

## Life After the “Liberation Day” Tariff Announcement



INVESTMENT INSIGHT | INTERNATIONAL EQUITY TEAM | April 2025

Publishing an outlook in early April 2025 is a hostage to fortune, given the current fluid and fast-moving environment driven by the substantial uncertainties around the path of U.S. economic policy and its effects, not to mention the volatility of equity prices.

We do not attempt to make any kind of definitive prediction about economic outcomes right now, but instead analyse what kind of outcomes are discounted in equity prices. We would argue that even after the circa 10% fall in the first two days after the “Liberation Day” tariff announcements,<sup>1</sup> the markets are implicitly assuming that much of the tariff hikes will soon be reversed, before they have significant impacts on the U.S. economy.

Looking at the state of the markets before the “Liberation Day” tariff announcement, there had been much sound and fury about the slide in equity indices in the first quarter (Q1), but the MSCI World Index finished down just 2%, and the S&P 500 only fell 4%.<sup>2</sup> The Q1 drawdown was focussed on the Tech+ sectors: Information Technology itself, Communication Services, dominated by Alphabet and Meta, and the Consumer Discretionary sector housing Amazon and Tesla. The other eight sectors in the MSCI World Index were all up in the quarter, with a lack of significant performance differential between the defensive and cyclical sectors. We would argue this implies the market was not pricing in major concerns about an economic slowdown, outside some select pockets of Consumer Discretionary such as airlines, hotels and the tariff-hit autos industry. This sanguine attitude was also shown in the market earnings forecasts for 2025 and 2026, which stayed roughly flat in Q1, admittedly helped at the margin by the weakening dollar, still booking in double-digit earnings growth for 2025 and 2026.

This resilience of the market in Q1, ex-Magnificent Seven, suggests investors were not yet focusing on the potential negative headwinds from tariffs but rather had continued to focus on the potential benefits to corporate profitability of the new administration policies, such as deregulation. As a

<sup>1</sup> Source: widely reported globally

<sup>2</sup> Source: FactSet, as at 31 March 2025

AUTHOR



**BRUNO PAULSON**  
*Managing Director*

“At the time of writing, given our skew towards services rather than goods, we believe most of our companies should face limited direct impact from U.S. tariffs, while local manufacturing, high gross margins, pricing power and recurring revenues should help dampen the extent of the impact for the goods producers.”

result, the “Liberation Day” tariff announcement came as a shock, sending first equity markets and then bond markets into a spin. The two retreats, firstly on the supposedly reciprocal tariffs in the face of the bond markets, and then on Chinese tech in the face of special interest pleading, have been greeted with relief, with the equity market clawing back most of the April losses.

Despite the relaxations, the net effect has still been a massive increase in the U.S. tariff rate, from around 3% to perhaps 15%.<sup>3</sup> At the time of writing (15 April 2025) there is a 10% tariff rate almost across the board, along with 25% on the non-USMCA products from Mexico and Canada,<sup>4</sup> and 100%+ on Chinese products barring consumer electronics. This is a significant tax on U.S. consumers, which will slow growth and increase inflation, as it stands. There is also massive uncertainty about the future path, with tariffs on pharmaceuticals and semiconductors allegedly in the works, only a 90 day hold on the supposedly reciprocal tariffs, and an open trade war with China. Along with the mechanical demand and supply shock for the U.S. from the tariff hikes, there is very likely to be a severe effect on both consumer and business confidence, which were already trending down in March in anticipation of the imminent tariff announcement. This is on top of potential U.S. growth headwinds from restricting immigration (and thus labour force growth) and DOGE’s<sup>5</sup> government spending cuts.

Overall, the announced tariffs, even partly withdrawn, are likely to be a major headwind for growth and earnings, and will potentially also raise the equity risk premium, given the volatile nature of the policy rollout. Looking at the targets of the tariffs, major exporters to the U.S. also face significant challenges, more likely to be a deflationary than an inflationary shock, which may allow more room for monetary stimulus.

At the time of writing, equity markets are only slightly down for the month, and look far from cheap by historic standards, with the MSCI World Index on around 17x forward earnings and the S&P 500 still at 20x.<sup>6</sup> These multiples are on earnings still assumed to be rising double-digit in each of the next two years, a pace we worried about even before the announcement. Both the multiple and

earnings will be very vulnerable if the U.S. economy slows to sub-1% growth, though the weakening of the U.S. dollar will offer some support. This implies the market seems to be pricing that there will be sharp reductions in the tariff rates over the next few months, presumably on the back of successful negotiations with the likes of the European Union (EU) and China, and that there will be minimal damage in the meantime. While not impossible, this scenario seems far from a given, particularly after China’s retaliation.

As we explained in our recent Global Equity Observer article—The New Tariff Landscape—in terms of the potential impact of tariffs across our global portfolios, we would split them between the direct effects and the more uncertain indirect effects from any retaliation or macroeconomic impacts. At the time of writing, given that our global portfolios are skewed towards services rather than goods, we believe most of our companies should face limited direct impact from these U.S. tariffs, while local manufacturing, high gross margins, pricing power and recurring revenues should help dampen the extent of the impact for the goods producers.

It is possible that retaliation may spread beyond the goods sector, perhaps even with sanctions placed on U.S. technology giants by the EU, but again our companies’ high gross margins, pricing power and recurring revenues should help mitigate the impacts on our global portfolios. These same factors should also help the portfolios in the case that the tariffs trigger a significant slowdown and/or recession, as demonstrated by our flagship global strategy which has a history of earnings’ robustness in tough economic times. In addition, we have limited exposure to the “Trough of Disillusionment” risk in AI. While our global portfolios own two of the Magnificent Seven, Microsoft and Alphabet, where the adoption of GenAI should provide an extra driver of growth on top of the ongoing transition to cloud, it does not own the other five. Being in the “not owning” bucket has been a significant tailwind to strong relative performance so far this year. If markets are indeed not reflecting a sustained high tariff environment and the sharp economic slowdown it implies, then “not owning” could continue to be a positive as the year progresses.

<sup>3</sup> Source: 15% estimate of average effective tariff rate is the average of 11.5% from The Tax Foundation think tank and 18.5% from the Yale Budget Lab. Both estimates are after substitution effects.

<sup>4</sup> USMCA stands for the United States-Mexico-Canada Agreement, which replaced the North American Free Trade Agreement in 2020.

<sup>5</sup> U.S. Department of Government Efficiency

<sup>6</sup> Source: FactSet, as at 15 April 2025

## 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 **Magnificent Seven** technology companies are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla.

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.

### 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, D02 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), Gørrissen Federspiel, Axel Towers, Axeltorv 2, 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.