



The tariff shock will initially inflict pain on emerging markets, though CIO believe its impact will vary significantly across regions. (UBS)

Emerging markets: A new world order?

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CIO believes 2 April will likely mark a before-and-after moment for the global trading and financial system, estimating that the effective US tariff rate has surged to approximately 25%, up from just 2.5% prior to the US election. This figure may climb even higher in the near term, particularly if currently exempted sectors like semiconductors and pharmaceuticals are affected, or if the administration escalates its response to retaliatory measures from trading partners.

Even if legal, business, and political pressures eventually push tariffs somewhat lower, the effective rate will likely remain at multi-decade highs, in our view.

A new world order?

If sustained, these policy shifts will accelerate a significant reorganization of global trade and financial flows. The US administration appears determined to reduce the country's trade and current account deficits—hallmarks of the US economy for decades.

Simply put, a country running a current account deficit spends more abroad (on imports, interest payments, dividends, etc.) than it earns from its international activities. Any entity spending beyond its means requires financing; in the US's case, this financing has come from foreign investors purchasing US assets.

Should the US successfully engineer this structural shift through tariffs and related policies, global trade flows would be redirected away from the US, accompanied by a corresponding shift in investment flows toward other jurisdictions.

Of course, such a transformation won't occur overnight, and the transition period will undoubtedly present challenges for the global economy. Yet, this serves as another powerful reminder that portfolios can greatly benefit from maintaining a broad geographic and asset class footprint.

In our recent reports—[Trade war: navigating volatility](#) and [Trade war: FAQ \(7 April\)](#)—we describe how investors can navigate the period of heightened uncertainty and elevated volatility that lies ahead of us, including an analysis of which S&P 500 levels would offer attractive risk-reward, how quality bonds provide respectable expected returns plus diversification benefits, and why gold remains an attractive hedge.

Uneven impact across emerging markets

The tariff shock will initially inflict pain on emerging markets, though we believe its impact will vary significantly across regions.

"China+1" is most affected

The recent US tariff announcements disproportionately target China and other Asian countries that have served as alternative manufacturing hubs in recent years—a strategy commonly known as "China+1."

If these tariffs remain in place, Asian economic growth could decline by 1-2 percentage points, dropping below 4.0% (from 5.1% in 2024), driven primarily by a sharp slowdown in exports. Policymakers in the region are likely to respond proactively to mitigate the impact, and China's end-April Politburo meeting will offer likely important guidance on the direction of policy easing.

In this context, we believe investors should adopt a selective approach toward Asian equities in the near term and remain cautious on the Chinese yuan (CNY).

Latin America is least affected

Notably, Mexico and Canada were the only two countries globally spared from additional tariffs on 2 April owing to the protections afforded by the USMCA, which covers a significant portion of their exports to the US.

Moreover, because the US enjoys trade surpluses with most major Latin American nations (excluding Mexico), the White House placed these countries in the lower, 10% tariff category—just one-third of the rate imposed on emerging Asian economies and half of the rate applied to the European Union.

While there are no outright winners in a trade war, Latin America appears relatively insulated. Given the region's inexpensive equity valuations, undemanding currency levels, and attractive interest rates, investors can find compelling opportunities to help navigate the ongoing global turmoil.

Original report - [Trade wars are capital flow wars, 8 April 2025.](#)

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