Long-Term Thinking in a Changing World

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What has happened?

On April 2nd, 2025, US President Donald Trump announced a sweeping set of new tariffs aimed at correcting what he describes as decades of unfair trade practices. The tariffs are substantial and far-reaching, affecting major trading partners. South Africa will face a 30% tariff on goods exported to the US, China is being hit with a 34% tariff, and European Union countries will face a 20% levy. In a particularly aggressive move, certain strategic sectors in China are expected to be subject to tariffs as high as 104%.

Tariffs are essentially taxes imposed on imported goods. They are calculated based on the value of the imports at the border, not the final retail price. While intended to shield domestic industries from foreign competition, tariffs often backfire by raising costs for consumers and disrupting established global supply chains. In this case, the sudden and steep nature of these tariffs marks a fundamental shift in global trade policy, reversing years of progress towards more free trade and integration.

The United States is the world's largest importer, accounting for roughly 13% of global imports. When it erects trade barriers on this scale, the effects ripple across economies and markets worldwide. Tariffs of this magnitude will inevitably result in higher prices for US consumers, who will now pay more for everyday goods, from electronics to apparel and food. Many US-based companies that rely on global inputs are also expected to face higher costs, which could erode profit margins and lead to a slowdown in business investment.

How has the market responded

The financial markets have reacted swiftly and severely to the announcement. Equities sold off globally as investors recalibrated their expectations for future corporate earnings.

- **The US S&P 500 index has dropped by 12.89% over the last month.**
- **The European Stoxx 600 index has dropped by 13.36% over the last month.**
- **The SA JSE Top 40 index has dropped by 6.33% over the last month.**

The rand has come under renewed pressure, weakening beyond the R19/$ level. As one of the most liquid and heavily traded emerging market currencies, the rand tends to bear the brunt of global risk aversion. This currency depreciation provides a partial cushion to local investors with offshore exposure, softening the blow of declining global asset prices. However, it also raises concerns about imported inflation and interest rate stability.

That said, a 10% decline in the dollar oil price has offered some relief to South Africa's inflation outlook. Despite the weaker currency, the drop in oil prices has helped prevent a major deterioration in inflation expectations, at least for now.

Complicating matters is the growing uncertainty around South Africa's political landscape. Questions remain about the long-term stability and policy direction of the recently formed Government of National Unity (GNU), adding another layer of risk for investors and businesses alike.

How should you react?

Periods of heightened market turmoil like this often result in forced selling. Investors managing redemptions or needing to meet margin calls may be selling whatever is most liquid, not necessarily what they want to part with. This can push high-quality assets to trade at irrationally low prices, presenting opportunities for those with long-term conviction and liquidity.

For long-term investors, reacting emotionally to market moves is rarely the right approach. Selling after significant market declines simply locks in losses. While the headlines may be alarming and the short-term uncertainty high, it is important to stay focused on your long-term objectives and only make changes to your portfolio if your personal circumstances have changed – not because of market panic.

This environment will also create winners. Companies that can adapt quickly, shift supply chains, or produce competitively in domestic markets may gain market share and grow earnings despite the broader slowdown.

In the face of such uncertainty, **diversification remains the single most important defence.** No one can predict the future, especially in geopolitically charged times like these, but investors can control how they respond. A well-diversified portfolio across asset classes, regions, currencies, and strategies continues to be the most prudent approach.