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Chris Burrell's
Market View Blog

Trump Tariffs: Is Australia insulated?

The two key questions which this blog considers concern the black swan event around the Trump tariffs.

The first question is to consider whether Trump will pivot from the announcements on "liberation day". The second question is whether Australia will be fairly insulated from the US tariff wars.

On 17 April 2025 Capital Economics from New York issued a piece saying, "Scaled back tariffs are not an existential threat." This conclusion assumes the deferral of the tariffs for 90 days becomes permanent so the base rate of 10% applies to all countries other than China.

On 12 April Trump folded his first hand from "liberation day" by extending the 90 day deferral, but doubled down on the second hand being higher tariffs for China. Trump was able to withstand the stock market falls, but once weakness spread to the bond market and long yields rose, he had to back off.

Capital Economics view is that the Australian economy is fairly insulated from US tariff wars. And so this reduces the case for the Reserve Bank of Australia (RBA) to cut rates.

Capital Economics go on to expect a muted recovery in US equities to 5500 by the end of 2025 and 6000 by the end of 2026. These indicate only a modest US recovery from current levels. Importantly this comes with a caveat, as follows:

"But the range of plausible outcomes has widened and risks are to the downside. Given that US equities still look relatively highly valued, further US policy uncertainty may reduce the attractiveness of US assets further and lead to renewed debt drawdowns"

A contrasting view was published in The Australian by Hugh Shelby-Smith of Talaria Capital over the Easter period:

“You’ve got to have as your base case a recession. It will start in the US and it’s hard to see it not having a knock on effect globally”.

So in terms of the first question, Trump again pivoted over the Easter period. On the Thursday before Easter, he made great bluster about firing the President of the Federal Reserve, Jerome Powell. The markets reacted in the US negatively, with all the major indices falling around 2.5%. Immediately after Easter, he folded that hand and said that he would not be firing Mr. Powell. The US markets recovered all of the losses from the day before Easter. So the central case from Capital Economics is that Trump will pivot on the tariffs and the effect will be more benign than the liberation day announcements. The major damage is to the US itself as data from the first Trump presidency shows that prices increased by almost exactly the amount of the tariffs, and so the US consumer bears the cost of this policy. It is that fact which should ultimately result in some pivot, after negotiated gains in terms of unjustifiable tariffs by other nations, including the EU, UK and China and the on shoring of a number of manufacturing businesses. Once this 90-day period has shown progress on those fronts, there is a plausible case for Trump to back down on the high levels of tariffs and to revert to the 10% tariff across most countries. On this scenario, some selective buying of international stocks and exchange traded funds is worth considering as this event may be more akin to the COVID-19 correction than to the global financial crisis. Were high tariffs to continue past the 90 day June/July period, for other than China, then a more negative scenario should be considered.

Ex US price/earnings ratios (P/Es) are materially lower than US P/Es. This is resulting in some rotation from US to European equities.

In terms of Australia, we do not export large amounts of goods to the USA. Our major trading partner is China and so the key issue is to what extent China will be negatively impacted in terms of its GDP. In the previous blog, China’s GDP is only 20% represented by exports and of that the USA is 15% i.e. 15% of 20% equals 3%. It is likely that China will stimulate sufficiently to carry it through this period, that it will send excess goods to all parts of the world, including Australia, which will reduce the margins of retailers, but provide consumers with cheap batteries and other Chinese goods. Australia will also benefit because beef exports from the US are currently closed, both due to the tariffs and the fact that beef abattoirs in the US are not currently certified to export to China.

Australia will also benefit in that CSL will export albumin from the new $800M plant at Broadmeadows in Victoria, replacing the current exports from CSL in the USA. Australian consumers may well pull back to an extent, but the level of spending by both parties in the May 3 federal election is such that it is difficult to see the Australian economy being materially adversely affected.

Indeed the IMF on April 22 downgraded economic growth in Australia from 2.1% to 1.6% for calendar 2025 and 2.1% in 2026. Inflation is revised up to 2.5% from 2%. Despite this hit, Australia is expected to remain one of the fastest growing major economies in the developed world this year and next.

In southeast Queensland, we have all of the construction for housing and the Olympic Games.

A more likely scenario is that profits are crimped in Australia by say 10% and there is a fall in high growth stocks, or at least the fall we have already witnessed in high growth stocks is sustained. These are markets for value and growth at reasonable price stocks.

The conclusion is that having built up some cash reserves in response to the chaos in Washington, some selected buying may well be appropriate both in Australia and overseas.

Happy investing

Chris :)

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