Letter n°145

The United States one year after Trump's election (2)
Tariffs and the stock markets.

"Greed, for lack of a better word, is good," Michael Douglas in the film Wall Street.

Such is Trump's conviction, and he knows how to benefit from it personally, but for America's success, it is less obvious, as can be seen from the four points below:

From a political perspective, tariffs were for Trump the supreme weapon of his programme. A commercial weapon, a financial weapon, but also a geopolitical weapon to exert pressure on countries. The decision of the Supreme Court to invalidate a substantial part of these tariffs reaffirms the separation of powers, the primacy of the rule of law over arbitrariness, and halts the expansion of executive power at the expense of the legislative branch, as "Congress alone has the power to impose tariffs during peacetime," note the judges. This decision, beyond constituting a personal setback for Trump, is likely to have a major impact on the budget deficit and to hinder the financing of any measures aimed at increasing purchasing power before the midterm elections.

The Supreme Court targets tariffs considered reciprocal and not tariffs specific to sectors such as aluminium or steel. Several questions arise: what amount of compensation? what substitutes?

From a tariff perspective, Trump's policy has not been the catastrophe that was announced, as Trump has had to multiply retreats, exceptions, downward revisions of tariffs, and even abandonments. Nevertheless, tariffs were supposed to offset and allow for the elimination of income tax – this is unrealistic. Tariffs were meant to rebalance the trade balance; we are far from that, as the deficit worsened by 2% in 2025 to $1.24 trillion. Tariffs were supposed to reduce imports of goods; they increased to $3.438 trillion. The depreciation of the $ desired by Trump and his chief economist, Miran, was expected to allow strong export growth; nothing of the sort occurred.

From a geopolitical perspective, Trump has broken much and built little: breaking historic ties with allies – Canada and Europe – yet indispensable in the face of China's rise; built little, as we are far from the eight peace treaties he boasts about. Far from weakening Europe, which he detests, he has managed to wake it up. Domestically, the EU is accelerating the integration of capital markets, energy, and defence. Internationally, it has finalised an agreement with Mercosur, an agreement with India, and is expected to conclude with Australia, the Emirates, and the Philippines. The United Kingdom, neglected by the United States, has joined the Trans-Pacific agreement. Canada has moved closer to South Korea and China and wants to emancipate itself from the United States in its defence policy.

From a stock market perspective, the U.S. market experienced notable volatility, a sharp drop on April 2 during "Liberation Day," the day the tariff policy was announced, followed by a rebound and new records as the reversals accumulated. However, for the first time in several years, major foreign stock markets outperformed U.S. markets in 2025 and at the beginning of 2026.

Tariffs are far from delivering the expected benefits:

According to BCG, customs duties affect 65% of imports, compared with 13% at the beginning of 2025. In 2025, tariffs, averaging 17% on imports i.e. the highest level since 1932, generated $287 billion, three times more than in 2024. This remains a drop in the ocean compared with the $2 trillion in income tax revenues that Trump hoped to eliminate as a result.

Moreover, these tariffs have been borne 90% by American companies and American consumers and not, as announced by Trump, by foreign firms. It is therefore a disguised tax on Americans, and the Supreme Court did not accept it.

Finally, the trade deficit, far from being reduced as anticipated by Trump, worsened by 2% in 2025. Imports of goods, far from declining, increased to $3.438 trillion; exports of goods rose slightly to $2.197 trillion, but the depreciation of the $, desired by Trump, did not work miracles. Given the strength of the GAFAM, the balance of trade in services is more limited than expected, with $1.235 trillion in exports and $895 billion in imports.

It is therefore not surprising that a majority of Americans oppose this policy and, in a disguised admission of its error, Trump cannot ignore the unpopularity of customs duties. The impact of tariffs is partly offset either by subsidies or by suspension: Trump is considering modulating, or even eliminating, his 50% tariff on steel and aluminium because many American user companies are penalised in their competitiveness. In November, he had already been forced to backtrack by exempting beef, coffee, and fruit from Latin America from taxes. Recently, Republican representatives voted to cancel tariffs against Canada and, previously, Trump had to promise $12 billion to farmers to offset the harmful effects of tariffs (it was $23 billion during his first term). Despite this assistance, farmers are going bankrupt because while China had purchased $12.6 billion of soybeans in 2024, in September 2025: zero.

- ***The strategic misstep toward the EU***:

A misstep, because both sides of the Atlantic are highly intertwined. The United States reproaches Europe for being incapable of defending itself without America, obstructing the GAFAM, and showing a trade surplus of $220 billion in 2025 (Germany has a $73 billion surplus with the United States, Italy $30 billion, France $18 billion).

However, if relations sour, the European Union could, for the first time, implement by qualified majority the anti-coercion mechanism (excluding American companies from public contracts, restricting services where the EU has a €150 billion deficit), impose tariffs on €93 billion of imported products (for example, 25% on Boeing, soybeans, Bourbon, cars, …), and suspend the ratification of the customs tariff agreement.

Recall that the United States has $3.9 trillion in investments in Europe, and Europe has $3.6 trillion in the United States. The EU is the primary destination for U.S. service exports, totalling $294 billion. For instance, five American companies control 83% of the European cloud market (according to IDC).

European investors hold $8 trillion in U.S. equities and bonds, according to Deutsche Bank. Europe holds $3.8 trillion in U.S. debt, or 10% of total U.S. debt. If tensions persist, part of this could be sold and reinvested in Europe.

The U.S. market share in European liquefied gas supply is expected to reach 60% in 2026, representing one-quarter of European gas consumption. Freed from dependence on Russian gas, Europeans are now concerned about this dependence on American gas and are turning to Norway, Qatar, and Algeria.

- ***The difficulty of reducing dependence on China***:

Indeed, Chinese exports to the United States fell by 30% in 2025, indeed U.S. imports from China now represent only 9% of total U.S. imports compared with 13% in 2024, and indeed the U.S. trade deficit with China fell from $300 billion in 2024 to $202 billion in 2025. However, exports from Southeast Asia to the United States, often carried out by subsidiaries of Chinese companies, increased by 25% despite Trump’s tariffs (for example, Cambodia for textiles), and Vietnam recorded a trade surplus with the United States of $120 billion over 11 months – a record.

China also sidesteps sanctions, as 20% of its supply comes from countries under U.S. sanctions.

- ***Imperialism in South America***:

By reaffirming the Monroe Doctrine, the United States is interested in Latin American raw materials, as Argentina and Bolivia hold 60% of the world's lithium reserves, and Chile and Peru account for one-third of global copper production.

Americans also seek to counter China, which has significantly developed trade with Latin America, $500 billion in 2024, 40% of which with Brazil, compared with $300 billion with Africa. Yet Brazil does not hesitate to assert its independence.

A mixed stock market performance:

2025 was the third consecutive year of stock market gains exceeding 10%, but performance, especially expressed in euros, was lower than that of other major markets.

Indeed, over three years, the cumulative increase was over 80%, but S&P 500 earnings rose only 20%. In 2025, however, the index's rise roughly reflected earnings growth, meaning there was little revaluation of price-to-earnings ratios (P/E).

Earnings growth was particularly strong for major technology stocks. In 2025, the Magnificent 7 accounted for 33% of the S&P 500 index and 42% of the stock market gains. But, for the first time since 2021, this group contributed less than half of overall market appreciation. Nvidia's rise contributed 2.7 points to the S&P 500 gain, and Alphabet appreciated 65%, yet the other five experienced a more uneven trajectory.

Of the 500 stocks, only 320 recorded positive performance in 2025, and only 30% outperformed the index. This trend, already seen in 2023 and 2024, highlights a concentration of performance not seen since 1999, on the eve of the tech bubble burst.

Small-cap stocks, such as those in the S&P SmallCap 600, saw a 10% decline in earnings over the past three years. Nevertheless, earnings growth exceeding 10% is expected this year for these small-cap stocks, and their P/E of 14.5x is attractive.

In 2025, the Dow Jones rose only 15% in $ compared with 35% in 2017, the first year of Trump's first term. Earnings grew on average by nearly 13%, with similar expectations for 2026, but the favour toward the Magnificent 7 is shifting.

To date, in 2026, the S&P 500 is stable, the Nasdaq is down 1.8%, while major global indices and Asian markets, notably South Korea +37%, Taiwan +16%, are rising.

Conclusion: "Buying is much more American than thinking."

From a commercial perspective, tariffs, as long as the United States continues to run a budget deficit above 6% of GDP, maintain such high consumption, and save so little, will never eliminate the trade deficit, nor even reduce it. Warhol was right.

Tariffs, varying by country, prevent American companies from optimising their supply chains and represented a $287 billion levy in 2025, not subject to Congressional approval. These are among the reasons that prompted the Supreme Court to invalidate this policy.

From a financial perspective, between $130 billion and $174 billion (according to Wharton) of improperly collected tariffs should be refunded, but this could take years through court appeals. To date, more than 1,000 companies have requested refunds, affecting roughly 300,000 importers. Trump seeks to offset this with a 15% tax on all imports under Section 122 of the Trade Act of 1974, which allows the imposition of tariffs for 150 days on countries running a trade surplus with the United States.

From a stock market perspective, this year the market and growth are expected to benefit from banking sector deregulation, tax refunds under the BBB Act, two to three interest rate cuts, continued unprecedented investment in artificial intelligence, productivity gains from AI, and a weak $. GDP growth could reach 2.4%, but beyond these windfall effects and potential overheating, nothing guarantees the sustainability of this growth.

The stock market, at 22 times expected earnings, has reached this level only twice since the mid-1990s: once during the tech bubble in 2000, and a second time during the 2021 post-COVID stock rally.

Geneva, 20 February 2026

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