

Special Coverage:

Tariff deadline pushed back to August 1, resulting in further uncertainty for global financial markets

Key takeaways

- ◆ President Trump has sent letters to multiple countries announcing higher tariffs from 1 August, while many others are still waiting to either receive letters or reach a trade deal. The US will now impose 25% tariffs on imports from Japan and South Korea if no agreement is found by the new deadline. Around a dozen other countries, including Malaysia, Kazakhstan, South Africa, and Myanmar, are also facing new tariffs ranging from 25% to 40%.
- ◆ The global market reaction is mixed. US stocks fell around -1% but the possibility for negotiations is putting some Asian markets in the green today. The JPY weakened but KRW retraced its initial weakness. The announcements come as investors are already watching rising US debt levels and higher long-term borrowing costs, so there's some mild pressure on bonds, though Fed rate cut expectations haven't materially moved on the news.
- ◆ The new tariffs could raise the risk of upward pressure on inflation while weighing on corporate profit margins. That said, much of the hit to 2025 earnings expectations has already been priced in, with very conservative earnings growth assumptions for Q2. In the short term, investors will clearly watch for new sector and country-specific headlines.



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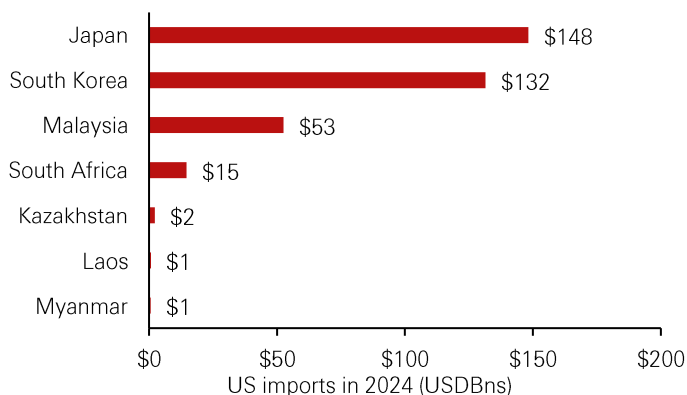
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What happened?

- President Trump has sent letters to multiple countries announcing that higher tariffs will be in effect, with the first two letters indicating a 25% tariff on Japan and South Korea, effective 1 August, citing persistent trade imbalances. These are very close to the "reciprocal" tariffs first introduced in April, but now with the 9 July deadline officially pushed out again.
- About 12 additional countries will receive letters this week, with tariffs ranging from 25–40% including Malaysia, Kazakhstan (25%), South Africa (30%) and Laos/Myanmar (40%).
- Amid all the uncertainty, the extension of the negotiating deadline is a positive. And the news that the EU hasn't received a letter but is rushing to get to a framework agreement this week is a plus too, given the importance of that trade relationship.
- Trump also warned that any retaliation could trigger additional tariff hikes, stating: "If for any reason you decide to raise your tariffs, then, whatever the number you choose to raise them by will be added."

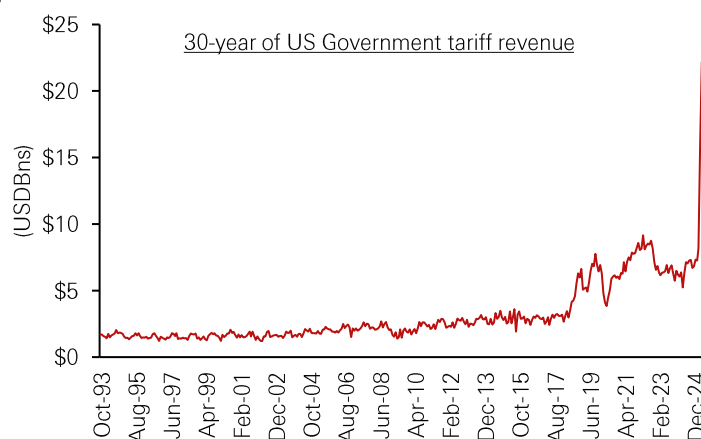
Japan was the 5th biggest source of US imports last year, South Korea was 7th



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 7 July 2025.

- Treasury Secretary Bessent emphasised that the letters aren't ultimatums but part of an open negotiation. He added that his team's "inbox was full last night" with last-minute offers and proposals, and multiple trade announcements are expected within the next 48 hours. The administration continues to stress that nations can avoid tariffs by shifting production into the US, though for many, meeting Trump's accelerated timeline remains politically and logistically challenging.
- These moves aim to ratchet up pressure on negotiating partners through clear timelines and pressure tactics. Bessent indicated a focus on 18 major trading relationships that make up 95% of the US trade deficit. The tariffs also come as investors worry about the nation's mounting debt and elevated borrowing costs following the latest USD3.4 trillion tax and spending package.

US Government revenue from tariffs was low and steady before President Trump



Source: Trading Economics, HSBC Private Bank and Premier Wealth as at 7 July 2025.

- EU officials criticised unilateral tariff threats, warning that persistent tensions could damage global trade but is still rushing to conclude a deal this week. Australia appears spared for now, avoiding escalation beyond its existing 10% baseline. Japan and South Korea responded cautiously, but domestic politics, including upcoming elections, could limit their room to negotiate quickly.
- Meanwhile, some US business leaders voiced concerns that the unpredictable on-and-off nature of tariffs makes routine planning for production, inventories and hiring extremely difficult. US stocks fell, with the S&P 500 and Nasdaq 100 both down about 1% intraday.
- The dollar strengthened to its highest level in over a week, especially against Asian and BRIC currencies; KRW, ZAR and JPY all fell more than 1% against the greenback before recovering somewhat. Japanese automakers dropped sharply as the country's major auto and steel exports face renewed tariffs but also managed to rebound a bit as markets hope for progress with the negotiations by 1 August.

Investment implications

- Fixed income is concerned about higher inflation due to higher tariffs and higher yields due to larger government borrowing. Yields are up across most of the Treasury curve today, but the move is mild. We continue to focus on tactical opportunities to acquire long-duration instruments with a solid yield.
- Equity markets' reaction is mixed, as the higher-than-expected tariffs for some countries are offset by the room for negotiations. Higher tariffs – if they stick - imply either higher inflation and a drag on consumers or compressed margins with reduced visibility on corporate profits.
- However, we note that after Liberation Day, the market consensus already had severely downgraded expectations for earnings in 2025, with forecasts for this year falling from 14% to 9% as of 3 July 2025. The expectations for the current Q2 earnings season are particularly conservative. As a result, we don't expect a further downgrade to corporate earnings expectations this year, but sector and country implications could manifest themselves over the next few weeks

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