EVENLODE
GLOBAL DIVIDEND FUND

# Evenlode Global Dividend Fund

## Investment view

## Tariff turmoil and yesterday's news

April 2025

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# April 2025 – Tariff turmoil and yesterday's news

Earlier in the week we published a video in which we discussed the headlines of our initial analysis of the impacts of Donald Trump's tariff salvo on the Evenlode Global Dividend portfolio. In summary, the conclusion was that the direct impact on portfolio profitability looked very manageable. In a LinkedIn post we noted that things seemed to be changing by the hour so we'd have to update our analysis regularly, but we didn't expect that literally hours later Trump would roll back on the higher rates applied to many countries with the very notable exception of China. The apparently on-the-hoof decision making coming out of the White House makes a short term game of writing an investment view about a long-term investment process – it's difficult to pen even a few sentences without checking the newswires to see if they're out of date (it's partly for that reason this is being written early in the morning UK time, hopefully the US President is asleep).

In our initial analysis we estimated the impact on portfolio profitability if companies absorbed the cost of increased tariffs in an 'all else equal' scenario, i.e. with no changes to other costs or the demand for their goods and services. The portfolio is greatly helped in this regard by about 60% of holdings being in companies that offer services and exempted products rather than predominantly physical goods and thus don't have a direct tariff applicable on their revenues. There will likely be some increase in these businesses' costs but we've assumed this to be *de minimis*, and instead erred on the side of caution for those companies where there is a direct tariff implication.

We have updated the analysis with the changes announced since Trump's initial proclamation from the Rose Garden on 2 April. Interestingly, despite most countries seeing a decrease in the applied rate to the new baseline level of 10%, our estimate of the impact has increased slightly. That's due to the ever-expanding rate on Chinese goods, and a couple of tweaks to our assumptions on the manufacturing locations of portfolio companies. Our new estimate is that if portfolio companies absorbed the costs of tariffs, then operating profit would decrease by -2.9%[i], with an impact on operating margin[ii] of -0.7%[i]. In the context of a starting median operating profit margin for the portfolio of 19%, this is not welcome but very manageable in isolation. The effect of tariffs is lessened for the types of businesses that we seek because they have high margins – importantly tariffs are applied to the cost to produce a good, not its end retail price.

Businesses could opt to recoup the cost of tariffs by increasing the prices of their products. If portfolio companies did this to a level that restored their profit level (again all else being equal) then we estimate that it would require an increase on US prices of +2% across the portfolio[i]. This is not the high level of inflation that some commentators are talking about as a potential outcome of tariffs, and again is a result of the type of high margin business that we seek at Evenlode. Companies that sell products with lower margins must increase prices more, in some cases much more, to maintain absolute levels of profitability.

The exercise naturally involves assumptions, particularly on whether goods imported to the US are sourced from China. In our analysis we have been conservative, assuming the highest likely level of Chinese-sourced imports to the

US for each company. For example, bicycle components maker Shimano has manufacturing facilities in Japan, China and South East Asia. Their high-end components are likely to be the ones entering the US and they are made in Japan, but we have assumed that a significant proportion of Chinese components go to the US too. This means we estimate that Shimano needs the largest US price increases of any portfolio company to retain profitability levels. Fortunately for Shimano the US is not a very big market for them.

If the direct impact of tariffs on the portfolio is relatively small, the much bigger question being raised by the US administration's trade war is one of uncertainty about the economy, both in the US and globally. Falling consumer and business confidence naturally saps investment and spending levels. We have seen stress in the US Treasury market (what Donald referred to as being 'yippy'. Or is it 'yippie'?). If that feeds through to reduced demand it would impact revenues for many businesses. This is where the steady nature of the vast majority of companies in an Evenlode Investment portfolio gives some comfort. Services that are often bought on subscription such as software, business services that are non-discretionary such as product testing and facility inspection, or consumer goods that are bought day to day and are not big-ticket items feature heavily in the portfolio. That's partly because these types of businesses tend to have the cash flow, margin and return on capital profile that we like (high and stable in all cases), and partly because that is because we have seen better valuations in the more stable and perhaps more boring sectors. Health care companies make up a fifth of the Evenlode Global Dividend portfolio, a sector where we see attractive valuations and dividend yields. The fact that direct tariff impacts are relatively low means that these will not be an amplifying factor should revenue growth fall for the portfolio.

Markets are moving very fast, including equities. The US stock market's stellar jump after The Donald staged a partial climb-down on the highest tariff rates, then significant reversal as it appeared to dawn that tariffs are actually still here, indicates the level of uncertainty amongst traders. We don't know where things will go next, but we are ready to pick up any bargains should they present themselves in businesses that are well set to weather the current trade storm.

**Ben P. and Rob S.**
**11 April 2025**

*Evenlode has developed a **Glossary** to assist investors to better understand commonly used terms.*

*Please note, these views represent the opinions of the Evenlode Team as of 11 April 2025 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security, or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. For full information on fund risks and costs and charges, please refer to the Key Information Documents, Annual & Interim Reports and the Prospectus, which are available on the Evenlode Investment Management website (https://evenlodeinvestment.com). Recent performance information is also shown on factsheets, also available on the website. Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Fund performance figures are shown inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs unless otherwise stated. The figures do not reflect any entry charge paid by individual investors. Current forecasts provided for transparency purposes, are subject to change and are not guaranteed. Source: Evenlode Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 767844.*

*Market data is from S&P CapIQ, Bloomberg and FE Analytics unless otherwise stated.*

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[i] *Calculated on a weighted average basis.*

[ii] *Operating margin is a business's operating profit expressed as a percentage of the sales that the company generates in a given period.*