PEREGRINATION

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PEREGRINE

WEALTH

CONTENTS

SAILING THROUGH THE TRUMP TARIFF TSUNAMI

George Herman
Chief Investment Officer

As we progress through 2025, the global economy finds itself navigating through heavy swells stirred up by the *Trump Tariff Tsunami*. United States (US) President Donald Trump has truly turned global trade, logistical supply chains and foreign policy upside-down.

The current situation has many similarities to the sudden-stop scenario brought on by the COVID-19 pandemic and hence the risk of severe economic disruption, and slowdown, has increased dramatically. Financial markets have responded with increased volatility and global trade flows are showing early signs of contraction. Investors are rightly cautious as these developments will continue to ripple across equities, currencies, and commodities in the months ahead.

At Peregrine Wealth, we resist the temptation to make kneejerk changes to our medium term macro-economic assumptions purely because so much of what lies ahead is unknown. The short term will be volatile, but the world always finds a new equilibrium after every shock. So too, this shall pass. It's obvious that the heightened uncertainty will lead to lower growth and the tariffs will be inflationary, but that's where the 'obvious' ends.

In addition to Trump's tariffs, there are other important trends that will further impact markets.

Persistent inflation challenges

Inflation remains stubbornly high despite earlier expectations of moderation. Elevated input costs from tariffs and supply bottlenecks are now embedding themselves deeper into pricing structures. Central banks are finding it harder to justify rate cuts, keeping financial conditions tighter for longer. Interest rate expectations have rapidly been adjusted higher, and cuts have been priced out in the near term.

Geopolitical flashpoints remain

The Russia-Ukraine conflict drags on without a resolution, whilst a tentative ceasefire between Hamas and Israel, coupled with the release of hostages, provided only temporary respite from hostilities in

Gaza. Geopolitical risk remains a persistent undertone in the markets, particularly influencing commodities and energy prices.

Navigating forward with confidence

At Peregrine Wealth, we continue to trust in our long-term, multi-scenario investment approach. By preparing portfolios to weather a wide range of outcomes, we ensure that our clients are not only protected against volatility but also positioned to seize emerging opportunities. Through the turbulence of 2025, we remain unemotionally dedicated to our investment process. This keeps us focused on the longer term in respect to economic outcomes and on valuation-based opportunities amidst the volatility.

Enjoy this edition of *Peregrination*.

AFTER A MORNING IN THE ROSE GARDEN, THE RISK FOR A GLOBAL RECESSION DOUBLED

Maarten Ackerman

Chief Economist

During the second quarter of 2025, one of the eight key themes I highlighted at the start of the year is taking centre stage—**US President Donald Trump's tariff-driven economic policies**. In this edition of *Peregrination*, I explore how this is shaping the global economy.

Trump's tariffs: A global shockwave

Trump's tariffs had a significant impact on the markets and global geopolitics in the first quarter of 2025. In past issues of *Peregrination*, I have talked about the narrowing growth gap between the US economy and its developed market peers. The US has done exceptionally well over the last few years, slowing down in a very orderly fashion, from about 3% annual gross domestic product (GDP) growth to around capacity growth of 2%. Concurrently, we have seen the United Kingdom (UK), European Union (EU), and Japan emerge from their growth slumps of almost zero per cent growth.

When Trump came into office, there were three main agendas to his mandate: tariffs, immigration and US fiscal spending. Most of these policies are potentially growth-negative, meaning they will negatively impact US growth prospects and increase inflation. However, as Trump starts to implement his policies, especially his blanket implementation of tariffs on key trading partners, we are seeing any existing global economy tailwinds swiftly turning into headwinds.

High-frequency data, like the Purchasing Managers' Index (PMI), is showing that economies are already responding to Trump's tariffs. When the PMI dips below 50, it indicates that an economy is contracting, whereas when it is above 50, an economy is expanding. For example, Europe and the UK have both been well below 50 but were recently starting to reach the 50-level mark – however, since Trump's tariff announcement, this number is hanging in the balance. In contrast, over the course of 2024, the US PMI has been running close to 55. Now, it is starting to move down towards 52 and will likely hit 50 fairly soon. The fact that Trump's tariffs are already impacting the numbers suggests that a significant global slowdown is not far off and will likely hit the US harder than other economies.

Announced on what Trump called Liberation Day in the White House Rose Garden, the markets were spooked by the US's implementation of blanket global tariffs. This is because they will not simply result in the normal slowdown of the economy but increase the likelihood of a US recession. At the beginning of the year, indicators suggested that the risk of a global recession was a little higher than 20%. Those indicators have now increased the probability to approaching 60% and as we all know, if the US goes into a slowdown, the rest of the world will quickly follow.

To weather the storms, global economies will have to act sooner rather than later, and "box clever" to ensure they keep their head above water. Countries like Germany have already seen the writing on the wall. As such, in the first quarter Germany's Chancellor Frederick Merz announced a plan to significantly increase the country's fiscal spending to the value of €500 billion to boost Germany's ailing economy and weather the storms being caused by Trump's tariffs. This is the biggest fiscal spend in Europe, a move we expect will provide a significant growth opportunity for Germany and the EU going forward.

What is Trump trying to achieve?

Given the severity of Trump's tariffs, many are asking what he is trying to achieve. Trump believes that US trade with the world is inequitable. The US economy, being 90% service-based, imports most of the goods it needs from trading partners that can supply what they want at the best possible price. With only 10% of the US economy being produced by home-grown manufacturing, the US still needs to import consumer goods, manufactured products, as well as food and raw commodities, including clothing, electronics, motor vehicles, and pharmaceuticals. This has created a massive trade deficit for the US. Trump wants this turned into a trade surplus, or at the very least, to reach a neutral position. US manufacturing and exports therefore need to offset the country's imports.

Trump's trade deficit concerns are not a new issue. With the US being a mature economy, it has been decades in the making. The US's biggest trade deficit is with China, which is why Trump's focus has always been on China in terms of tariffs. After his announcement on 2 April, tariffs for Chinese goods were hiked to 64%, then 104%, and again to 125%, before being raised, yet again, to 145%, as China and Trump continue to play tit-for-tat in a trade war. Trump has also targeted other significant trading partners like the UK, the EU and Canada, as well as emerging market (EM) economies that may have smaller trade balances with the US.

EMs may, however, find themselves at a slight advantage as they have organically started to diversify themselves out of significant risk. In the mid-80s, the emerging markets saw about 30% of their trade go to fellow emerging market peers and 70% of their trade go to developed markets. Over the last 40 years, however, that has started to change and now 50% of their trade is with emerging market peers and only 50% with developed markets. This means that emerging markets are more open to trade with each other and will be able to negotiate alternative trading agreements beyond the US. So, while there is an initial shock, as the world adjusts, EM economies will have alternative trading options.

Because the markets reacted, or overreacted, to Trump's tariff announcement, there is a real risk that if he doesn't soften his tone, the US will enter a recessionary environment. The last time we saw tariffs like this was in 1937 after the Great Depression. This is a drastic step in trying to protect the US economy. However today, the US is an economy that is structurally very different so what worked in

1937, may not work again. While the risk of a US recession is still below 50%, it could climb if Trump continues on his current path.

On the flip side

On the flip side of the conversation, increased tariffs will mean more fiscal revenue for the Trump administration. Some of the numbers quoted suggest that tariffs can potentially contribute around $3 trillion to federal revenue over the next 10 years. This will give Trump the ability to cut corporate taxes from 25% to 15% as promised, a move that will stimulate US corporate earnings, which will be passed onto markets.

This argument, however, is not being welcomed by the US consumer who will feel the pain of tariffs the most by paying more for any imported product. While companies could potentially choose not to pass tariff costs onto consumers, this is unlikely as it will hurt company earnings and be negative for markets in general.

Implications for the US consumer

Given the impact of Trump’s policies on global markets and inflation, especially in the US, we will be keeping a close eye on the health of the US consumer and how Trump’s policies will impact them. Increased tariffs will result in increased pricing, which will drive up inflation and dull demand, thereby lowering trade which in turn will further fuel the slowdown; hurting the US consumer the most.

Trump faces further headwinds as the US Department of Government Efficiency (DOGE), headed by Elon Musk, is responsible for hundreds of thousands of people being laid off, many of them Trump supporters. This may contribute to his popularity dwindling ahead of the next elections. This coupled with the market reaction, pressure from business, and Trump realising that he might run out of political capital contributed to his announcement to pause most tariff increases for 90 days.

When looking at US consumer expectations, we see that they are expecting significantly higher unemployment over the next year. According to the University of Michigan Consumer Survey, the long-term average of this indicator has been 20, and it has now shot up to 60. This is similar to levels we last saw during the 2008 financial crisis and the 2002 recession. Job losses are indicative of a slowdown, which is why markets are pricing in a higher likelihood of recession.

The latest CEO Confidence Index, a measure of overall CEO confidence, has fallen very sharply, again from a very high level. Weekly bankruptcy filings are also approaching levels last seen during the COVID-19 pandemic and the 2008 financial crisis. These indicators all show that pressure is building, and the brunt of any fallout will be felt by businesses and consumers, who make up the US voter base.

Europe’s and Germany’s tariff troubles

The EU, and Germany in particular, is also going to feel Trump’s policies. Germany, the world’s third largest economy, has an export-driven manufacturing model, making exports a major contributor to its GDP growth. As such, tariffs are now going to add to their headwinds of lower industrial output and job losses.

In an attempt to stimulate growth and mitigate against Trump’s policies, German politicians have announced a fiscal scheme to help the German economy weather this storm, which is a positive step forward for the country and the EU.

Despite Trump wanting to protect the US economy, the initial inflationary impact of tariffs will be felt more by the US than other countries. For the rest of the world, the impact on prices will more likely be neutral or we may even see disinflation because of a lower demand for goods and services. And as the fear of a recession grows, the price of oil has already fallen sharply, which will also have a disinflationary effect on goods and services. The European Central Bank has noted that it is anticipating further rate cuts given this environment.

The US Federal Reserve is in a more difficult position. It has already paused rate cuts, despite Trump wanting it to cut rates further. If inflation does rear its head again over the next 12 months, the Fed will probably try and keep rates steady or even start hiking them again, further contributing to a slowing economic environment.

Trade isn’t dead – it’s evolving

Despite what sounds like a message of doom and gloom for the global economy, what must be remembered is that tariffs and trade wars do not mean the end of global trade. While these policies have sent shockwaves through global markets, and we are in for a tough 12 months, markets will, in a relatively short time, find their equilibrium and start to normalise. Countries will adjust, companies will adjust and the global economy will get back to capacity growth over the next few years.

If Trump realises this and eases up on his rhetoric, the severity of a slowdown will be minimised. Should he soften his stance on tariffs, the markets will respond more positively almost immediately, as we saw on the 10 April when Trump put the implementation of tariffs to all countries, except China, on hold for 90 days.

While tariffs suggest that Trump is trying to create an environment for increased US manufacturing output, it is going to take time. This will be one of his biggest challenges. Can he turn the tide before the US economy enters a recession? The risk is that he drives the US economy and global economy into slowdown, but he doesn’t achieve his desired outcome before the mid-term election.

It is also unlikely that the US will be able to compete on price with other manufacturing economies, as US labour is more expensive. Ultimately, the threat of Trump losing power may lead to him softening tariffs, which will reduce the impact of the current storm.

In summary

At the beginning of the year we expected a slowdown in economic growth. We anticipated that the US economy would come off very high levels, with a pickup of the other major economies. After the last quarter, however, we have cut our global growth forecast for the next 12 months by over 0.8% for the next year, taking it from 2.5% to 1.7%. This is something we will continue monitoring.

We haven’t made any changes to our three-year views, because, as mentioned, this type of shock has an initial impact and then the world finds a new equilibrium and reverts to longer-term capacity growth, which is about 2.5%. We expect headwinds for 12 months before the world economy finds its new normal.

The slowdown is coming from the US, because that is where the impact will be felt most. We have therefore cut growth quite significantly for that economy from 2% to 0.8% for the next 12 months. China’s economy is also expected to slow, and we are expecting growth to fall from its current level of 4.5% to 3.5%, which is significant.

Peregrine Wealth's Investment outlook

As Vladimir Lenin, revolutionary and head of government in Soviet Russia, said, "There are decades where nothing happens and there are weeks where decades happen." The events at the end of the last quarter saw markets turn much more quickly than anticipated, as Trump implemented a decade's worth of reforms in an extremely short period of time.

It is in times like these that the importance of Peregrine Wealth's investment philosophy is reinforced. The world has gone through many crises, and they are always caused by different factors. What they all have in common, however, is that they create environments where fear and emotion take over. This emotion is what creates an opportunity for disciplined investors.

Looking at the four pillars of Peregrine Wealth's investment philosophy, we see how they are holding us in good stead during this volatile economic time:

Diversification: This has protected our investments against market shocks.

Always looking for value: As markets respond emotionally, we can now look for opportunities when there is a sell-off in many markets, meaning we can pick up high-quality assets at good value.

The future is uncertain: This notion has been reinforced a number of times in the first quarter and will probably continue to be reinforced under the Trump administration, meaning we are prepared for any eventuality.

The importance of asset allocation: Peregrine Wealth is using this volatility to buy quality assets that we want to hold for a long time, at good value. We are looking for assets that will benefit us as the world starts to normalise and get back to equilibrium and capacity growth. This will ensure that our clients who have a healthy level of shock-absorbers in the form of cash in their long-term portfolios can now start to increase their growth exposure.

While we believe that the risk of a recession is still below 50%, if this downward spiral continues, it will create further opportunities for us to eventually go overweight in equity when the time comes and the cycle turns. While our mindset is always about capital preservation, we are open to opportunities. It is our job to manage the risk presented through these cycles to ensure our clients benefit from the myriad high-value investment options on offer.

While this is a volatile time in the markets, Trump's policies will not impact our ability to deliver on portfolio growth. In fact, it may present us with excellent alternatives.

ASSET VALUATION SIGNALS

Harold Strydom
Investment Strategist

Scenario modelling has formed part of Peregrine Wealth's investment philosophy for over two decades, and it enables us to better understand potential market outcomes and construct stronger portfolios. The Peregrine Wealth Investment team has a core or "High Conviction" scenario based on a three-year view, which is expressed as macroeconomic and market assumptions, including economic growth, inflation, interest rates, price-earnings multiples, and credit spreads, to list a few. Based on these assumptions, our asset valuation models produce expected returns for various asset classes. This section is used to summarise our High Conviction view and the resulting asset signals.

HIGH CONVICTION SCENARIO: MEDIUM-TERM EXPECTED RETURNS

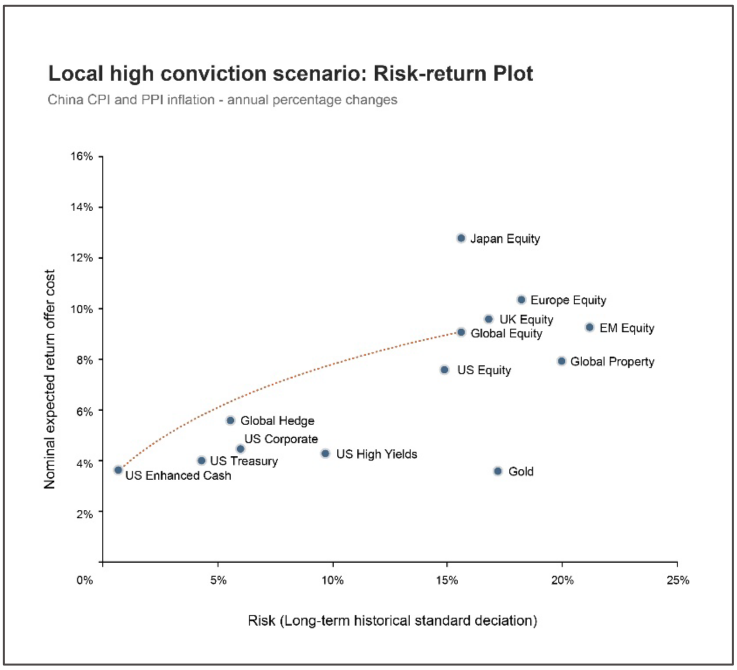
Following the much-harsher-than-expected Trump trade tariffs, we have amended our High Conviction assumptions over the next 12 months but have left the two- and three-year assumptions unchanged. United States (US) growth, which was already slowing, is assumed to be below capacity. Europe is expected to take longer to recover, and Chinese growth has been marked lower. Inflation, which was assumed to be sticky and above target in many regions, was moved higher for the US. We assume inflation will moderate in the latter part of our three-year projection period in developed economies. Central banks, except the Bank of Japan, are still expected to cut rates further, despite sticky inflation. While lower rates should support economic and earnings growth, the impact will vary across regions and unfold with differing time lags.

Global markets experienced a sharp sell-off starting in February and experienced some of the most volatile days in history during April. Global earnings growth has been resilient, driven mostly by the US, but under our High Conviction scenario more moderate growth is expected over the next three years, within which we might see quarters with negative earnings growth. US valuations were close to historical highs at the start of the year and are now much improved post-sell-off. Emerging markets (EMs), Europe, and Japan are trading at more attractive valuations, but weaker earnings growth is projected for these regions. Over the medium-term, global equities – including US, Europe and EMs – are rated neutral.

Cash remains attractive over the next three years, despite the assumed interest rate cuts. Bonds have been volatile and are currently trading at yields near our fair value assumptions. Government bonds are rated neutral, along with credit, which saw spreads widen in the recent sell-off.

The United Kingdom (UK) economy continues to grapple with sluggish growth and persistent inflation. The Bank of England faces a challenging task, but it is expected to cut rates further over the coming year, which should support consumers and businesses. UK government bonds have been volatile, with current yields above our fair value estimates; however, they remain rated neutral. Credit spreads appear fair, and corporate bonds are also rated neutral. UK equities remain attractive from a valuation standpoint, though the earnings outlook is weak. Overall, medium-term expected returns carry a neutral outlook.

The chart below shows the three-year expected return versus the historical standard deviation of each asset class, based on our High Conviction scenario.

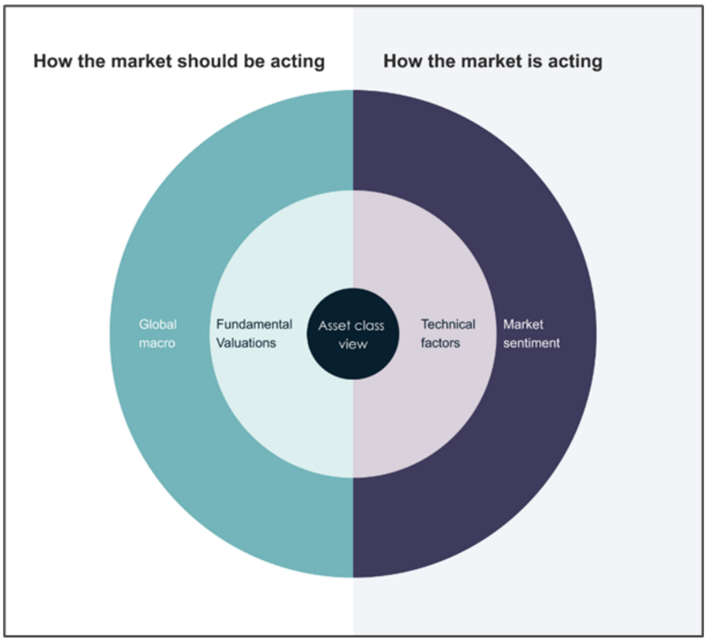


NEAR-TERM ASSET CLASS VIEWS

Our investment process is anchored by a High Conviction macroeconomic scenario and the corresponding expected returns for asset classes. This foundation helps us form expectations about how markets should behave. However, we are keenly aware that short-term market behaviour frequently deviates from these expectations. We have long recognised that medium-term, valuation-based signals are often poor guidance for short-term asset performance.

To address this, we've developed a range of tools and indicators to enhance our short-term analysis. These include a close examination of market dynamics, cross-asset correlations, and currency and commodity trends, and several other technical factors. These insights help us adapt our views and make more informed short-term decisions.

The diagram below gives a visual representation of how these two parts of the process play into each other.



In addition to our top-down analysis, we integrate the bottom-up insights provided by our analysts. Their detailed research on individual companies and sectors plays a crucial role in shaping our overall views. When bottom-up analysis reveals fundamentals that diverge from market signals – positive or negative – we take this into account in refining our positioning. This dynamic approach allows us to balance macroeconomic factors with granular insights, ensuring our investment decisions reflect both the broader market environment and underlying characteristics of individual assets.

The following asset classes have a different short-term signal to the medium-term fundamental valuation or expected return signals:

- US credit has a neutral signal over the medium-term, but has moved to below neutral over the short-term as spreads can widen further in the current uncertain environment.
- Japanese equities have an above neutral medium-term signal, but the short-term signal is kept neutral in line with global equities with heightened volatility and correlation across markets.
- Gold is trading close to our model's fair value and the model is giving a below neutral signal over the medium-term; over the short-term it is kept at neutral with various macro and geopolitical factors still in gold's favour.

Our latest asset class views are summarised below.

Asset class (base currency)	Below neutral	Neutral	Above neutral
US Cash		Asset class view	
UK Cash			Asset class view
US Bonds		Asset class view	
UK Bonds		Asset class view	
Global Equity		Asset class view	
UK Equity		Asset class view	
Hedge Funds		Asset class view	
Global Property		Asset class view	

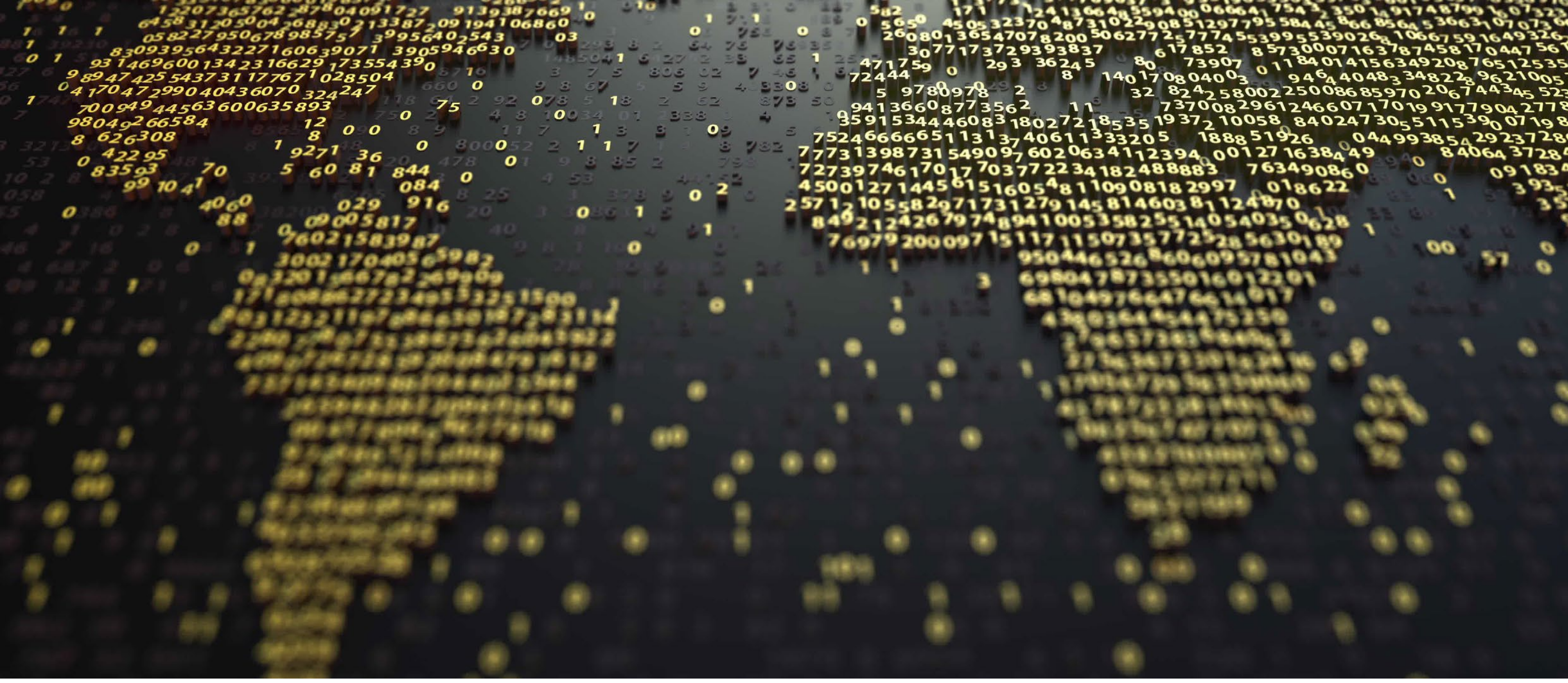
US$ Fixed Income	Below neutral	Neutral	Above neutral
Short duration		Asset class view	
Treasuries		Asset class view	
Corporate bonds	Asset class view	Medium-term valuation signal	
High yield bonds	Asset class view	Medium-term valuation signal	
EM USD bonds	Asset class view		

Equity regions (base currency)	Below neutral	Neutral	Above neutral
US		Asset class view	
Eurozone		Asset class view	
Japan		Asset class view	Medium-term valuation signal
Emerging markets		Asset class view	

Currencies & commodities	Below neutral	Neutral	Above neutral
US Dollar (DXY)		Asset class view	
British Pound / USD		Asset class view	
Gold (USD)	Medium-term valuation signal	Asset class view	
Oil (USD)		Asset class view	
Copper (USD)		Asset class view	

Asset class view (Short-term signal)

Medium-term valuation signal (if different from asset class view)



THE CHINESE ECONOMY: IMPORTANT GREEN SHOOTS EMERGING, BUT CHALLENGES AND RISKS ABOUND

YOLANDA NAUDÉ
Investment Strategist and Portfolio Manager

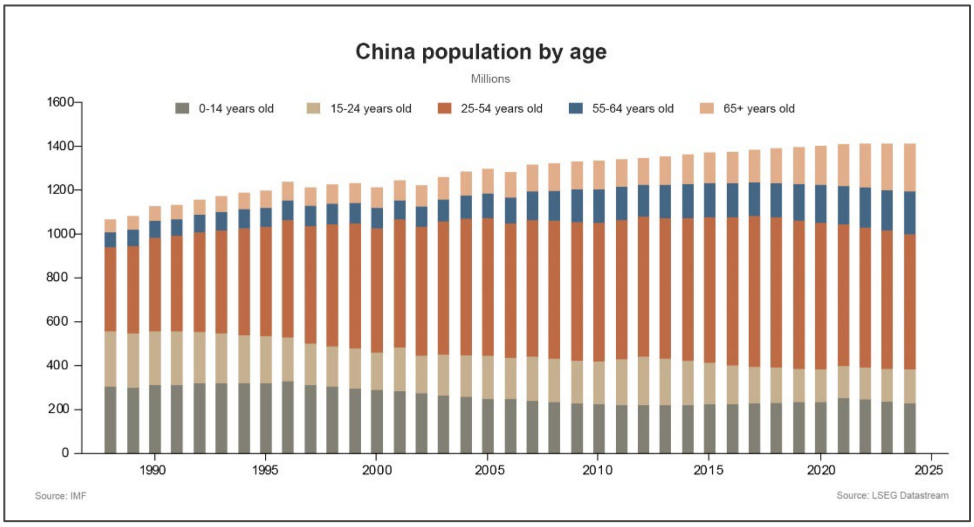
Over the last 30 years, the Chinese economy has experienced phenomenal growth, becoming the world's manufacturing powerhouse, and lifting itself into the position of the world's second largest economy. However, more recently, it has started to stutter, and Chinese authorities are struggling to make the necessary structural changes to keep it on a sustainable growth track.

Most prominent structural economic headwinds

During the great financial crisis of 2008 and 2009, China introduced a massive stimulus package to support its economy. At the time, it relied heavily on debt to boost fixed asset investment spending, particularly in infrastructure and in the real estate sector. This inflated the debt of local governments - through which the infrastructure spend is typically channeled in China - and created overcapacity in the steel and property sectors.

At the same time, in 2010, China's demographic landscape also started to change. Its "demographic dividend" which has been one of its primary sources of inexpensive labour and rapid economic growth, via cheap manufacturing which boosted exports to the rest of the world, slowly disappeared as the Chinese working-age population peaked, see Figure 1.

Figure 1



As a result of China's chronic over-investment in infrastructure and in the property sector, its economic structure never transitioned in line with other emerging economies where consumption expenditure's contribution to economic growth typically grows over time at the expense of the primary sector, like agriculture for example. Instead, to this day, the Chinese economy remains over-reliant on infrastructure and other capital investment spending, while household consumption remains a sub-optimal sector in terms of its contribution to overall economic activity and growth, see Table 1.

Table 1

	Household Consumption as % of the size of the economy (C)	Government Consumption as % of the size of the economy (I)	Capital Investment as % of the size of the economy (G)	Exports of goods and services as % of the size of the economy (X)	Imports of goods and services as % of the size of the economy (Z)	Size of the economy = C + I + G + (X – Z)
The USA	68%	14%	22%	11%	15%	100%
Japan	54%	22%	27%	22%	25%	100%
Germany	53%	22%	24%	44%	43%	100%
India	60%	10%	33%	21%	24%	100%
South Korea	49%	19%	32%	44%	44%	100%
South Africa	64%	20%	16%	33%	33%	100%
China	39%	16%	43%	19%	17%	100%

Source: theglobaleconomy.com

According to policy makers in Beijing, however, this is about to change. But will it?

Key cyclical economic challenges

Roughly 60% of Chinese household assets are directly linked to the property market. Five years of property market slump and equity market weakness have hit household wealth and confidence and have suppressed consumer spending, see Figure 2. With demand under pressure, while authorities kept almost exclusively stimulating the supply side of the economy, persistently low inflation, and ultimately deflation (falling prices) were natural consequences of this policy orientation, see Figure 3.

Figure 2

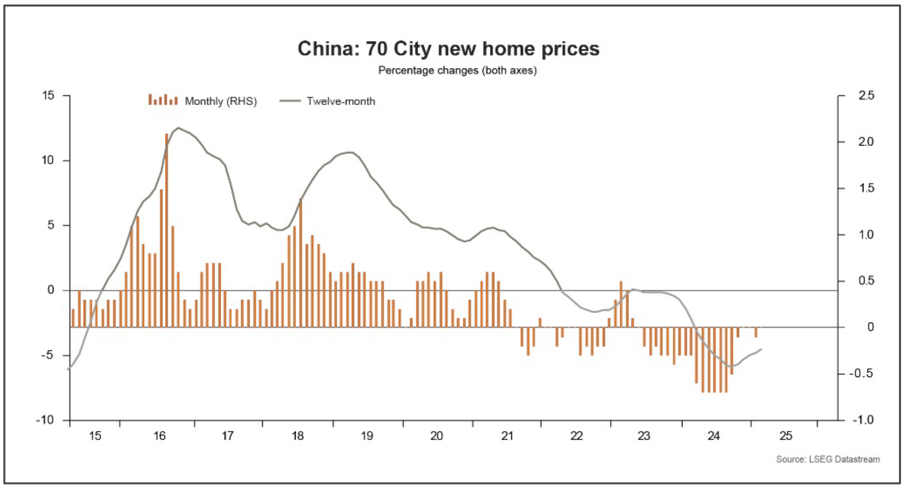
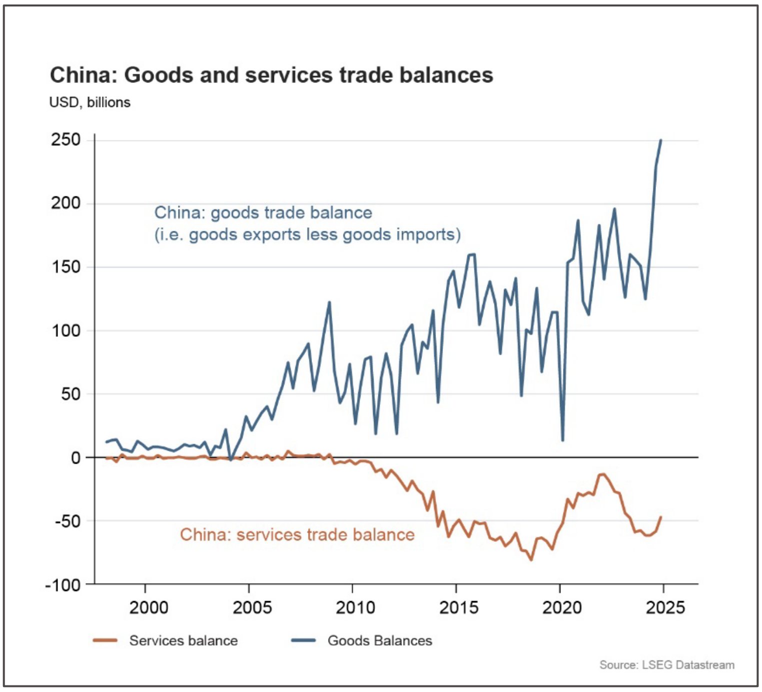


Figure 3

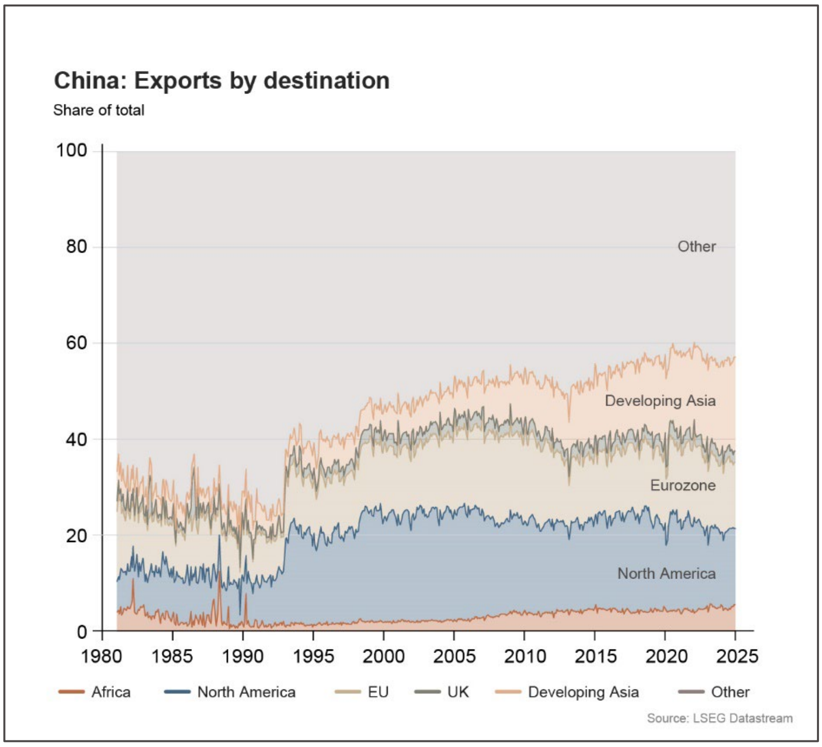
Exports and fixed asset investment spending have carried the economy in recent years, but the Trump Administration's aggressive trade policy brings major trade uncertainty into 2025 and beyond, see Figure 4.

Figure 4



For China, trade with the United States (US) is as important as trade with Europe, or with its Asian neighbours, see Figure 5. Although China's exports to the US only constitute 3% of the size of its own economy, major disruptions to trade flows could have significant consequences for Chinese growth during this structural and cyclical slowdown phase. In early April, President Trump announced a further 34% tariff on all Chinese imports into the US, before hiking it numerous times to an effective total of 145% at the time of writing. Initial analysis suggests that these tariff increases could supress Chinese economic growth by 1% to 2% in the next year.

Figure 5



As trade headwinds grow, China realises it needs to do more to boost domestic consumption to ensure its economy becomes less reliant on exports. This, however, is a very slow process. As such, Beijing seems to be getting more forceful and direct in its approach to this matter.

Policy action taken thus far

In September 2024, China announced its “Three Arrow” economic stimulus approach which focused on monetary policy, property market stimulus and explicit equity market support.

1. In terms of monetary policy, short term interest rates were reduced, reserve ratio requirements of mid-size and large banks were cut, and Beijing initiated a further capital injection into the top six state-owned banks to provide more liquidity for lending. In our view, this was a positive deviation from the Chinese central bank’s typical cautious approach.
2. Property sector stimulus at the time included a nationwide cut in the downpayment/deposit for the purchasing of second homes from 25% to 15%. Policy makers also announced a program for property destocking whereby Chinese local governments and local state-owned entities (SOEs) could identify unsold property projects which they wanted to buy as part of the destocking program to convert into social housing. Central government would support this initiative via increased lending.
3. As part of this round of stimulus, explicit equity market support included a new C¥500 billion swap facility for qualified insurance companies, asset management firms, and securities companies to buy stocks, while a C¥300 billion relending facility was also made available for listed companies to do share buybacks.

At the time we were of the view that the September 2024 announced stimulus measures were perhaps sufficient for China to reach its growth target for 2024, but it was not the “bazooka” stimulus that the world was hoping it would be.

In Peregrine Wealth Investment Management, we were of the opinion that aggressive stimulus would probably likely only be triggered if and when there is:

- Widespread labour market pressure, with the urban unemployment rate rising north of 6% or 7% versus a government target of 5.5%.
- A major credit event that threatens internal financial stability.
- A big external shock, like a huge tariff hike on all imported goods from China to the US, for example.

The “Three Arrow” stimulus measures were desperately needed to stabilise China’s economic growth, but we felt at the time that China’s central government needed to do more. The central government, we believe, is in a financially sound position, which can allow it to issue central government bonds to accelerate the housing destocking, and to support household income, and consumption.

In December 2024, during the Politburo meeting as well as during the Central Economic Work Conference later that month, policy makers announced their commitment to strengthen “extraordinary counter-cyclical adjustments” to stimulate growth and undertook to implement more proactive fiscal policies and to apply moderately loose monetary policy as opposed to the People’s Bank of China’s standard “prudent” monetary policy approach. Importantly, during December 2024 the boosting of domestic demand was moved up to the top of China’s priority task list.

While it is still early days, the positive impact on the economy of the December 2024 stimulus has been limited thus far.

In March this year, China announced its “Special Action Plan for Boosting Consumption” which included the following eight-point action plan:

1. Actions to promote the increase of income of urban and rural residents.
2. Supporting actions to ensure consumption capacity including consideration of a childcare subsidy and financial aid, raising student subsidies, and fully implementing the personal pension system.
3. Actions to improve the quality of services consumption including promoting ice and snow tourism, expanding the scope of unilateral visa-free countries, actively developing anti-aging tourism and a focus on the potential of the silver consumer market, like economic activities, products and services tailored to the needs and preferences of the country’s growing aging population, typically for those aged 60 and older.
4. Bulk consumption support, which refers to an expansion of the existing consumer trade-in and subsidy program.
5. Improvement of the quality of services and the creation of more Chinese services company brands, which includes the promotion of digital consumption, high-quality e-commerce and new products such as smart wearables, brain-computer interfaces, and autonomous driving vehicles, to list a few.
6. Promote the notion of safe consumption which encompasses the implementation of an annual paid leave system for employees and the commitment from policy makers that the working hours of workers shall not be extended in violation of the law.

7. The reduction of consumption restrictions including to clean-up and rectify market access barriers and the creation of a stable, fair, transparent and predictable market environment.
8. Improve the coordination and implementation of economic support policies, including fiscal, tax, industrial, investment and other policies, for example.

In our view, none of the announced policy support measures since the third quarter of 2024 on their own are sufficient to meaningfully lift economic growth in China. However, the cumulative effect has started to produce some welcome green shoots in various parts of the economy in early 2025.

The general lack of business and consumer confidence seems to have ebbed, consumers appear to have a bit more capacity and a greater willingness to consume and to invest, and there were early signs of a turnaround in China's real estate climate indicator in the first quarter of 2025. We are also witnessing at least a stabilisation of the housing market and in some cases, even an improvement of property-related activities off very depressed levels. Forward-looking indicators like the money, credit and fiscal impulses are still depressed but there are tentative signs that economic momentum may be turning a bit more positive.

Market reaction to the stimulus

Chinese government bond yields, which usually have a stronger reaction when bond investors get a sniff of the possibility of stronger growth and higher inflation, remain rock-bottom, suggesting that bond investors remain concerned about growth and deflation and that they are skeptical about the likelihood that the fresh stimulus will lift growth meaningfully.

In contrast, Chinese equities experienced a strong rebound in the second half of 2024 and into early 2025 on the back of the fresh round of economic stimulus announced in September last year, and following the announcement of DeepSeek artificial intelligence (AI) model's breakthrough which provided a solid catalyst for a rally in Chinese technology shares. China has also been benefiting recently from a recovery in emerging market equities which have been supported by the weaker US dollar.

2 April 2025

But…

All of this changed on 2 April 2025, the US's so called "Liberation Day", which marked the day the Trump administration announced its tariff structures on the rest of the world. The announcement sent shockwaves through markets across the globe. An initial additional 34% tariff on all Chinese imports into the US were announced, which effectively brought total tariffs on Chinese imports to more than 60% at that stage.

China almost immediately retaliated with an announcement of a 34% tariff on all US imports while also placing export curbs on key rare earth minerals and adding more US companies to the Chinese "unreliable entities" list. President Trump then retaliated with 64% tariffs and increased that, two days later, to 125%. At the time of writing, the US' import tariff on most Chinese goods has sky-rocketed to 145%.

Chinese equity markets fell in tandem with global markets during the sell-off and are still significantly lower than their recent highs despite the strong market rally in early April on the back of the Trump administration's announcement of a 90-day pause on all reciprocal tariffs except on China, see Figure 6 and Figure 7.

Figure 6

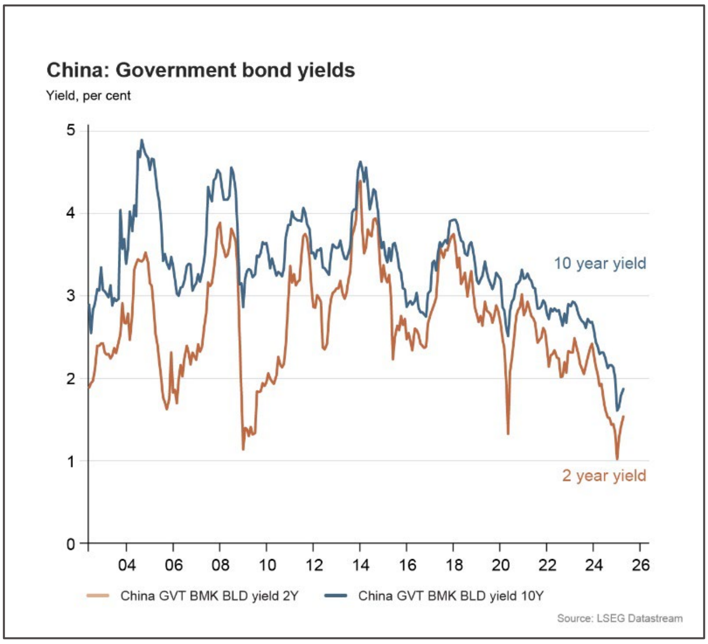


Figure 7

What may lie ahead for the Chinese economy?

The US-China trade war opens the door for bilateral trade negotiations with the US. If these are successful then the April tariff announcements could be viewed as the probable ceiling to tariffs, from where tariff rates could possibly decline. However, at the time of writing, the two nations have not yet embarked on any formal trade negotiations.

For the next 12 to 18 months the outlook for the Chinese economy depends heavily on a balance between President Trump's tariffs and further Chinese stimulus. As things stand now, we are of the opinion that China would probably struggle to achieve its ambitious 5% real economic growth target for 2025 unless further targeted stimulus is announced soon.

At this stage, given the current policy stance, we are anticipating a further cyclical slowdown within the greater structural slowdown for the Chinese economy. As context, the International Monetary Fund, in November last year, released a paper which noted that without reforms, meaning no restructuring away from investment towards consumption and without a productivity boost for example, China's growth rate would decline towards less than 4% per annum over the next five years. If, however, its reforms, like SOE reforms to increase productivity, rebalancing the economy towards consumption, and labour market reform are successful, then China could achieve growth of around 4.5% by 2030.

A lot is at stake, and we believe China needs to tread carefully in its relationship with the US.

How is our global emerging market equity fund positioned regarding China?

Despite its reduced weight in the MSCI Emerging Market (equity) Index from 36% four years ago to the current 28% weight, China remains a core component of the emerging market equity universe, and a big driver of index returns over time.

On the back of the stimulus and tech-induced sharp recovery in Chinese equity since the third quarter of 2024, its expected return outlook has deteriorated to a point where our internal proprietary valuation work suggests an overweight to China versus benchmark within the emerging market equity universe is no longer warranted. As such, our Peregrine Emerging Market Equity Fund currently has a neutral position in China versus the fund's MSCI Emerging Market benchmark.

We will keep you updated on any changes to this outlook.