FRONT-LOADED GROWTH, BACK-END RISK: NAVIGATING THE TARIFF TIMELINE

One must be wary of overestimating the resilience of the global economy. The complex interplay of tariffs and trade tensions has precipitated a notable phenomenon: the front-loading of activities, mostly in the manufacturing sector. This anticipatory behavior, driven by the uncertainty of future tariffs, has had a ripple effect, necessitating a thorough examination of current economic indicators.

Front-Loading in Manufacturing and Trade: The concept of front-loading is not merely a theoretical construct; it is a tangible reality evident in foreign trade data. For instance, Taiwan exports illustrate this phenomenon vividly. As concerns over sectoral tariffs on the technology sector escalate, a surge in export activities has been observed. Enterprises, motivated by the fear of imminent tariffs, have expedited their export processes to mitigate potential future losses. This preemptive behavior, while temporarily bolstering economic indicators, raises questions regarding the sustainability of such growth.

Economic Resilience Beyond Borders: Economic resilience is not confined to the U.S. alone; it extends to significant global players such as China. The first half of the year has showcased solid growth momentum in the Chinese economy. However, a more profound analysis reveals underlying vulnerabilities. The real estate sector, a substantial pillar of the Chinese economy, exhibits weak momentum. Moreover, as U.S. tariffs take effect, the export momentum that has underpinned much of China's growth could experience a significant deceleration.

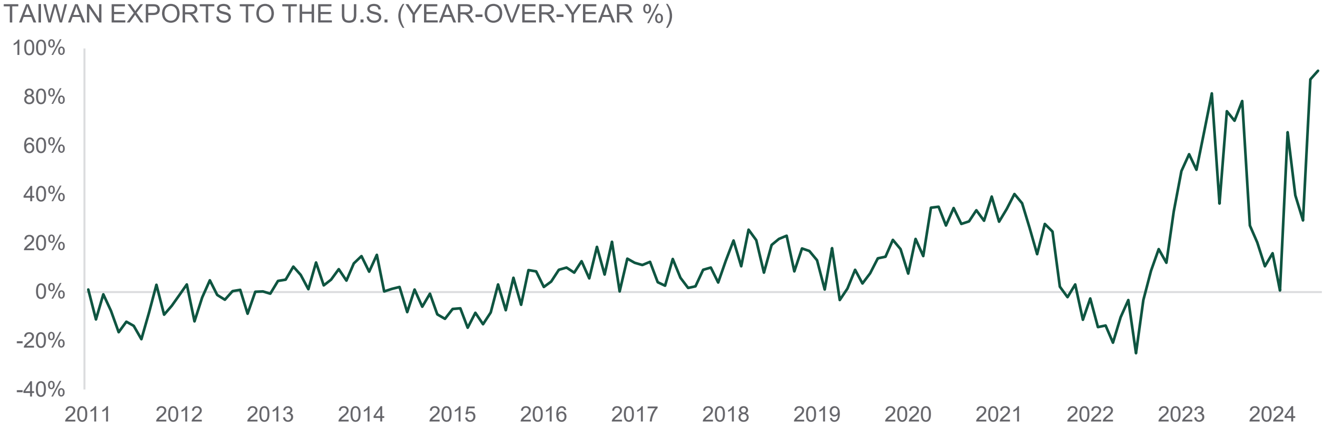
Deflationary Forces in China: Compounding the complexity is the specter of deflationary forces that could intensify in China. The dumping of goods, previously destined for the U.S. market, into alternative markets could exert downward pressure on prices. This need to find new markets for surplus production could lead to a deflationary spiral, further complicating China's economic landscape.

The Equity Market Paradox: In stark contrast to these cautionary narratives, the equity markets have been on an upward climb, led predominantly by technology stocks. This paradox of rising equity markets amidst economic uncertainty necessitates a nuanced understanding. The technology sector, buoyed by innovation and consumer demand, is not immune to the broader economic forces at play. Investors must remain vigilant and discerning, avoiding the allure of market exuberance.

Bond Markets Under Pressure: Meanwhile, bond markets have begun to come under renewed pressure. The latest shift in U.S. tariff rhetoric, marked by a more aggressive stance, has heightened volatility. With U.S. inflation rates hovering closer to 3%, the Federal Reserve is in a precarious position. The Fed's reluctance to cut rates is compounded by the recently passed U.S. fiscal package, which has amplified fiscal sustainability worries.

EXPORT BOOM

TAIWAN EXPORTS TO THE U.S. (YEAR-OVER-YEAR %)



Source: Northern Trust Asset Management, Bloomberg. Data from 12/31/2011 through 6/30/2025.

POSITIONING SCENARIOS

Reflation (20% probability)

Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

Soft Landing (40% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Supply Restraint (30% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (10% probability)

Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

DEFINITIONS

S&P 500 Index: The index, a gauge of the large-cap U.S. equity market, includes 500 companies that represent approximately 80% of the market capitalization of publicly traded U.S. equities.

ViewPoints reflects data as of 7/16/25.

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