FIM PARTNERS FRONTIER MARKETS UPDATE 1Q25

President Trump's trade tariff has triggered global retaliation and market volatility. While these moves disrupt global supply chains, they also create tactical openings for long-term investors, particularly in undervalued frontier markets. Vietnam, despite near-term frictions, stands to benefit from trade diversion and is seen as an attractive market due to its resilient domestic fundamentals and strategic role in supply chain realignment. Dollar-pegged Middle Eastern economies are increasingly favoured in this environment, while holding higher cash levels is viewed as a prudent way to preserve optionality. We believe dislocations from the tariff cycle offer asymmetric upside for long-term investors focused on capital efficiency and structural resilience.

Sandeep Srinivas, CFA
Fund Manager
Email: SSrinivas@fimpartners.com

FIM Partners

Beyond the Noise: Positioning for Asymmetric Upside in a Fragmenting Trade World

In April 2025, President Trump reignited global trade tensions by announcing a sweeping set of import tariffs. A universal 10% tax was imposed on all imports, alongside a punitive 145% tariff targeting Chinese goods. While originally proposed as country-specific tariffs based on bilateral trade deficits, the revised measures were materially softened during the 90-day negotiation window until June 2025.

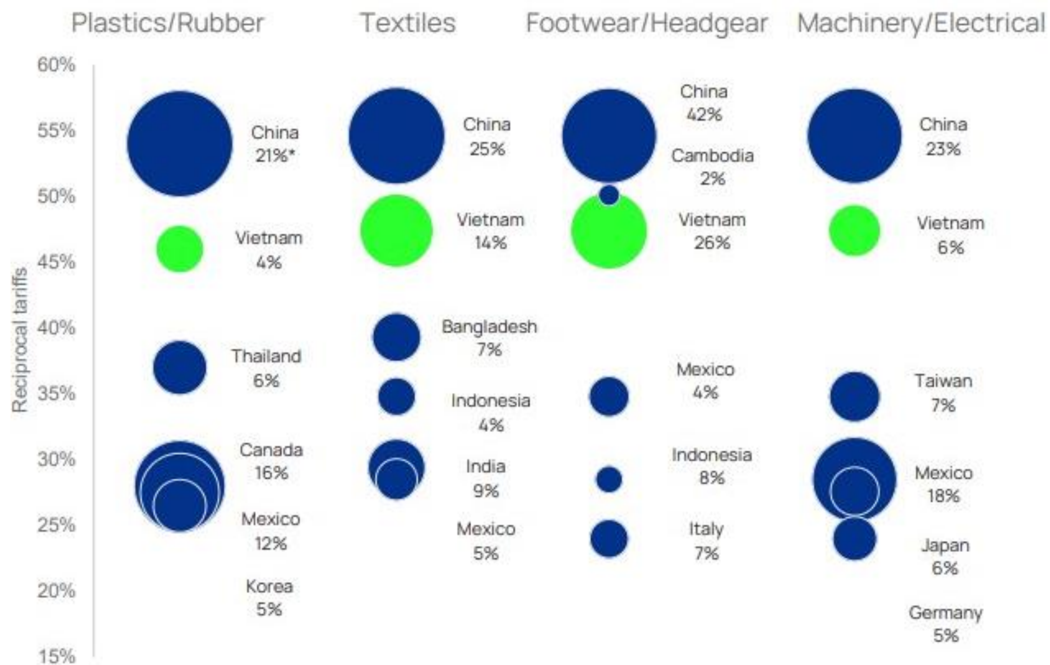
Marketed as “reciprocal tariffs,” the policy aims to redress perceived trade imbalances and revive domestic manufacturing. However, the move has triggered swift global retaliation, renewed equity market volatility, and elevated concerns over consumer price inflation. Despite these risks, the administration maintains the tariffs are a calculated strategy to reinforce U.S. economic sovereignty and reduce reliance on foreign supply chains.

While the headline numbers are stark, the moderated structure and temporary delay offer a window for strategic portfolio positioning and for policymakers globally to recalibrate responses. We remain focused on assessing second-order effects, especially on supply chains, consumer demand, and fiscal dynamics in export-driven economies.

Global Trade Rewired – Structural Shifts Beneath the Surface

The original tariff proposal - now deferred until June 2025 - was structurally punitive for low-cost exporters like Vietnam and Bangladesh. These economies, which thrive on labor-cost arbitrage and commoditized exports, faced starkly unequal treatment: a proposed 46% tariff on Vietnamese goods compared to 26% on Indian exports would have erased Vietnam’s competitive edge in land and labor cost.

Initial Tariff Structure (Now put on hold until June 2025)



Note: Data as of 2023; (*) Bubble size represents percentage share of US imports. Source:Vietcap

In contrast, the revised tariff regime - featuring a flat 10% universal rate and a targeted 145% on China - has materially improved Vietnam's relative positioning. By widening the cost gap between Vietnam and China, this structure enhances Vietnam's attractiveness as a manufacturing alternative, at least in the near term.

But these policy moves risk misunderstanding the complexity of modern production. U.S. manufacturing today is a deeply global enterprise. From life-saving pharmaceuticals to smartphones, supply chains span dozens of countries. Intermediate goods - semiconductors, specialty chemicals, sub-assemblies - form over 40% of global trade, surpassing $10 trillion in 2022. American products frequently integrate foreign-made components and, conversely, U.S.-made parts often complete value chains overseas.

Take the iPhone as a case in point: while it carries a "Made in China" label, only $104 of a $1,000 iPhone X reflects Chinese value. The rest originates across a dozen countries - from Korean memory chips and Japanese sensors to rare-earth minerals sourced in Africa. Broad tariffs intended to target a single geography end up taxing a globally distributed production model, making it nearly impossible to isolate one nation without collateral damage.

The 2018–2019 U.S.–China trade war offers a telling precedent. Despite political intent, tariffs increased U.S. manufacturing costs, undermined competitiveness, and caused job losses in tariff-exposed industries. Trade flows diverted - Chinese imports dropped 62% - but were rerouted via Vietnam and Mexico, adding complexity without eliminating underlying Chinese input reliance. A 5% fall in China's electronics share, for example, raised U.S. unit costs by nearly 10% from Vietnam and over 3% from Mexico - both of which still sourced upstream components from China.

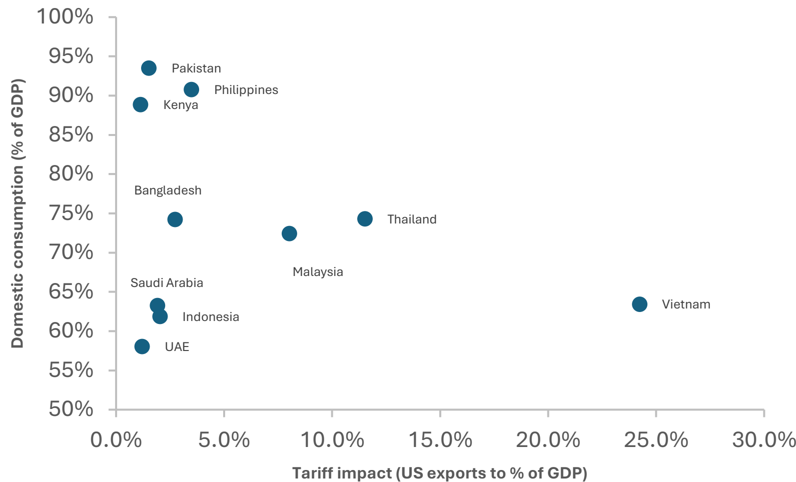
This interdependence underscores a critical point: supply chains are not easily disentangled. Any disruption - intentional or accidental - cascades across geographies, inflating costs and destabilizing lead times. As policymakers attempt to rewire trade dynamics, the reality of global manufacturing interconnectivity will continue to constrain how far such decoupling can go - and how costly it becomes.

Vietnam: Short-Term Frictions, Long-Term Leverage

Vietnam stands at a pivotal juncture. The 90-day U.S. tariff postponement on non-Chinese imports offers short-term relief, yet the underlying pressures remain. With Chinese import duties surging from 54% to 145%, Vietnam could benefit from trade diversion - potentially boosting GDP by as much as 200bps as rerouted flows find new pathways. However, this comes with caveats.

Vietnam's exposure to the U.S. is unusually high - exports to the U.S. account for 24% of GDP, far surpassing regional peers such as Thailand (11.5%) and Malaysia (8%). As such, any escalation in tariff implementation or prolonged uncertainty could dampen export activity and strain the job market. Domestic consumption, while accounting for roughly 64% of GDP, offers only partial insulation. Vietnam lacks the internal demand depth needed to offset a significant external shock.

Country exposure to US exports vs. Domestic Consumption



Source: World Bank

The country occupies a complex but compelling position. It is both vulnerable to rising protectionism and strategically positioned as a long-term beneficiary. Near-term headwinds - particularly to export-driven sectors - may pressure earnings and employment. However, medium-term gains from supply chain realignment and long-term structural reforms could be transformative.

Short-term - Macroeconomic fragility: Tariff pressures could weigh on the currency and compel tighter monetary policy, particularly problematic given Vietnam's relatively open capital account. In a scenario of global liquidity tightening, these vulnerabilities may be amplified.

Mid-term - Strategic supply chain role: The tariff regime accelerates Vietnam's emergence as a credible "China+1" hub. Multinationals seeking to bypass Chinese tariffs are scaling up Vietnam exposure. While this boosts FDI, it also increases scrutiny from U.S. regulators and tests Vietnam's limited infrastructure.

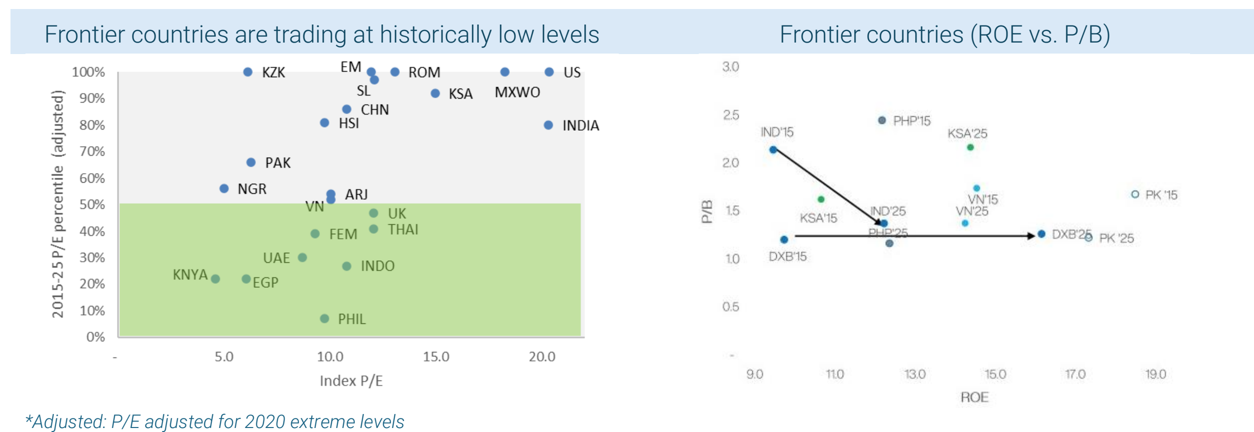
Long-term- Escaping the assembly trap: For Vietnam to realize its long-term potential, it must evolve beyond low-value assembly. This requires focused investment in education, R&D, and technology. Countries like Thailand and Malaysia offer more advanced industrial ecosystems today, while lower-exposed nations like Bangladesh and Kenya are missing the opportunity to step into higher-value supply chain nodes.

For long-term, value-focused investors, Vietnam presents an asymmetric opportunity: current volatility masks underlying advantages. Execution risk remains - especially around reform, infrastructure, and monetary flexibility - but the direction of travel is clear. Over time, Vietnam's integration into more complex value chains and its role in the post-China manufacturing landscape could meaningfully enhance economic durability and shareholder returns.

Oversold and Overlooked: Frontier Markets Offer Asymmetric Upside

Historical analysis of tariff wars (*Black Tariff (1842–46), McKinley Tariff (1890–94), Smoot-Hawley Tariff (1930), Brazil's Import Substitution Industrialization (ISI)*) reveals a recurring and predictable pattern: initial political allure swiftly gives way to economic disruption, triggering global retaliation, and finally, recalibration. This cycle, unfolding over months to years, inevitably breeds uncertainty and volatility in equity markets. Typically, risk-averse behavior leads investors to indiscriminately oversell businesses, disregarding underlying quality or nuanced fundamentals. We see this dynamic playing out once again.

Recent corrections in Southeast Asia and the Middle East have pushed valuations of some countries toward historical lows (between the 5th and 25th percentiles). Importantly, this valuation reset coincides with notable improvements in capital efficiency, evidenced by rising ROEs. Consequently, we believe these regions present compelling medium-to-long-term investment opportunities for discerning investors.



**Adjusted: P/E adjusted for 2020 extreme levels*

We favor oversold national champions in consumer staples, financial services, and domestic infrastructure/logistics sectors, where compelling dividend yields provide a meaningful margin of safety as we await broader economic recovery. We remain constructive on opportunities in the UAE, Saudi Arabia and Vietnam (especially domestically focused businesses); we are closely monitoring developments in the Philippines, Indonesia, and Kenya.

Contact Details:

Sandeep Srinivas, CFA

Fund Manager

SSrinivas@fimpartners.com

Investor Relations

investorrelations@fimpartners.com

Website:

www.fimpartners.com

Disclaimer:

This Article is by Frontier Investment Management Partners Ltd. (FIM Partners) is made available only to, and/or is directed only at, Professional Clients or Qualified Investors for purposes of the rules of the Dubai Financial Services Authority and UAE Securities and Commodities Authority, respectively. The products and services offered by FIM Partners are available only to such persons. Other persons should not act or rely on this Article. This Article is not intended for retail clients.

This Article contains information about FIM Partners, its employees and affiliates, and the historical performance of certain investments, or on asset management activities in general, in which they are or were involved. Such information has been included only to provide recipients of this Article with information as to such person's area of expertise or for discussion purposes. Material aspects of the opinions and descriptions in this Article may change at any time without notice. Any projections, market outlooks or estimates in this Article are forward-looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect investment returns. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. Past performance is not necessarily indicative of future results.

Any investment in securities or in the strategies described in this Article carries a significant degree of risk, including the risk of losing the entire amount invested. Any investor must be able to bear the risks involved and must meet the suitability requirements relating to such an investment. Some or all alternative investment programmes may not be suitable for certain investors. FIM Partners has not taken any steps to ensure that the investments referred to in this Article are suitable for any particular investor and no assurance can be given that the desired investment objectives would be achieved.

This Article is for informational and background purposes only, does not purport to be full or complete and is not intended to constitute, and should not be construed as, investment advice or deal arrangement activities with a view to transactions in investments. This Article does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any product or service, nor shall it or the fact of its distribution or communication form the basis of, or be relied on in connection with, any contract therefor.

Certain information included in this Article is based on information obtained from sources considered to be reliable. However, any projections or analyses provided to assist the recipient of this Article in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, any projections or analyses should not be viewed as factual and should not be relied upon as an accurate prediction of future results. No representation is being made that any investment will or is likely to achieve profits or losses similar to those shown.

No reliance may be placed for any purpose on the information and opinions contained in this Article or their accuracy or completeness. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this Article by FIM Partners or any of its directors, members, officers, employees or secondees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. This paragraph does not purport to exclude or restrict any duty or liability that FIM Partners may have to its clients under any applicable regulatory system.

The material contained in this Article is intended for private use only. The text and statistical data or any portion thereof contained in this Article may not be stored in a computer, published, rewritten for broadcast or publication or redistributed in any medium, except with the express written permission of FIM Partners. FIM Partners will not be liable for any inaccuracies, errors or omissions in the material or in the transmission or delivery of all or any part thereof or for any damage arising from any of the foregoing.

Frontier Investment Management Partners Ltd. is a private company incorporated in the Dubai International Financial Centre, under company number 0742, with registered office at Al Fattan Currency House, Office 903, Building 1, DIFC, PO Box 482011, Dubai, United Arab Emirates, and is authorised and regulated by the Dubai Financial Services Authority, and registered as an investment adviser with the US Securities and Exchange Commission.