



Turbulent times: SMD-AM's view of the latest US tariffs

Japan Market Insights - April 2025

SMD-AM

We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

President Trump's so-called 'Liberation Day' certainly lived up to its billing as a historic occasion.

With the U.S President announcing a raft of new protectionist measures aimed at reducing trade deficits with many of the US's largest trading partners, market participants have since been pouring over the information and trying to ascertain the likely impacts.

Whilst uncertainty remains about how effective bilateral negotiations may be at reducing the newly raised tariffs, one day after the announcement some conclusions can be drawn. In this article, we introduce views from a selection of SMDAM investment teams.

Japan Equity High Conviction - Team view

The United States has already decided to implement a 25% tariff on Japanese automobile exports to the U.S., effective from April 3. The 24% reciprocal tariff announced in the U.S. on the morning of April 3 does not apply to Japan's automobile sector. For the outlook for Japan's automobile sector, please refer to the analysis provided by our company's analysts below.

Automobile Sector: The outlook is slightly bearish. We see the possibility for a bullish turnaround potentially beginning in Q2 of the financial year 25/4-26/3, when the impact of U.S. tariffs is expected to become clearer. The primary reason for the slightly bearish stance is that stock prices have not fully priced in the ongoing effects of U.S. tariffs, including the impact on raw materials such as steel and aluminum, and the potential decline in demand due to reduced consumer spending in the U.S.

For instance, if the 25% tariff continues for one year, Toyota's operating profit is expected to decrease by 681.5 billion yen, representing a 13% drop. The actual impact may vary depending on future government negotiations leading to a reduction in tariff rates and Toyota's decision to raise automobile prices. The portfolio will maintain an underweight (UW) stance on the automobile sector. We hold Toyota, which is undervalued and less affected by tariffs, as well as Suzuki and Isuzu, which are not impacted by the tariffs.

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Currently, our portfolio strategy involves overweighting domestic demand-related stocks while selectively purchasing oversold external demand stocks in the market. If further yen appreciation or a global economic downturn is anticipated, we plan to increase the weight of defensive stocks in the portfolio.

We will continue to emphasize a bottom-up approach, selecting stocks within each sector that are relatively less affected by the U.S. tariff hikes and are expected to sustain improvements in performance and capital efficiency toward FY2025. For external demand sectors, we prefer companies with mid-term growth-driving businesses or themes; those likely to continue improving their earnings beyond FY2025; and those maintaining high levels of shareholder returns.

We will remain vigilant regarding the impact of the U.S.'s protectionist trade policies on corporate performance. For domestic demand sectors, we favor consumer-related companies with robust business models that consistently deliver strong results, partly due to price hike effects, and financial companies that continue to deliver solid results and high levels of shareholder returns.

Value plus Alpha - Team view:

The scale of the tariffs has exceeded most pre-event expectations. It could potentially mark a historical turning point for the global economy and trade system, warranting careful observation. When selecting stocks for our portfolio, we will continue to focus on stocks that are expected to grow autonomously within the Japanese market; those that have a complete supply chain already within the United States; stocks that would benefit from expanded defense and fiscal policies in Europe; and stocks related to the Global South, which are relatively less directly impacted by the Mar-a-Lago Agreement.

Japan Equity Small Cap Absolute Value - Team view:

Regarding the automotive sector, the issues have been strongly recognized for some time. The fact that double taxation through reciprocal tariffs has been avoided and the expectation of future political pushbacks are notable points. Given the high weight of domestic production in the U.S. and the low tariffs on Mexico, today's announcement is not particularly negative for Japan's automobile industry.

The concern lies with the reciprocal tariffs on non-automotive sectors. For example, there is a holding in my portfolio that heavily relies on revenue from exports to the U.S. This company also lacks strong pricing power and political influence, and additionally faces competition from domestic producers in the U.S. For these kind of companies, it is appropriate to lower the target stock price and take necessary actions.





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