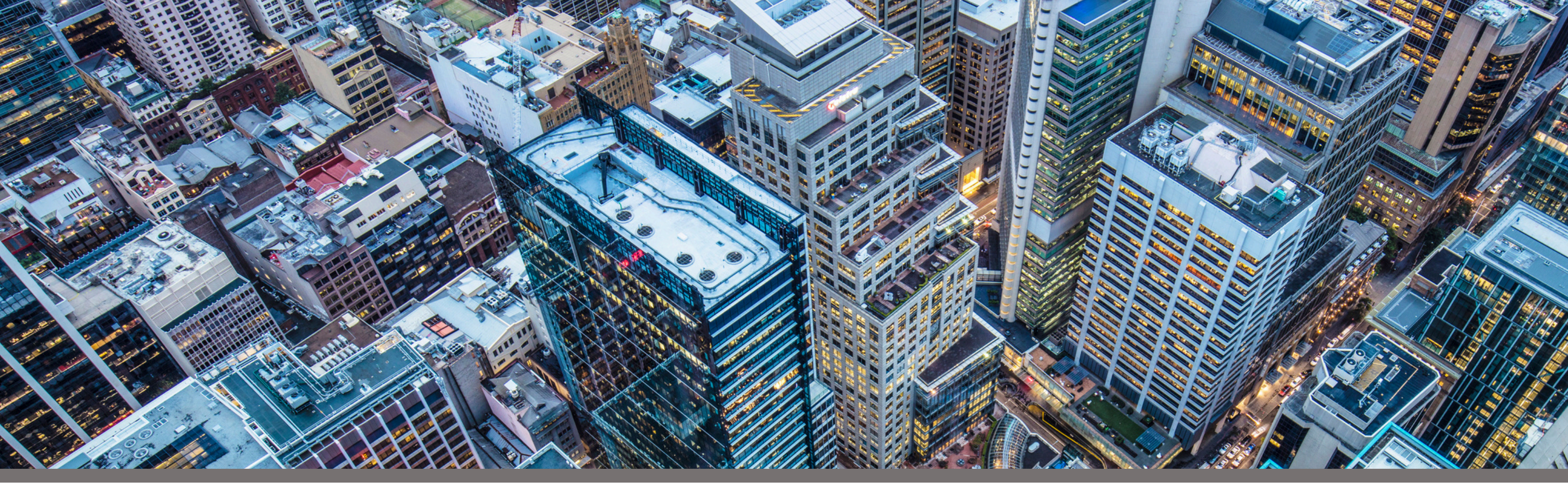

FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	**80+**	**10+** COUNTRIES	**US$1.1** BILLION	**US$35.9** BILLION

ICM Monthly Outlook

APRIL 2025

Market Review

Liberation Day has usurped all that went before it this year. Bloomberg's Jon Authors summed up Trump Tantrum Day perfectly by quoting U.S. Tennis player John McEnroe's famous outburst: "You cannot be serious." Since the 2nd April, financial markets have endured a few chaotic days, with some extreme volatility. Month to date, the S&P 500 is down 5.9%, having recovered from negative 11.8% on the 9th April. Year to date, the S&P 500 is down c.10%. Year to date, the tech-heavy NASDAQ is down 15.5%. The maximum drawdown for the S&P 500 index was 18.9% on April 9th, 48 days after its high on February 19, 2025. The 10-year U.S. Treasury yield increased to 4.45% on April 11th, up from 4.02% on April 3rd. (More later.)

Tariffs

Tariffs aren't new. Since forever, tariffs have been popular but economically destructive in the medium to long term. We have seen this before. Quickly consider the Smoot-Hawley Tariff Act of 1930. In the late 1920s, U.S. agriculture was in crisis. Rising agricultural production globally caused prices to fall. As prices collapsed, heavily indebted U.S. farmers couldn't make ends meet. Congressmen Reed Smoot (Senator, Utah) and Willis Hawley (Representative, Oregon) proposed a bill to raise tariffs on agricultural imports to protect U.S. farmers. However, the notion of tariffs quickly caught on, becoming a political free-for-all, with amendment after amendment added to the bill as an array of industries jumped on the bandwagon of lobbying for protection. What began as targeted support for agriculture mushroomed into the most comprehensive tariff increase in U.S. history (until Trump Tantrum Day). President Herbert Hoover signed the bill into law in June 1930, raising tariffs on over 20,000 goods. The U.S.'s main trading partners, including Canada, Britain, France, and Germany, retaliated swiftly. Between 1929 and 1934, world trade fell by roughly 60%, igniting a global economic downturn. Countries that retaliated experienced sharp declines in industrial output and employment. The feedback loop of falling trade, collapsing prices, and rising unemployment became a global phenomenon (in a bad way). In 1932, almost immediately after his election, Franklin D. Roosevelt (FDR) began unwinding the tariffs. At the time, FDR said that tariffs that were meant to protect U.S. jobs had, in fact, accelerated job losses in export-dependent sectors like autos, manufacturing, and agriculture. Sound familiar?

President Trump's long obsession with tariffs

For President Trump, tariffs are far more than policy; they are an economic philosophy. Since the 1980s, President Trump has argued that America was being "ripped off" by trading partners, particularly Japan, which at the time was running a trade surplus with the United States. President Trump considers trade deficits as the root cause of the loss of manufacturing jobs in the U.S. and sees them as hollowing out U.S. industry. What Trump's populist and jaundiced view fails to talk about is that the trade deficit in manufacturing is only one element in the overall balance of trade. President Trump chooses not to highlight sectors where the U.S. has enormous surpluses. The U.S. dominates global trade in services, like software, media, and financial services. Companies like Microsoft, Apple, and Oracle sell software and cloud services globally. These companies are often less visible, but hugely valuable in trade terms. Platforms like Netflix and Disney+ collect subscription fees from millions of international users for digital exports of U.S. content. U.S. banks like JPMorgan, Goldman Sachs, and AIG provide investment banking, asset management, and insurance services to global clients.

Services are harder to measure and often underreported, but they're structurally growing and geopolitically important. The U.S. consistently runs a surplus in services, a surplus which can and is used to buy goods. Furthermore, the U.S. consistently runs a surplus in investment income, too, a surplus which is also used to purchase goods. U.S. multinationals like Apple, Coca-Cola, and Pfizer own foreign subsidiaries that manufacture, distribute, and sell goods abroad. These assets generate profits for their U.S. parent companies. President Trump knows all this but carries on regardless to gain political goodwill at home. It appeals to large swathes of his voter base.

Liberation Day
On the 2nd April, the U.S. imposed an incremental 34% tariff on China, resulting in an effective tariff rate of 54% on Chinese goods after April 9th, after you include the 20% tariff that pre-dated April 2nd. The U.K. got 10%. Europe got 20% and Japan got 24%.

China is the U.S.'s key trading partner, so let's focus on them.

China immediately retaliated with a matching 34%, which annoyed President Trump, who increased China's effective tariff rate to 84% on April 8th. China followed suit, 84% on the morning of the 9th April. The tit-for-tat continued on 9th April, when President Trump increased China's effective tariff to 125%[1] from 84%, while simultaneously suspending tariffs at 10% for all other nations, 75 of whom had purportedly contacted the U.S. to negotiate by then.

On April 10th, China retaliated again to 125% and stopped because they believe there is no market for U.S. goods in China at the current prices. (Bad for the First Buddy and Tesla.) Menacingly, China said it'll fight to the end. President Trump continues to play hardball with China, pushing for unassailable deals.

Ultimately, President Trump will have to come to his senses. While President Trump will be able to push around smaller countries that topped the list of tariff victims on April 2nd, like Cambodia or Sri Lanka, the last thing President Trump can contemplate is decoupling from China, jeopardising decades of economic collaboration. And while President Trump's endgame isn't perfectly clear, we still expect he will row back. There'll only be losers in the unlikely event of an all-out trade war. President Trump will frame even the slightest concession from China as a big win.

Capitulation Day
We feel confident saying that President Trump will row back due to his reaction to the unruly market for U.S. Treasuries on April 9th. That day, President Trump was forced to capitulate by pausing his preposterous tariffs for 90 days, on their first day in existence. It was a loss of confidence by bondholders that forced President Trump to capitulate. Falling Treasury prices could have precipitated a much more severe market sell-off than what we have seen already, not dissimilar to what happened in the U.K. during Liz Truss's short-lived premiership.

We did warn. In January, we said the bond market was a leviathan, and probably best not to aggravate it. Again, in February, we suggested that the markets would keep President Trump honest if he stepped out of line, and that is precisely what is happening still. It took only one day of rising long-end yields to force President Trump to pause. On the 9th April, the 30-year yield rose to over 5%, having been as low as 4.3% on the 4th April. There is speculation that China sold U.S. Treasuries in retaliation, knowing that would drive up yields and threaten the unwind of highly levered trades in U.S. Treasuries, setting off a chain reaction that would have been extremely painful for the global economy.

The U.S. government cannot afford a significantly higher cost of funds. In the next twelve months, the U.S. Treasury needs to refinance c.USD 9 trillion in bonds[2]. The weighted average interest rate on the USD 9 trillion bonds is c.2.6% today. To roll this debt today, the U.S. Treasury would need to pay a minimum of c.3.8% at the prevailing interest rates, thereby increasing the U.S. government's expenses by c.USD 108 billion, equivalent to 12% of the government's Defence budget, or 33% of the government's Veteran's affairs budget.

The Chinese have a heck of a negotiating tactic if they started to sell U.S. Treasuries to increase the U.S. cost of borrowing. But that would not come without a cost to the Chinese either, and therefore unlikely at this juncture. China would likely need to sell at a loss and erode confidence in an asset it owns trillions of.

As it stands, a 10% baseline tariff remains with all trading partners (give or take a few exceptions), except China, which still gets 125%. Of course, there are some exceptions. Tech-friend oligarchs get a pass. For the time being, Apple iPhones are exempt. Apple ships approximately 50 million iPhones to the U.S. per year.

U.S. Treasury Secretary

In our January 2025 letter, you may remember that we wrote about how encouraged we were by President Trump's appointment of Mr. Bessent as Treasury Secretary, given his vast experience in financial markets and common sense. We saw the merit in Mr. Bessent's "3 - 3 - 3" plan, albeit we did not like the potential environmental impact of the U.S. producing more hydrocarbons.

Now, we *nearly* feel sorry for Mr. Bessent. President Trump has pulled the rug from under his plan, at least in the short term. Since Liberation Day, Mr. Bessent has been fighting a rearguard action to reassure investors that the U.S. is not facing a further stock market or bond market crash, higher inflation, higher unemployment, and a possible recession.

Secretary Bessent is asking other nations not to panic or retaliate. Normal diplomacy has gone out the window, and Mr. Bessent cannot be surprised that other trading nations are aghast at President Trump's heavy-handed negotiating tactics. We cannot imagine Mr. Bessent's challenge convincing President Trump to pause when yields started spiking on April 9th. All the time, Mr. Bessent is working for a boss who likes to shoot the messenger, with a long list of cabinet members and senior officials whom he fired or walked away from his first Presidency because they disagreed or delivered bad news.

Outlook

Uncertain U.S. policy around tariffs has whipped up strong economic headwinds globally. Investors, politicians, policymakers, and the general public prefer certainty and will think twice in future dealings with the U.S. Can we ever go back to the way it was? We still believe the bond market will rein in President Trump's domineering behaviour. However, in the meantime, economic growth will slow as countries and companies reconsider their relationship with the U.S. while Trump is President. And one day, President Trump will be replaced.

We welcome the fact that President Trump temporarily suspended the bulk of tariffs for 90 days while the U.S. negotiates with its trading partners. It was a reprieve, notwithstanding Trump's entrenched trade war against China, which will have consequences for Europe and the rest of the world. Furthermore, the pause will not expunge the resentment toward President Trump and the realisation that he cannot be trusted. We mentioned earlier that President Trump is seeking unassailable deals. For example, U.S. Commerce Secretary Howard Lutnick proposed that the European Union sever ties with China in exchange for tariff relief from the U.S. Other proposals include lowering food safety standards and committing to purchase more U.S. shale gas. These proposals seriously undermine the President's and the U.S.' reputation. The U.S. could quickly encounter a stalemate in negotiations with many countries. Anecdotally, travellers to the U.S. have fallen sharply since President Trump's election, and this trend will likely worsen if the economic impact of the tariffs takes hold.

U.S. consumers are nervous, with sentiment declining sharply. There has been a negative wealth impact from all these shenanigans, whether that's in direct investments or pension pots. U.S. retailers are flagging that they must pass on tariffs to consumers, even if it's just the 10% tariff. U.S. consumers can expect to pay higher prices very soon, starting with perishable produce. The U.S. imports approximately 60% of its fruit and 30% of its vegetables. The 10% baseline tariff will still apply to fruit, veg, and all non-Chinese goods. It was impossible to stock fresh food, unlike non-perishable items, which were stockpiled in anticipation of President Trump's tariffs.

U.S. Federal Reserve Bank

The Trump Tantrum leaves the U.S. Federal Reserve Bank between a rock and a hard place. The Federal Reserve Bank might very soon need to contend with rising unemployment and rising inflation. On one hand, Chairman Powell has managed investors' expectations for no immediate rate cuts due to the inflationary nature of the Trump tariffs, but on the other hand, a spokesperson for the Federal Reserve Bank said they remain ready to intervene if market conditions become disorderly. By disorderly, we believe the spokesperson means rising unemployment. President Trump has been encouraging the Federal Reserve Bank to cut interest rates, as well he might. Chairman Powell will get a lot of earbashing between now and the end of his Chairmanship.

The U.S. dollar weakened even though yields rose. Since January, the value of the U.S. dollar has decreased by 9.5% against major world currencies. The value of the U.S. dollar has fallen approximately 4% compared to the Euro since the start of April.

The longer this tariff war drags on, the more insular economies will become. For example, Europe will become much more domestically focused, which could also increase prices, possibly leading to inflation and higher interest rates, contrary to the ECB's current tilt toward cutting policy rates. That said, a potential slowdown in global GDP will cut consumption, forcing down prices.

Emerging markets, particularly those in Southeast Asia, will likely experience a growth shock. The pause has undoubtedly calmed the situation, and in the short term, we expect monetary and fiscal stimulus to stabilise many emerging markets. Emerging markets don't need this trade war to last longer than President Trump.

Conclusion

Emerging markets, particularly those in Southeast Asia, will likely experience a growth shock. The pause has undoubtedly calmed the situation, and in the short term, we expect monetary and fiscal stimulus to stabilise many emerging markets. Emerging markets don't need this trade war to last longer than President Trump.

So, we are here again: financial markets are licking their wounds after a state of panic. But this crisis will pass, just like the GFC, the Sovereign debt crisis and COVID. Like so many others, we felt President Trump was bluffing and in control of the situation. However, President Trump lost control when the U.S. Treasury market turned deeply negative, a sign that he had bitten off more than he could chew and was about to inflict more harm on the U.S. than his intended targets.

We believe the market is past the point of peak uncertainty and peak volatility. We expect to hear more negotiations and deals between the U.S. and its trading partners until it culminates in a great deal with China. Going forward, we expect President Trump to adopt a more orthodox approach to dealing with his global peers.

China has vociferously retaliated and won't be bullied. Chinese Premier Xi has better cards than President Trump because China's population is more obedient and subservient than the U.S.'

It remains to be seen if President Trump's abrupt stop will be enough to calm markets or if he has started a conflagration that he cannot extinguish.

ICM remains committed to our investment process, focusing on facts, ignoring speculation, and taking an investment time horizon that looks beyond the current intraday moves. History doesn't repeat, but it often rhymes. ICM remains nimble and capable of quickly moving the risk dial as we see events unfold. ICM's bond funds had their most lucrative periods in the aftermath of crises. ICM's bond funds have largely derisked to avoid any significant drawdown while we await further developments. ICM is happy to have higher-than-normal cash and short-term investments in highly liquid assets, ready to deploy when we have greater certainty.

And finally, sadly

President Trump is pushing the boundaries as widely as possible to see how much he can get away with, not just economically. Consider his domestic policies. He demanded that Harvard abolish its diversity, equity, and inclusion policy. Consider his foreign policies. He was remarkably nonchalant toward Russia's latest ballistic missile strike on Ukraine. His circle of mistrust now includes freezing out unsupportive media outlets from the Whitehouse press corps. So far, President Trump's apparatchik has retrofitted any setback, U-turn, and defeat into a victory of unrivalled cunning. The scary version is that President Trump wants to emulate some of his strongman peers.

And finally, happily

A big shout-out to Rory McIlroy for winning the Masters at Augusta at last, despite his best efforts to throw it away, again. Love Rory. I hope President Trump doesn't tariff European golfers' handicaps next year, starting them at +10 on day one.

It's been a wild few weeks.

I hope everyone had a lovely break over Easter.

Kind regards,
Conor Spencer

18 April, 2025

Source Data: ICM, Bloomberg as of 31 March, 2025.

[1] https://www.whitehouse.gov/presidential-actions/2025/04/modifying-reciprocal-tariff-rates-to-reflect-trading-partner-retaliation-and-alignment/
[2] The U.S. government's total stock of debt is USD 37 trillion.

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