



# Impact of additional US tariffs on Asia rates and credit markets

By the Asian Fixed Income Team  
9 April 2025

On 2 April, US President Donald Trump announced “Liberation Day” tariffs which were significantly higher than what we and the market expected. The impact of these tariffs was especially pronounced in Asia, where most countries in the region run a trade surplus with the US. Many ASEAN countries and China were particularly affected, facing reciprocal tariffs exceeding 30%.

The announcement rattled markets, which are now closely watching how the region responds to Trump’s tariff offensive. Excluding China, most governments have signalled they are unlikely to retaliate. Instead, they appear focused on engaging with the US in negotiations, hoping to secure reduced tariff rates, although the outcome of these negotiations remains highly uncertain. Nonetheless, the newly imposed tariffs are expected to weigh on regional growth. Initial attention will be on which economies face the largest tariff increases, how export-driven these economies are, and whether they can successfully negotiate lower tariffs.

To better understand the potential impact, we have also calculated the percentage of exports to the US as a gauge of the tariff effects.



Source: IMF, Bloomberg, Nikko AM

In Asia, the indirect effects of tariffs will likely be the dominant channel through which the growth drag will manifest. Overall, we expect Asian policymakers to have sufficient monetary and fiscal tools at their disposal to mitigate the impact from slower growth as inflation has eased, providing central banks with room to cut rates. Improved fiscal positions over recent years will also allow governments to implement stimulus measures to support growth.

Within Asia, China and Vietnam are likely to be impacted the most, while the Philippines and India are likely to be more insulated as domestic demand comprises about 70% of their GDP. China has responded with a 34% tariff on all US imports, raising the risk of further escalation in trade tensions. Meanwhile, Vietnam, which is highly reliant on its exports to the US, which contribute over 20% of its GDP, was hit with a 46% tariff. Vietnam has already offered to remove all tariffs on US imports, but it remains to be seen how Washington might respond.

### **China**

With its own announcement of a 34% retaliatory tariff equalling the US reciprocal tariff, China has now shifted from its measured responses to a more confrontational one. If the proposed tariffs hold, there would be significant impact to China's economy. But China is likely to embark on some countermeasures. First, it could allow currency depreciation to a *limited* extent to partially cushion the tariff impact. Next, it could continue to diversify its exports to non-US markets. Besides the external front, China is also likely to front load fiscal stimulus and further enhance its accommodative monetary policy stance by cutting policy rates and bank required reserve ratios. Should it be required, China had indicated that it has further room to increase its fiscal deficit, and we think this could happen in the second half of the year. Though it looks less likely in the near term, we think there is still a chance that the US and China could come together and negotiate their differences spanning trade, security and other areas.

### **India**

For India, the significantly higher tariff rates imposed on countries like Vietnam, Myanmar, and Laos could present an opportunity, as companies look to re-route exports through India to the US. Notably, Apple is reportedly planning to increase iPhone shipments to the US from India to offset the higher tariffs on Chinese-made devices. India has stated that it does not intend to retaliate against the new tariffs and is instead exploring a provision in Trump's order that could offer reprieve to countries that "take significant steps to remedy non-reciprocal trade arrangements". India sees an advantage in being one of the first nations to initiate trade talks with the US, with both countries committing in February to finalise an early deal by Autumn 2025. To strengthen ties, India's Modi administration has already made goodwill gestures, such as lowering tariffs on premium motorcycles and bourbon and eliminating a digital services tax that had affected major US tech firms.

### **Philippines**

The US imposed lower tariffs on Philippine exports compared to its Asian counterparts, and the economy's reliance on domestic demand rather than exports provides additional resilience. Furthermore, the government views the new tariffs as a "window of opportunity" for the Philippines to increase its share of the US market, particularly for exports such as garments and coconut-based products, which are now more competitive due to lower tariffs compared to countries like China and Thailand. Nevertheless, the government has expressed its intention to proactively engage with the US in hopes of securing a reduction in the US tariff rate.

### **Asia credit sectors**

By sector, we expect technology hardware issuers and industrial companies with sizeable revenue exposure from the US to be directly affected. These sectors represent approximately 5% of Asia credit. However, the repercussions are likely to cascade across all sectors, with the heightened risk of a global recession depending on how long the trade conflict lasts. Banks' profitability is likely to be impacted by lower interest rates and higher credit costs, while commodity-related credits will suffer from lower commodity prices.

## **Market reaction so far**

The market has so far responded with a classic risk off move. Bond yields have fallen, credit spreads have widened and equity markets have slumped. As of 7 April, the JACI Investment Grade index has retreated by 0.04% month-to-date, outperforming the US Investment Grade index, which has retreated 1.51% (iBoxx USD Liquid Investment Grade Total Return Index). This outperformance can be attributed to the widening in credit spreads being offset by gains in US Treasuries. Meanwhile, as of 7 April the JACI Non-Investment Grade Corporates index has dropped 3.50% month-to-date, compared to the 2.65% decline by the US High Yield Corporates index (Bloomberg US Corporate High Yield Total Return Index).

Over the same period, local currency government bonds have rallied, in line with movements in US Treasuries. On a total return basis, Chinese, Singapore and South Korean government bonds have outperformed, while Philippine and Indonesian government bonds have underperformed. In the FX market, most Asian currencies have come under pressure this month amid broad-based US dollar strength. The Thai baht and Indonesian rupiah posted the steepest declines, falling 2.07% and 1.44% respectively, while the South Korean won bucked the trend, eking out modest gains of 0.20% against the greenback.

## Outlook

Since the tariff announcement, the Asia Fixed Income team has viewed US duration with caution and favoured duration-neutral curve steepeners amid rising stagflation risks in the US. On the Asia local rates front, we retain a positive outlook for several countries that have more policy space to pre-emptively implement monetary and fiscal policy response to absorb any economic drags and disinflationary impacts. Meanwhile, we are closely monitoring conditions in the markets. We are particularly focused on those with shallower market depth in the event global outflows accelerate or if market functioning becomes impaired. We are poised to pare risk if liquidity conditions deteriorate. On the credit side, we are taking a sector-focused approach. We have been trimming exposure to cyclical and trade-related sectors, rotating into non-discretionary and defensive sectors. We are also conducting portfolio reviews to identify and manage idiosyncratic risks, particularly regarding names that may be vulnerable to business cycle pressures, cash flow disruptions or debt rollover risk.

Going forward, our base case is for most economies to negotiate with the US to lower tariffs and thus mitigate much of the impact from the initial announcement. However, significant uncertainty is likely to linger, along with the risk of increased tit-for-tat measures in the near term. Most Asian economies entered this period of higher volatility with relatively robust external, fiscal and domestic demand conditions, which could partially offset tariff-related uncertainties and provide a good buffer against challenges ahead. Notably, China's policymakers have reportedly already begun discussing stimulus measures. In addition, most regional central banks retain some room to ease monetary policy to support domestic demand, with inflation having declined (giving central banks room to cut rates) in the region. Most Asian corporates and banks also entered 2025 with strong balance sheets and rating buffers, which could help cushion the impact.

We see the recent widening of credit spreads as a healthy development, as it creates more attractive entry points. We also expect favourable demand-supply technicals to support the medium-to-long-term performance of Asian credits. Gross and net supply in Asia credit is still expected to remain benign throughout 2025.

On rates, we maintain that Asia's local government bonds are well-positioned for decent performance, supported by accommodative central banks in an environment of benign inflation and moderating growth. Concerns over potential growth shocks from US tariffs are likely to provide additional support for regional bond markets. Additionally, with relatively high FX reserves, policymakers are well-equipped to defend their currencies if necessary.

**Important information:** This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings

group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Canada:** The information provide herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.