

Special Coverage: US tariffs: despite recent announcements, much uncertainty remains

Key takeaways

- ◆ The US has announced trade agreements with 69 countries, but only seven countries have established trade frameworks. The global baseline tariff for any imports into the US is set at 10%, with reciprocal rates ranging from 10% to 41% and a new 40% duty on transshipments.
- ◆ Uncertainty about trade has diminished, but several key deadlines remain, such as the 12 August deadline for a trade agreement between the US and China, and a slew of section 232 investigations that could mean elevated tariffs on sectors such as pharmaceuticals and semiconductors. While tariffs may slow growth and pressure margins, secular trends (including the technology revolution, reshoring of jobs and reindustrialisation), continue to support US economic resilience.
- ◆ We maintain our US equity overweight as earnings growth remains strong, while we tap into powerful long-term themes with our overweight in Technology, Communications and Industrials. We remain neutral overall on fixed income but continue to tactically add high quality bonds for income and stability, using an active management approach to find selective opportunities. As for the US dollar, we foresee a side-ways move, albeit with volatility due to the busy news flow and the tug-of-war between positive and negative forces.



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What happened?

- The US has announced trade agreements with 69 countries, but only seven countries have established trade frameworks. An additional 62 countries could face reciprocal tariffs or sector-based tariffs in the future. The global baseline tariff for any imports into the US is set at 10%.
- The new reciprocal tariff rates, ranging from 10% to 41% for the trading partners, are scheduled to be implemented on 7 August.
- Additionally, transshipments (goods rerouted through other countries), will be subject to an additional punitive duty of 40%. President Trump has also signed an executive order ending the de minimis status for low-value packages, which will take effect on 29 August.

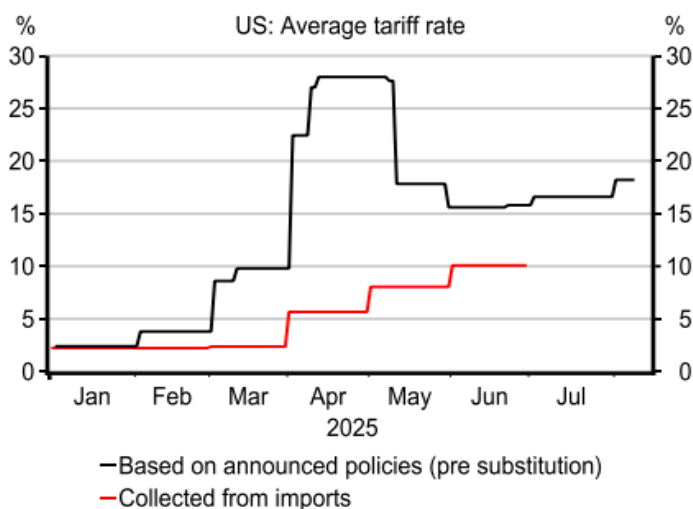
US and its major trading partners: Current vs. Liberation Day tariff rate

Market	Import share	New tariff rate	Liberation Day rate	New vs. Liberation Day
EU	18.7%	15%	30%	Lower
Mexico	15.5%	25%	25%	Same
China	13.4%	30%	Up to 145%	Lower
Canada	12.6%	35%	25%	Higher
Japan	4.5%	15%	24%	Lower

Source: White House, HSBC Private Bank and Premier Wealth as at 31 July 2025.

- Nearly two-thirds of US trade takes place with five trading partners: the EU, Mexico, China, Canada and Japan. Trade agreements have been signed with the EU and Japan. Negotiations with the remaining three have been extended, indicating that discussions are ongoing.
- Uncertainty surrounding US trade policy hasn't disappeared but has diminished somewhat. Clearly the extensions for China, Mexico and Canada will be key to determining the policy's success for the current administration.
- While trade tensions have eased, several key deadlines remain, such as the 12 August deadline for a trade agreement between the US and China, as well as a slew of section 232 investigations that could mean elevated tariffs on a range of sectors such as pharmaceuticals and semiconductors. As a result, global trade flows are likely to remain volatile in the coming months, making it harder to gauge how both the US and the rest of the world are coping with these elevated import taxes.
- The US economy is clearly experiencing cyclical slowing, but secular drivers sustained capital inflows suggest a recession is unlikely. The technology revolution, the near-reshoring of jobs and the reindustrialisation of the US are key among those themes.
- Lower consumer taxes and the sustained corporate tax at 21% continue to make the US an attractive option for foreign direct investment. The technology revolution, still in its early days, continues to provide productivity gains that should help US corporations maintain margins and continue to post healthy earnings gains.
- As of 1 August, 66% of the S&P 500 have reported earnings, with 82% beating expectations. The quarterly growth rate, which was expected to be 4.9% y-o-y at the beginning of the earnings season, now stands at 10.3% y-o-y. Moreover, the annual estimate for S&P earnings in 2025 is now projected at 9.9% y-o-y.

The effective tariff rate for the US is rising



Source: Macrobond, The Budget Lab, HSBC Global Investment Research as of 31 July 2025.

Note: Pre substitution assumes 2024 trade flows and is based on the announced tariff rates. Collected from imports shows US customs duties as a share of goods imports through June.

Investment implications

- The fundamentals supporting our overweight position on US equities haven't materially changed given the announcements on 1 August. The new tariff policy has set the stage for slower growth, tighter margins and slower earnings growth. However, we would argue that these factors have already been 'priced in' for US equities since Liberation Day. Upside surprises from the Liberation Day announcements suggest that we could continue to see upside surprises for US earnings in 2025.
- Structural themes remain powerful long-term drivers for US equity markets as the technology and AI revolution, the reindustrialisation of the US economy, and reshoring of key industries reinforce our constructive outlook for US equities. Policy clarity is improving, but volatility persists. The US economy should avoid recession, while earnings growth remains strong.
- Historically, tariffs have served to lower growth, marginally lift inflation and potentially reduce corporate profits. In addition, the US government is assuming these tariffs will lift government receipts, and Treasury Department data has so far supported this assumption. However, the gains in receipts will probably not make up for the increased deficit from the One Big Beautiful Bill Act. This suggests that either further spending cuts are yet to come, or fixed income markets should prepare for increased issuance, or both. If that were to happen, fixed income investors should prepare for continued volatility.
- We remain neutral overall on fixed income but continue to tactically add high quality bonds for income and stability, using an active management approach to find selective opportunities in higher yielding segments.
- As for the US dollar, we foresee a side-ways move, albeit with volatility due to the busy news flow and the tug-of-war between positive and negative forces.

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