Investment Roundup

26 May 2026

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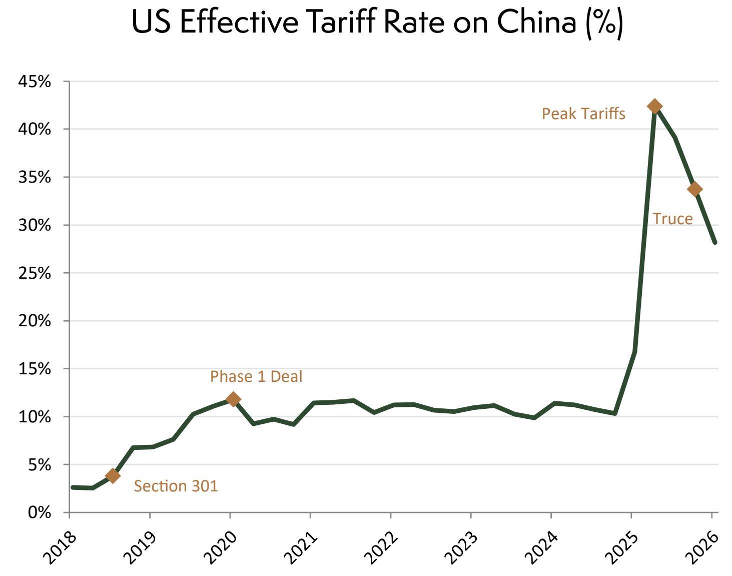
In this edition, we broaden the discussion beyond the energy crisis to revisit how tariffs, supply chains, inflation, and oil prices are interacting in the current market environment.

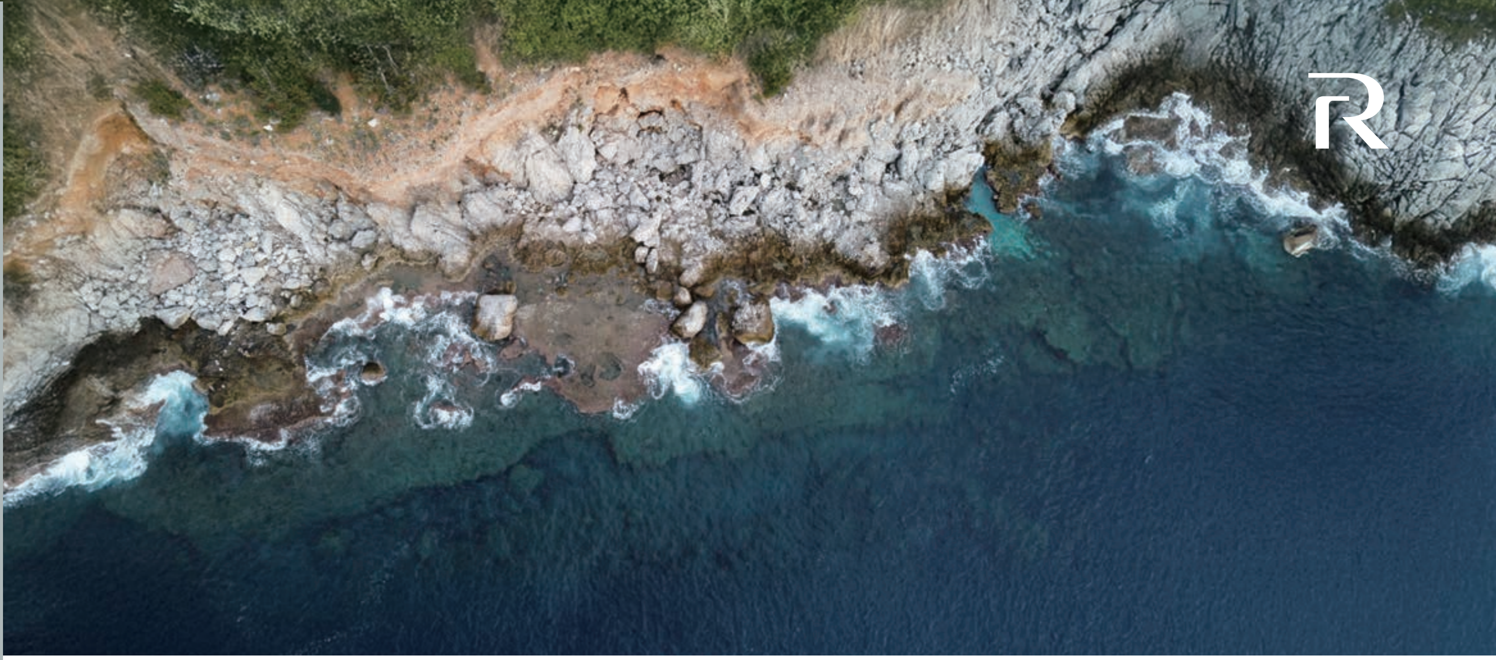
US-China tariff tension — how we got here



Source: Bloomberg L.P., as of 20 May 2026

The US-China trade conflict may have faded from the headlines at times over the past few years, but the underlying tariff structure remains firmly embedded in the global trading system.

The chart shows the US effective tariff rate on Chinese imports from 2018 to today. Importantly, this reflects the trade-weighted average across all Chinese goods rather than the headline tariff figures commonly reported in the news.



In early 2018, the effective tariff rate stood at roughly 3%. Section 301 tariffs were introduced in July 2018, marking the first round of tariffs targeting Chinese technology and industrial goods and effectively becoming the opening phase of the US-China trade war.

Tariff rates continued climbing through 2018 and 2019 as both sides escalated tensions across four separate tariff lists. The tariffs rolled out in waves, beginning with industrial goods and semiconductors before expanding into consumer electronics and eventually covering almost the full range of Chinese imports by late 2019.

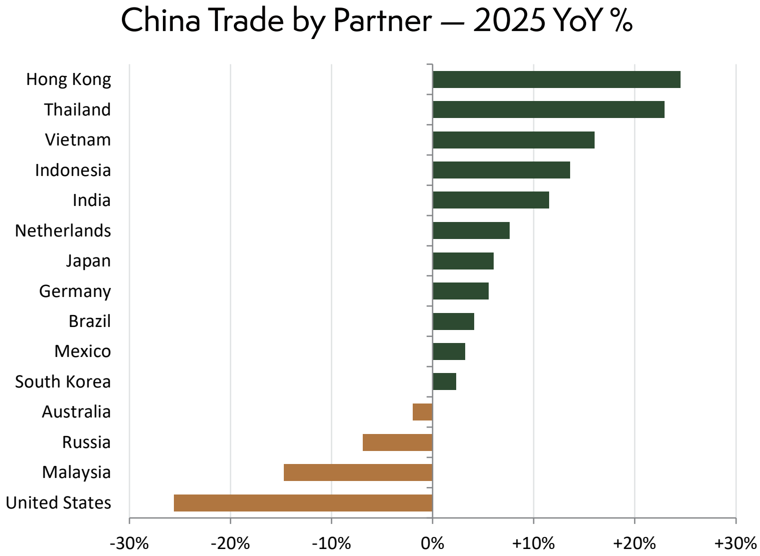
The Phase One Deal signed in January 2020 effectively acted as a ceasefire. Tariffs stopped rising at that point but remained structurally elevated.

The flat period between 2021 and 2024 under the Biden administration is also worth noting. The decision to maintain tariffs throughout Biden's term appeared intentional, as the measures had by then become politically difficult to reverse. Beyond protecting domestic manufacturing jobs, the tariffs were also generating roughly US$80 billion annually in customs revenue. At that stage, tariffs had evolved into bipartisan policy rather than remaining solely associated with Trump-era trade policy.

The sharp increase in early 2025 reflects Trump's second term. The effective average tariff rate peaked at around 48%, while headline figures briefly reached as high as 127% in the most heavily targeted categories. However, the effective rate more accurately reflects what importers were paying on average across the broader basket of Chinese goods.

The subsequent decline reflects the October 2025 truce, which brought tariff rates back down to around 23%. While that represents meaningful de-escalation, tariff levels still remain roughly eight times higher than the pre-2018 baseline. The upcoming Xi visit to Washington in September will likely serve as the next major test of whether the current truce can hold.

China's pivot away from the US



Source: Bloomberg L.P., as of 20 May 2026

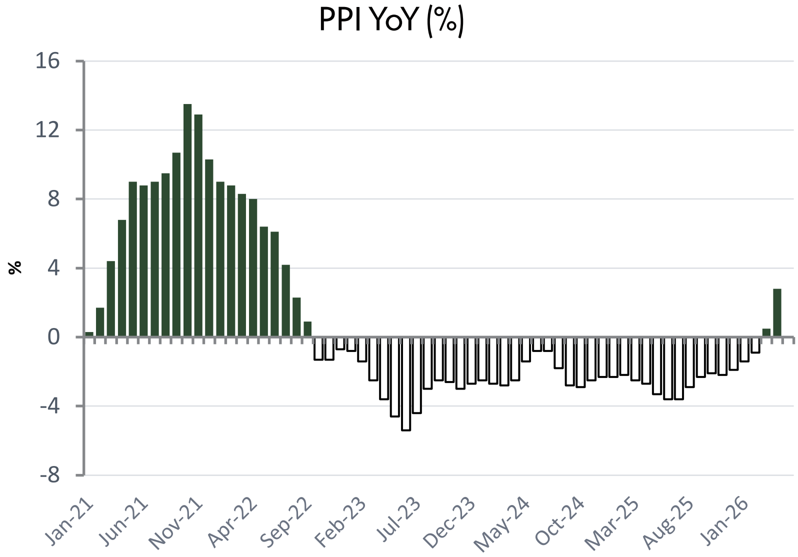
The impact of those tariffs is increasingly visible in trade flow data. China's 2025 trade growth by partner presents a highly uneven picture. The United States stands out as a major outlier, with trade growth declining by 26%, alongside Malaysia. In contrast, most other major trading partners continue to record positive growth.

Vietnam's trade growth with China has increased by 16%, Thailand by 23%, Indonesia by 14%, and India by 11%. The broader picture suggests that China did not lose export capacity altogether. Instead, export flows appear to have been rerouted toward alternative markets and supply chain hubs.

The direction of travel across global supply chains has become increasingly clear since 2018. Firms have gradually diversified production and sourcing away from China, and that process now carries meaningful momentum. China's share of total US imports has declined from roughly 22% in 2017 to around 14% today.

Whether that trend continues at the same pace will depend partly on how durable the current tariff truce ultimately proves to be. However, significant investment into alternative supply chain infrastructure across countries such as Vietnam, India, and Mexico has already been committed. Those structural shifts are unlikely to reverse quickly regardless of how diplomatic negotiations evolve from here.

Deflation Trap Meets Inflationary Shock

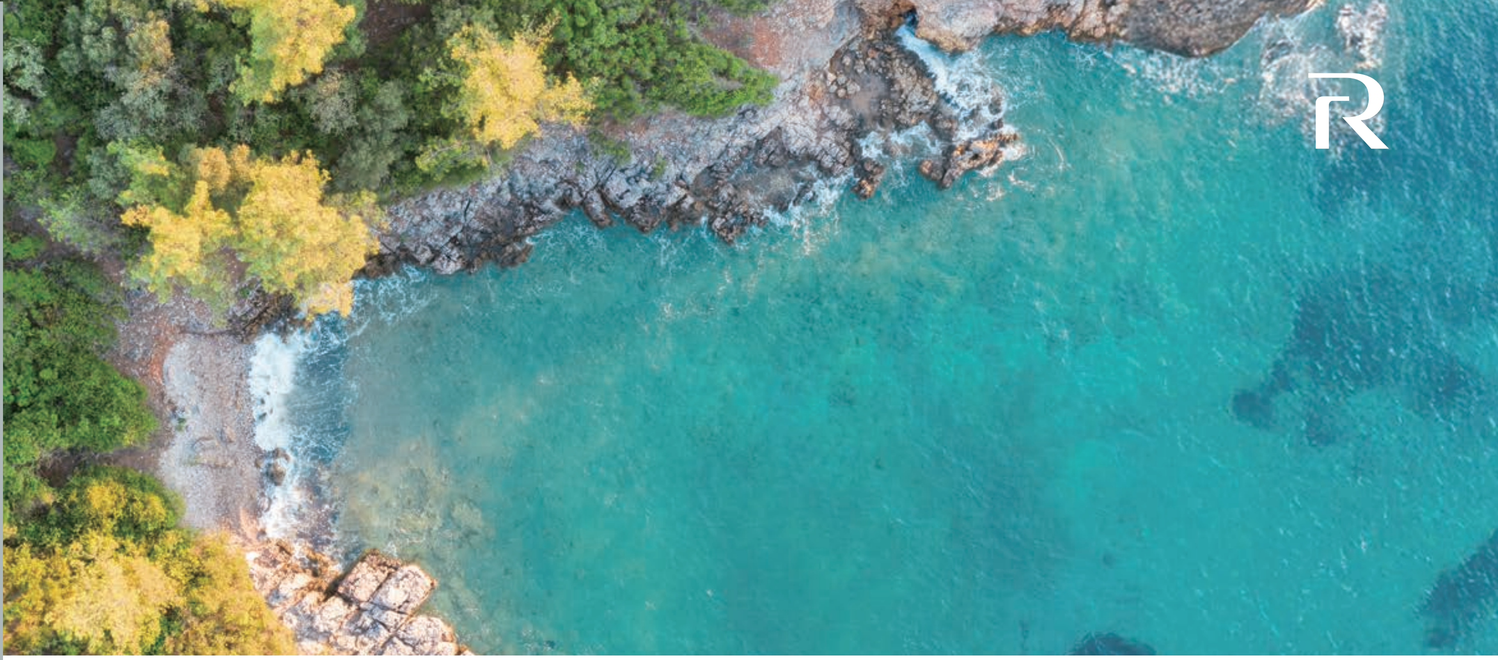


Source: Bloomberg L.P., as of 20 May 2026

Yet despite the rerouting of exports, domestic conditions within China remain weak. The chart points to an increasingly difficult backdrop for Chinese corporates. For almost three years, producer price inflation (PPI) remained in negative territory, reflecting the inability of producers to raise prices in an environment where domestic demand remained exceptionally weak. Much of that weakness was tied to the destruction of household wealth from the prolonged property downturn, which significantly weighed on consumption. This period is reflected by the inverted red bars running from late 2022 through early 2026.

More recently, PPI has turned positive again in March and April. At first glance, that may appear to signal an improvement in economic conditions. However, the underlying driver has been the sharp rise in oil prices, with Brent crude moving above US$100 amid concerns surrounding the Strait of Hormuz. China remains particularly vulnerable in this environment, given that roughly 80% of the oil passing through the Strait is imported by China. As a result, every increase in crude prices feeds directly into higher input costs for Chinese producers.

The broader consequence is that corporate margins are now being squeezed from both sides. Input costs are rising, while domestic demand remains too weak to absorb significantly higher output prices.



That combination increasingly resembles a stagflationary setup, which helps explain why current weakness in China appears more structural than cyclical.

Takeaways

The tariff truce between the US and China appears genuine, but still relatively shallow. Both sides characterised the outcomes of the Beijing summit differently, suggesting that underlying tensions remain unresolved. At the same time, the broader supply chain shift away from China has likely already become structural and is unlikely to reverse meaningfully even if diplomatic relations improve further.

Recent vessel data also suggests that US import demand remains weak across most major trade corridors. As a result, the more important trade story over the next six months may not be US-China bilateral flows themselves, but rather which emerging markets ultimately absorb the continued redirection of Chinese exports.

Takeaways (Cont'd)

Broader emerging market exposures, including instruments such as EMXC and AEF ETFs, are often referenced in relation to supply chain diversification themes.

From a fixed income perspective, weaker US import demand can be interpreted as a soft leading indicator for slower goods inflation, which in isolation would normally support duration. However, the persistence of elevated tariff structures continues to keep import costs structurally higher, partially offsetting that disinflationary impulse.

On balance, the current backdrop still supports maintaining a short to neutral duration stance.