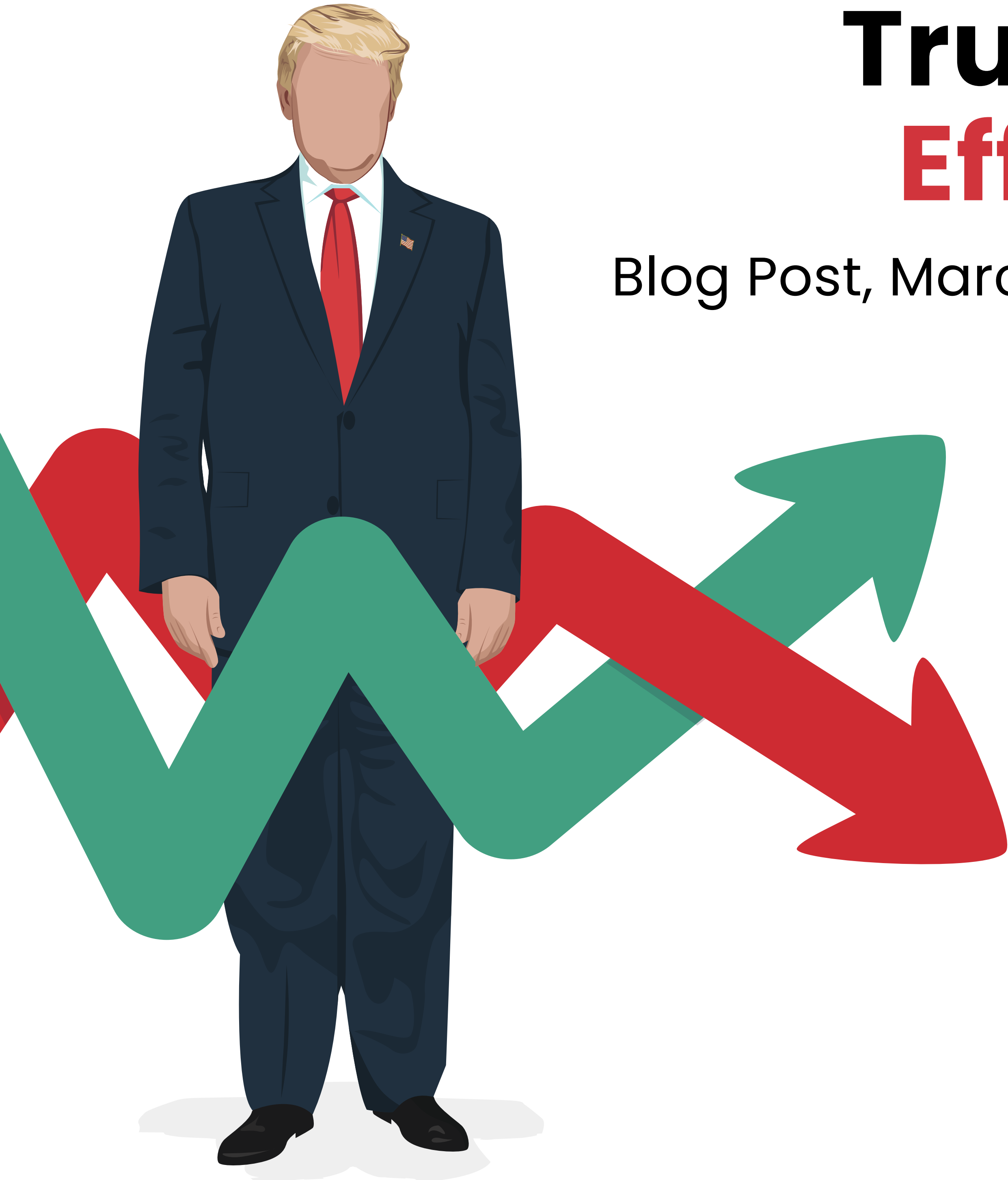
The Trump Effect

Blog Post, March 2025



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Introduction

Newly elected U.S. President Trump has wasted no time implementing the Make America Great Again (MAGA) agenda since his inauguration in January, and the Republican's policies have sent shockwaves far beyond the U.S. homeland. As global markets react to policy announcements made at breakneck speed, many investors are wondering what the new normal means for them. In this post, we review the President's actions in multiple aspects of geopolitics and explains the impact he's had so far.

Reversal of Support for Ukraine

Perhaps the most important contrast in policy between President Trump and his predecessor Joe Biden is his decision to end the government's military support for Ukraine in its war with Russia. Whilst Biden unequivocally reiterated his support for Ukraine until his final days in office, Trump has taken the opposite approach, announcing high level talks with Russia on February 12th. Crucially, neither European nor Ukrainian officials were invited, sparking a flurry of worried condemnation from European leaders, and leaving a sense of military frailty that has since been compounded by the complete suspension of military aid from the U.S. to Ukraine on March 3rd. Subsequent to this there have been increasing negotiations regarding the Ukraine war, with the U.S. putting forward a proposal for ceasefire in Ukraine, but this (as of the date of writing) not been accepted by both sides, with Russia setting out its own conditions for a ceasefire.

The knock-on effect on the U.S. and European defence sectors has been relatively straight-forward. European defence indexes have surged, with key defence contractors making large gains as the onus for European sovereignty shifts towards self-funded defence efforts and away from the umbrella support of NATO. In contrast, in the U.S., defence stocks have experienced downward pressure caused by the uncertainty over the longevity of defence contracts put in place by Biden and proposed budget cuts to the Pentagon's budget. The euro (EUR) has also strengthened against the dollar (USD), though this change has likely been caused by policy decisions beyond the scope of the Ukraine war (as outlined below).

The Onshoring and Prioritisation of Artificial Intelligence

The U.S. remains the dominant player in the global artificial intelligence (AI) arms race, and that looks unlikely to change despite the industry shock caused when Deepseek, a Chinese rival, released its R1 model in January, claiming to have required far less computational power than cutting-edge American models like OpenAI's ChatGPT. Trump clearly values AI, having surrounded himself with industry experts like Elon Musk (CEO of Tesla and XAI) and Sam Altman (CEO of OpenAI) at his inauguration, and announcing the formation of the Stargate Project, a new company which intends to invest $500 billion over the next four years building new AI infrastructure for OpenAI in the United States. The world's premier manufacturer of leading-edge computer chips, the Taiwanese Semi-conductor Manufacturing Company (TSMC) also announced on March 3rd that it would boost its U.S. investment by $100 billion, creating five new fabrication plants in the States. This signals not only a prioritisation of the AI industry, but also a clear inclination to decrease the U.S.' current dependence on foreign supply chains for the most sought-after computer chips. Given such significant investment and the astounding rate of progress in the industry, most investors are still bullish on the prospects for technology in the U.S.

Imposition of Tariffs

True to his campaign promise to impose stringent new economic tariffs on specific countries, President Trump has quickly followed through with a raft of economic policies that have upended the established equilibrium of global trade. This includes the US announcing 20% of additional tariffs on imports from China, 25% tariffs on imports from Mexico and Canada, and 25% tariffs on steel and aluminium from the EU and the UK. This has led to a range of countermeasures, including the EU and Canada announcing retaliatory tariffs on American goods. However in response to the EU's countermeasures, and as a demonstration of just the 'tit-for-tat' nature a trade war can deteriorate into, Trump threatened 200% tariffs on wine and champagne from EU countries. More broadly as a result, there are understandable concerns about the possibility of an extended trade war between the US and other nations around the world, and the potential impact on US and global growth, as the tariffs start to take effect.

There are undoubtedly increasing concerns in the U.S. of a recession (dubbed the 'Trumpcession' by some), with the dollar weakening against other major currencies, and fears of inflation returning as consumers are forced to pay more for previously cheap goods and services. This has prompted a 'flight to safety' in some quarters, encouraging the purchase of defensive stocks such as those in the utilities sector in equities and U.S. Treasuries on the fixed income side. Fears are particularly notable in the technology industry, which has significant exposure to foreign supply chains. Given the outsized contribution of technology stocks to the overall U.S. economy over the last couple of years or so, this has broader implications for the health of the wider stock market.

Whilst the tariffs are expected to have a negative impact for those countries directly involved, nations may indirectly benefit from the situation. For example, in response to U.S. tariffs, China has imposed additional duties on American agricultural products and been forced to look elsewhere for alternatives. This has provided opportunities for the Latin American and European agricultural sectors, which export staples like soybeans and meat to China. Similarly, countries like Vietnam and Malaysia have attracted manufacturing investments as companies seek to mitigate the impact of the U.S./China trade war by relocating production, bolstering their exports.

What impact has this had on global markets?

Following equity markets initially rallying on the news of the Trump election victory under the expectation that potential policies of deregulation and tax cuts would be positive for companies, we have since seen this trend reverse, at least in the short term. Following US equities reaching a record high in mid-February 2025, they have subsequently fallen as some market participants have become increasingly concerned regarding the global trade environment, as outlined above. This has led to falls in wider global equity markets, given the significant weight of the US in global equity indices (due to the size of US companies within the global landscape), with leading global equity indices falling into correction territory (a fall of over 10%). However, it should be noted that these falls have simply "given back" gains experienced in the aftermath of the US election, and as such when we stand at the date of writing today (19th March 2025) and look back over twelve months, global equity indices are in clear positive territory.

Should clients take any action?

As readers of this post will be well aware, volatility is part and parcel of investing in global markets such as equities, and in some ways can be seen as a "cost" paid in order to achieve the higher expected returns that equities have historically delivered over the long-run, compared to more stable, but typically lower performing, assets such as cash deposits. As such, from time to time periods of significantly heightened volatility, such as what we have observed over the past month, are to be expected.

While there are clear triggering factors that have led to this volatility (most notably the election of Trump in the US and concerns regarding the impacts on global trade, at least in the short term, that this may have), during these times the best approach is to seek to "turn down" the noise on markets, and sit through the volatility. While end-investors may feel it natural to seek to take action during a period such as this, if history is a guide then doing so during these moments is often one of the worst times to do so, risking locking in falls in asset prices, and removing the ability for any sold assets to then participate in any subsequent market recovery.

Conclusion

President Trump has a history of introducing volatility, not only to financial markets, but also the wider world around him. The first few weeks and months of Trump's second term have proven no different, as investors try to anticipate coming announcements and the implications of his administration's strategic decisions.

There is no doubt that the world has entered a new global trade regime, with Trump's aggressive imposition of tariffs forcing equivalent countermeasures from other nation states, in a hurried attempt to counteract the worst of these policies.

While this new landscape is unsettling, we do not believe it impacts the long-term fundamental nature of investing, particularly as it relates to our investment approach. Here at ebi we adhere to a philosophy of a long-term buy-and-hold stance to markets, seeking to capture market returns while tilting on a long-term basis to investment factors that evidence indicates deliver a premium over market risk-adjusted-returns over the long-run.

While some entities will seek to actively trade and time these new market dynamics, we believe the sheer unpredictability of Trump and the speed at which he can launch new policies, before turning on a dime and announce its retraction, indicates just how challenging it is to successfully actively trade this market. We wish our active peers the best of luck, while noting the evidence is firmly in our favour for approaching markets using a buy-and-hold approach focused on setting strategic asset allocations and maintaining these over the long-run, rather than a short-term tactical approach seeking to outperform markets over the short-run.

What is clear is just how volatile the coming years will be, headed by Trump and the new regime we find ourselves in. The Trump effect is indeed in full swing – but the show is just getting started. We'll be back with another blog on the latest developments soon, however if you have any questions in the meantime then please don't hesitate to reach out to your usual ebi representative.

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