March 2025 Market Brief

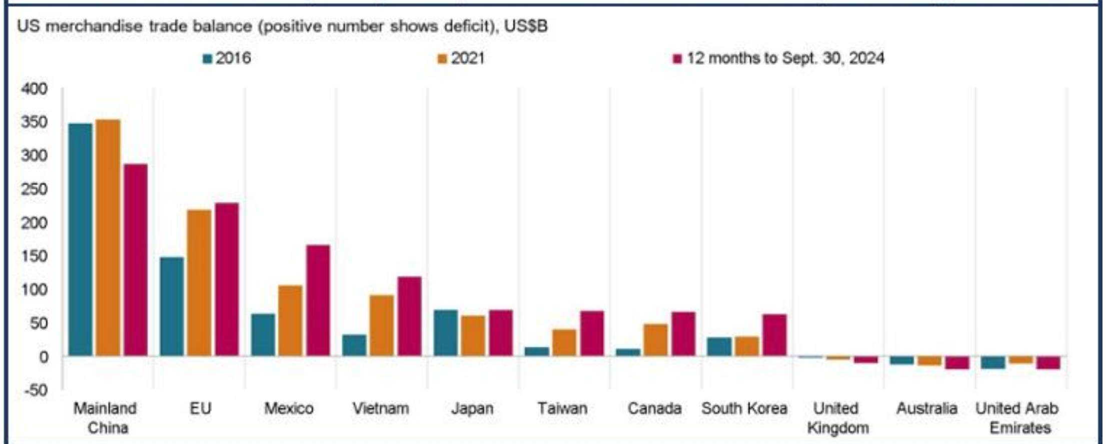
Divergent Deglobalization

"If you want to grow old as a pilot, you've got to know when to push it, and when to back off." – Chuck Yeager

With the tariff war heating up from a simmer to a boil, it's a good time to take a step back and look at how the world has shifted in the last few decades. The trend of de-globalization and onshoring (or near-shoring) has been accelerating since the global financial crisis and moving even faster in a post-COVID world. The pandemic showed just how vulnerable far-flung supply chains can be to disruption, which caused many companies to begin building in redundancies and bringing manufacturing closer to home. We would argue that peak global trade happened in the early 2000's and since then, the world has been shifting away from free global trade.

It is worth noting that while our trade deficits are massive, the expansionary global trading period from the 1950's to early 2000's was VERY profitable for US companies. There is now a Starbucks and McDonalds in almost every part of the world, and humans from Jakarta to Belfast wear US brands such as Nike or Ralph Lauren. Mining companies globally use CAT equipment and DE (John Deere) powers agricultural development in most nations. The modernization of many nations in Asia, Latin America, and even Eastern Europe have provided new markets for US companies to enter. While manufacturing shifted abroad, many of those profits were retained by US companies. While our percentage of our share of Global GDP peaked in the 1960's, the dollar value generated has skyrocketed as new markets continued to open for revenue and expansion. Many US companies such as PEP or NFLX generate a significant share of revenue from international markets (43.75% and 55.49% respectively in 2024). The US is also the world's largest consumer market, built on the back of globally manufactured cheap goods – driven by lower shipping costs and e-commerce platforms such as AMZN.

Trade Balances Were Shifting Already Shifting. India, Vietnam & South Asia Most Exposed to Reciprocal Tariffs



Source: S&P Global Market Intelligence: https://www.spglobal.com/market-intelligence/en/news-insights/research/supply-chain-insights-us-tariff-plans/

As we navigate to an era less about global expansion and more about global optimization, disruption is going to happen. The onshoring trend will likely continue to accelerate. Not just due to pressure from the current administration, but mostly due to technology. Cheap labor drove US companies abroad looking for cost savings, but now automation and robotics are cutting into the need for human capital for manufacturing. Currently, the higher US labor cost (for a much smaller workforce) is counterbalanced by lower supply chain costs and shipping costs. As technology erodes the need for large unskilled labor pools, onshoring makes more and more financial sense. The shift home was already happening, it's just happening faster and with more headlines now. But as we shift away from some international markets, some international markets may shift away from the USA. The era of free-flowing trade does seem to be ending, and what the next era will bring for corporate profits remains unknown. But one area to watch as trade flows change: what happens to corporate profits of large, multinational US companies? It's a threat to keep an eye on in 2024, as profits may shift just as rapidly as trade flows.

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