

# Monthly Investment Insights

MARCH 2025

## TOPIC 1:

## Tariff 2.0: What's changed?

Beyond the noise surrounding tariffs lies a resilient United States (US) economy but the impact of tariffs may affect individual countries differently. The impact on inflation, however, may be more pronounced.



### What you can do

- As market volatility may stay heightened, diversify across various markets, and consider investments that are less susceptible to tariffs.
- US President Trump has laid out a wide range of tariff policies in what some have termed an opening negotiation tactic. Reciprocal tariffs on trade partners are likely, while countries like China, Canada and Mexico have already been singled out. Various goods may also face potential tariffs.
- It is estimated that the impact of some of these measures will nearly quadruple the average tariff rate on US goods imports, bringing the average tariff rate up to the highest level since World War II (Figure 1a).
- More broadly, these tariffs pose stagflation risks for the US economy via rising inflation and slowing economic growth. However, it must be noted that the full impact on growth and inflation could change as the scope and level of tariffs evolve.
- Unlike the first trade war in 2018-2019 when tariffs were more targeted, the wide scope of Tariff 2.0 may have a greater impact on inflation, potentially resulting in a 0.6% - 1.0% increase in US headline inflation.
- For the US economy, the impact of tariffs and trade tensions will likely be transmitted via weaker business sentiment and investment, weaker consumption, and lower US exports. The growth impact on the rest of the world will vary depending on their exposure to US trade, with the most vulnerable economies being Mexico, Canada, and Vietnam (Figure 1b).
- As volatility is likely, diversify across different markets and consider investments that are less susceptible to tariffs.

Figure 1a:

### Average tariff rate on US goods imports

Duties collected/value of total imports for consumption\* (%)

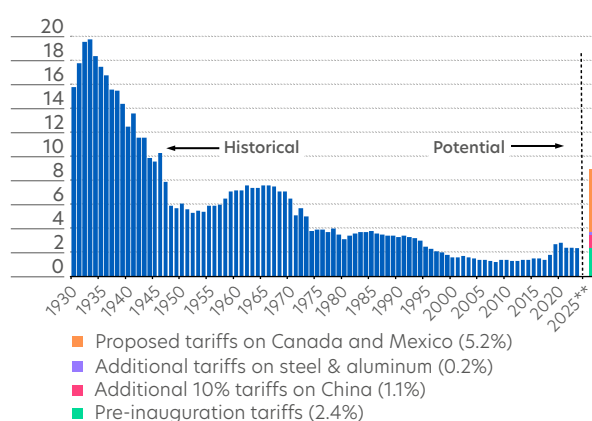
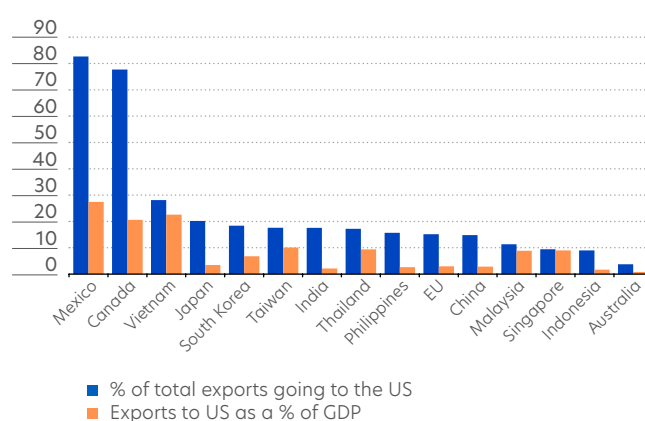


Figure 1b:

### Exposure to US trade

(Based on 2023 data) (%)



Source: Factset, United States International Trade Commission, US Department of Commerce, J.P. Morgan Asset Management. \*Imports for consumption: goods brought into an economy for direct use or sale in the domestic market. Includes all current official revisions for 2010-2020 as of July 2021. \*\*Data reflects available information as of 27 February 2025.



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## TOPIC 2:

# Disruption or acceleration for artificial intelligence?

Recent technological advancements have caused disruption in the artificial intelligence (AI) industry, and this could lead to a shift in the investing landscape.



### What you can do

- The key theme of AI remains intact, but new developments underscore the potential disruption to US mega-cap technology companies.
- Avoid concentration risks and diversify away from semiconductor and cloud computing firms to AI adopters like software companies.
- The AI industry faced a major upheaval when a new Large-Language Model (LLM) from China was released to the public and shocked everyone by offering comparable performance, but at a fraction of the computing cost. This triggered a significant sell-off in US technology stocks.
- The sell-off was highly concentrated in AI-related companies like semiconductor firms (Figure 2a). Other areas of the technology sector saw far less of a reaction.
- The powerful and yet low-priced LLM raised questions about the multi-billion capital investment outlays by big US technology firms. As with all emerging technology throughout history, advancement is both inevitable and rapid, leading to lower costs. This led investors to question the pricing power, revenue models, and stock valuations of those big US technology companies.
- While AI will remain a key theme for some time, the new development underscores the potential disruption to US technology companies, and the potential vulnerability of investor portfolios that are heavily concentrated in big-tech stocks. Though valuations of these mega-cap stocks have eased off their highs, they remain lofty as compared to other stocks (Figure 2b), and any downward revisions to revenue and profit expectations could leave investors exposed.
- Market leadership within the technology sector may shift away from the mega-cap stocks. Diversify away from semiconductor and cloud computing companies by taking a closer look at broader beneficiaries like AI adopters. This includes computing infrastructure firms and providers of AI applications like software companies.

Figure 2a:

### New AI developments affected semiconductor-related companies more

Indexed to 100 on 31/12/2022

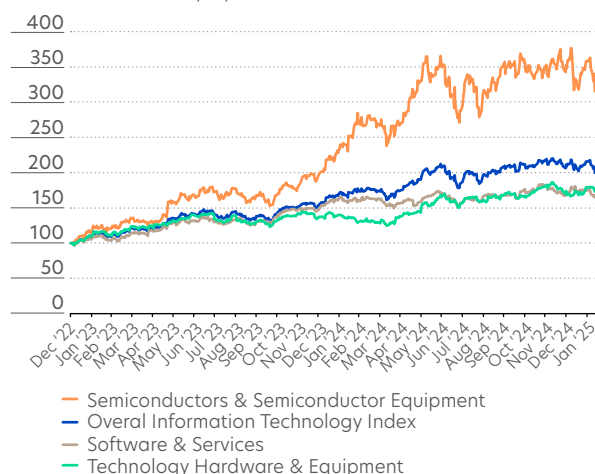
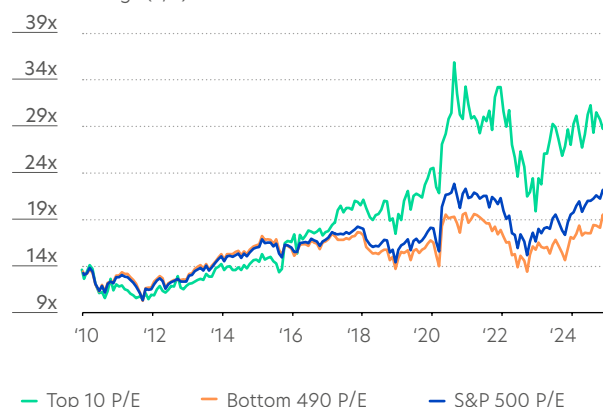


Figure 2b:

### US mega-cap stocks are still more expensive as compared to other stocks in the S&P 500

Price-earnings (P/E) ratio



Source: FactSet, S&P, J.P. Morgan Asset Management.



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## TOPIC 3:

# Round-up of 4Q 2024 US corporate earnings

Key takeaways indicate the enduring strength of US companies, and that earnings growth is no longer driven primarily by mega-cap companies.



### What you can do

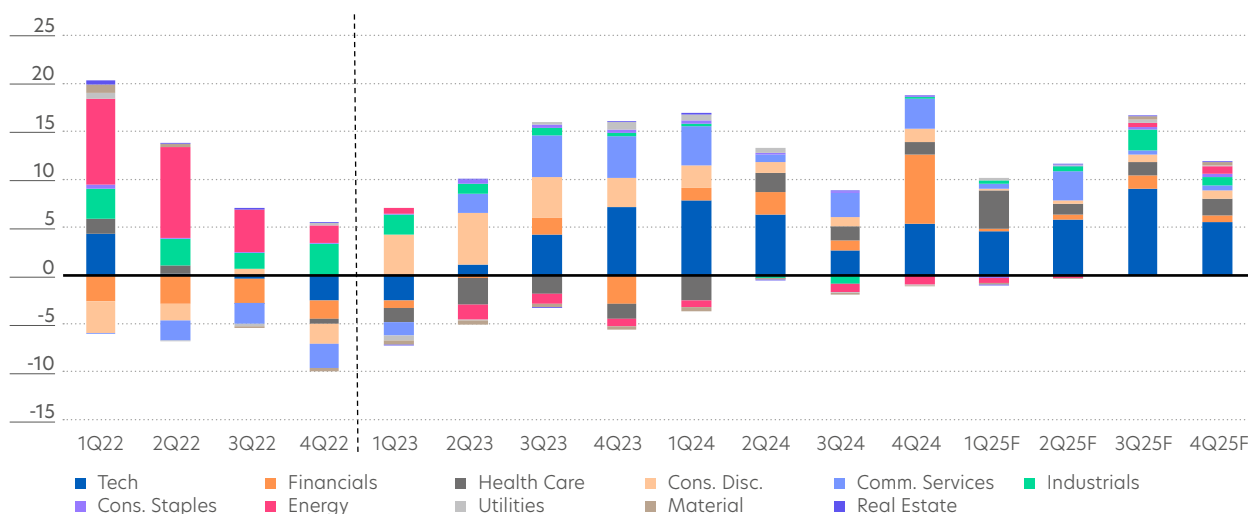
- Strong earnings growth will support the stock market, but returns are unlikely to be as strong as in 2023 and 2024.
- As earnings growth broadens beyond mega-cap technology companies, opportunities may arise in other sectors like financials.

- Since the start of 2023, the S&P 500 has rallied 55.1%, and made 58 new all-time highs. But with valuations stretched, particularly for the AI mega-cap stocks, the latest earnings season serves as a useful pulse check for investors.
- With almost all companies having reported, the full-year 2024 earnings per share (EPS) growth currently stands at 9.9%. Encouragingly, 76% of companies have announced stronger than expected earnings, slightly above the five-year average of 75%.
- Earnings growth is also no longer driven primarily by mega-cap companies. While AI companies delivered strong growth, companies in other sectors drove the bulk of S&P 500 earnings growth in the fourth quarter (Figure 3). Notably, EPS growth for the financial sector came in at 57.8% due to an increase in investment banking fees. This trend could continue amid renewed initial public offering (IPO) and mergers and acquisitions (M&A) activity, potential industry deregulation and higher net interest margins.
- Investors are optimistic about 2025, projecting S&P 500 EPS growth at 12.0% y/y. Strong earnings growth will support stock market returns in the long run although US policy uncertainties could cause market volatility in the short-term.
- The outlook for global stock markets remains positive although returns are unlikely to be as strong as 2023 and 2024. Market leadership may broaden beyond mega-cap technology stocks, and opportunities may arise in other sectors like financials.

Figure 3:

## S&P 500 sector pro-forma\* EPS growth

%-pt. contribution to %y/y EPS growth



Source: FactSet, J.P. Morgan Asset Management. Forecasts reflect analyst expectations.

\*Pro-forma EPS growth excludes one-off costs that may distort the true profitability picture.



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