hyper-competitive environment for U.S. manufacturers who have struggled in the face of cheaper international production.

Over the last 40 years, the U.S. trade deficit has averaged close to 3% of gross domestic product (GDP),<sup>3</sup> and the U.S. share of global manufacturing has fallen from 28% in 2002 to 16% today.<sup>4</sup> President Trump's campaign pledge to significantly increase tariffs may well have helped him garner the support, and more importantly the votes, of blue-collar workers feeling disenchanted by the current system. President Trump has stated that he believes his proposed tariffs will help protect American businesses, move manufacturing back to the U.S. and create jobs for American workers, while narrowing the country's long-standing trade deficit. The overall impact, however, remains uncertain, given that tariffs are likely to be inflationary for consumers and unsettling to corporates relative to the free trade environment that has been in place for the last several decades, which could hit consumer confidence and slow growth. The Peterson Institute for International Economics suggested that a 10% universal tariff imposed by the U.S. and the subsequent retaliation from trade partners would result in 1% being knocked off U.S. growth for the two years after its introduction, and continue to impose a drag on growth indefinitely.<sup>5</sup>

While the effectiveness of tariffs as a method of improving the economy is debatable, those already announced will mark a distinct shift away from the previous free trade landscape. Looking at the potential impact of tariffs across our portfolios, we would broadly classify these as direct and uncertain/nuanced.

## Direct impacts

As things currently stand, given that our quality portfolios are skewed towards services rather than goods, we believe most of our companies should face limited direct impact from tariffs, while local manufacturing, high gross margins and pricing power may dampen the extent of the impact for the goods producers in the portfolios.

Looking across our quality portfolios, our consumer-facing names and non-U.S. semi-conductor names (where held) are more likely to face some direct impact from the announced protectionist measures.

We view our high quality consumer names as relatively well-positioned versus their sector peers thanks to their high gross margins and pricing power. The high gross margins limit the price rises needed to mitigate the tariffs, while the pricing power makes the required price rises more feasible. For example, our luxury and beauty names may be impacted to the extent they manufacture in Europe and ship to the U.S., but they benefit from high gross margins, and also have strong pricing power given their loyal and relatively affluent consumer base. An American automotive retail company we hold is unlikely to see a meaningful impact given its strong pricing power. While it does source some parts from overseas, these tend to be in the non-discretionary categories, where the company's pricing power is stronger. Nonetheless, we acknowledge that certain industries may be more affected. Industries such as international beverages, spirits and brewers, are facing rising costs on importing to the U.S., while in some markets, U.S. brands are also battling with consumer boycotts and retaliatory actions.

We anticipate that our non-U.S. semi-conductor names (where held) may be impacted, either by tariffs or if they are pushed to increase their production and investment in the U.S. to avoid the penalties. In the event of tariffs, the semi-conductors we own have very strong market positions and at least initially, their customers would have little choice but to pay the increase in cost. Structurally however, tariffs may lower chip demand across the industry, which could drive lower industry capital expenditure at the margin—though the relatively unpredictable road to GenAI (generative artificial intelligence) adoption is arguably a larger source of uncertainty.

## Uncertain/nuanced impacts

The secondary and longer-term impacts of tariffs are likely to be more uncertain and nuanced. Other countries could retaliate, for example, with the EU targeting U.S. mega-cap technology companies, while China could ban exports of tech components needed for U.S. technology companies. There are also the macroeconomic impacts. Higher inflation could drive higher rates, indirectly affecting credit bureaus through a delayed cyclical recovery in credit, particularly mortgage issuance. Inflation may also pressure corporate margins, though pricing power should help the companies in the portfolio.

<sup>3</sup> Source: Federal Reserve Bank of St Louis

<sup>4</sup> Source: World Bank

<sup>5</sup> Source: The Peterson Institute for International Economics, via The Economist

## The great unknown

How does this play out? To the extent they cause inflation, tariffs will pressure U.S. consumers and potentially corporate margins. If tariffs or other measures spur a more vigorous Chinese response or rupture with historic allies, such geopolitics may be an unpopular surprise for markets, which are currently characterised by high expectations, despite the

elevated policy uncertainty from the U.S. president's policy of "strategic ambiguity". More broadly, if tariff activity results in a broader economic slowdown, perhaps because it triggers a trade war, history suggests that our quality portfolios' pricing power and recurring revenues should mean their earnings once again prove distinctly more resilient than those of the market as a whole.

---

## Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect global franchise companies and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. **Stocks of small- and mid-capitalisation companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **ESG strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

## DEFINITIONS

The **MSCI World Index (USD)** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets.

The **S&P 500® Index (USD)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

**Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock.

**Gross Domestic Product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

The **Purchasing Managers Index (PMI)** is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

## IMPORTANT INFORMATION

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

**A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. A minimum asset level is required.**

**For important information about the investment managers, please refer to Form ADV Part 2.**

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks)

of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

## DISTRIBUTION

**This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.**

**MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.**

This material has been issued by any one or more of the following entities:

### EMEA

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVM") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

**Italy:** MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **The Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 11096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany:** MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

### MIDDLE EAST

**Dubai:** MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

#### **U.S.**

**NOT FDIC INSURED. OFFER NO BANK GUARANTEE. MAY LOSE VALUE. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT.**

#### **LATIN AMERICA (BRAZIL, CHILE COLOMBIA, MEXICO, PERU, AND URUGUAY)**

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

#### **ASIA PACIFIC**

**Hong Kong:** This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305

of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

#### **JAPAN**

For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.