Rothschild & Co
Asset Management

Trade war: what impact on R-co Valor?

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> *BE COOL! Everything is going to work out well*
>
> Donald Trump

Humility is a cardinal virtue for any portfolio manager: acknowledging that you know nothing, especially when you think you do. This is all the more pertinent in a world where economic realities shift with a single tweet from Donald Trump. The economists at Goldman Sachs will remember this well: on 9 April, early in the morning, they officially forecasted a US recession in 2025… only to retract their call 73 minutes (and one tweet) later. In such an uncertain context, we wanted to analyze the recent macroeconomic events and their impact on the positioning of R-co Valor.

Equity markets are finally waking up to the uncertainty surrounding Donald Trump's disruptive policies

Late last year, investors cheered at the election of Donald Trump, driving US and global equity indices to new record highs. The risk associated with tariffs – a central element of the "*Make America Great Again*" program – was swiftly brushed aside; it was a mere negotiation tactic, a masterclass by the author of *The Art of the Deal*, specifically designed to force trading partners to cut favorable deals.

It wasn't until March and the numerous U-turns by the new US administration that investors began to understand the risks that lay ahead. Before any official announcements, the uncertainty surrounding potential customs tariffs –their level and scope – was paralyzing corporate investment decisions.

On 2 April, Donald Trump finally unveiled the details of his long-awaited plan, promising the American people a "*Liberation Day*". The US president announced minimum tariffs of 10%, supplemented by case-by-case "reciprocal" tariffs. Imports from the European Union would face an additional 20% levy, 34% on Chinese imports, 26% on India, 24% on Japan, 31% on Switzerland...

Financial markets did not feel "liberated" at all: the S&P 500 fell by over 12% in just four sessions[2], a record rarely matched, except during the Covid-19 outbreak or the 2008 financial crisis. This risk-off view spread to "safer" asset classes: last week, the US 10-year Treasury yield rose (despite the increased risk of recession), while the US dollar depreciated against a basket of global currencies, defying conventional economic theories.

Indeed, the tariffs designed by the Trump administration would represent a major shock to the US economy – potentially bringing protectionism to its highest level since the 1930s and to the global economy, as numerous countries begin to question the reliability of the US as a commercial, financial, and military partner.

Everything changed in a heartbeat. On Wednesday 9 April, the scheduled date for tariff implementation, Donald Trump announced a 90-day "pause" on the "reciprocal" tariffs, while maintaining the 10% minimum rate. However, China—the only country to have openly retaliated against the US measures of 2 April—would be subject to an additional 125% customs duty (bringing the effective tariff to 145%). Markets welcomed the decision with relief, pushing the S&P 500 up by 9.5%, its best single-day performance since 2008[2].

Customs tariffs will negatively affect the global economy, though the extent remains uncertain

It is difficult to pinpoint the exact reason behind the White House's rhetorical shift. The US President unabashedly justified his choice by citing the efforts of "over 75 countries" to negotiate new trade agreements.. Investors, however, tend to believe in the timely intervention from Treasury Secretary Scott Bessent (a former hedge fund manager), who had raised concerns about the rapid rise in Treasury yields. Optimists even believe this may be the long-awaited materialization of the *Trump Put*, the level of equity market decline at which Donald Trump feels compelled to intervene. We would also highlight the rapid deterioration in opinion polls, with only 43% in favor of Donald Trump (down from 48% at the end of March)[3].

The euphoria was short-lived: the S&P 500 dropped by 1.8% over the last two days of this seemingly endless week[2]. Investors are now fully aware of the short-term macroeconomic uncertainties weighing on business leaders' ability to plan ahead and, by extension, on the global economy.

It is unfortunately too early to establish a new macroeconomic scenario, which will depend, among other things, on trade negotiations between the US administration and its key partners, namely China and the European Union. In our de facto central scenario, the latest tariffs proposal (145% on China and 10% on the rest of the world, excluding Mexico and Canada) would still represent a significant shock to the US economy. Custom duties must indeed be viewed as a tax on households or corporate earnings. Economists will therefore need to lower their US GDP growth targets: the current consensus forecasts growth of 1.8% in 2025[4] (down from 2.3% at the end of February).

Tariffs will obviously have an impact on the United States' trading partners. For the time being, the European Union does not appear to be Washington's top priority, and the implementation of ambitious investment plans (notably in Germany) could help to offset the economic slowdown. China's situation is not as dire as some might think. For the past 20 years, the Chinese government has supported domestic economic growth: exports represented less than 20% of China's GDP in 2024 (down from a peak of 36% in 2006)[5], of which around 3% went to the United States[6]. In addition, the government is finalising an economic recovery plan, bringing together most of its political and economic decision-makers in several extraordinary sessions over the past week.

R-co Valor seizes the opportunity offered by the turmoil to increase its historically low equity allocation

R-co Valor entered this crisis with a historically low equity exposure (70% as of 31/03/2025[7]). Our investment team had flagged an insufficient equity risk premium in the US, combined with overly optimistic earnings growth expectations and investors sleepwalking into the new uncertain political regime. As a result, our differentiated geographic and sector allocation –steering clear of the overly consensual US tech sector – allowed the fund to post a resilient performance (+0.2%) during the first quarter[8].

Throughout these turbulent days, the investment team decided to increase the portfolio's equity exposure, which now stands at 78.7%, having deployed around €800 million of assets towards equity markets in the first ten days of April[9]. This move should be seen as a partial neutralization of our cautious stance, acknowledging that one of the risks we had identified materialized in a spectacular fashion. For reference, R-co Valor's equity allocation has averaged 83% since 2014[10].

Firstly, we chose to raise the equity allocation in a disciplined manner, through three uniform purchasing programs (i.e. preserving the overall portfolio architecture) as indices reached predetermined levels.

In addition, we made numerous tactical reinforcements of existing holdings.Even before *Liberation Day*, our analyst team had assessed the potential impact of the tariffs on the companies in the portfolio (US revenue exposure, supply chain alignment, pricing power, etc.), enabling us to take the necessary decisions quickly. We strengthened our positions in stocks where investors' concerns about the introduction of tariffs seemed disproportionate (examples include: LVMH, AstraZeneca, CATL, Thermo Fisher…). We also focused on companies that were unfairly caught up in the stock market panic, but fundamentally unaffected by tariffs (such as MercadoLibre, Grab, Canadian Pacific, Ivanhoe Mines, Meta Platforms…).

The situation should remain turbulent. Over the weekend, the White House announced that electronic goods – a major component of Chinese imports– would be exempted from the “reciprocal” tariffs. The financial press had little time to celebrate this positive signal of a swift and orderly de-escalation. Just twenty-four hours later, Commerce Secretary Howard Lutnick clarified that the exemption would be temporary, allowing time to finalise sector-specific tariffs… Markets are likely to remain volatile over the next 90 days, as the potential outcomes of this crisis could be extreme: a global recession, a major inflationary shock, a challenge to the supremacy of the dollar, a sharp rise in US sovereign yields… or perhaps, simply, a return to square one. Our investment team will need to remain calm and make full use of the flexibility of the Valor strategy to stay the course in these uncertain but fascinating times.

Completed writing on 14 April 2025

Learn more about the fund(s)

R-co Valor

Check this document on our website

[1] Post by Donald Trump on Truth Social, 09/04/2025: “BE COOL! Everything is going to work out well”
[2] Source: Bloomberg, 11/04/2025.
[3] Source: YouGov, poll dated 05/04/2025.
[4] Source: Bloomberg, 11/04/2025.
[5] Source: World Bank, April 2025.
[6] Source: General Administration of Customs of the People’s Republic of China, April 2025.
[7] Source: Rothschild & Co Asset Management, 31/03/2025.
[8] Source: Rothschild & Co Asset Management, 31/03/2025. Part C EUR.
[9] Source: Rothschild & Co Asset Management, 11/04/2025.
[10] Source: Rothschild & Co Asset Management, 31/03/2025. Average allocation at the end of each month.

Recommended investment period: 5 years

R-co Valor SRI 4/7

The synthetic risk indicator shows the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you hold the product for 5 years. The real risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 4 out of 7, which is a medium risk class and mainly reflects a discretionary management policy on equity markets and fixed-income products. In other words, the potential losses linked to the product's future results are at an average level, and if market conditions were to deteriorate, our ability to pay you could be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment. The geographical and sector allocations and distributions are not fixed and may change over time, within the limits of the SICAV's prospectus. The figures cited relate to past months. Past performance is not a reliable indicator of future performance and is not consistent over time. Performance is calculated in euros and net of reinvested dividends. The information contained in this document does not constitute investment advice, tax advice, a recommendation, or investment advice from Rothschild & Co Asset Management.

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