

Navigating Tariffs

- In 2025, tariffs emerged as a central theme in corporate earnings commentary. But rather than adopting a one-size-fits-all strategy, companies across sectors are deploying a variety of responses — all with the goal of protecting margins and customer loyalty.
- Management commentary in Q2 2025 offered revealing insights into how firms are coping with tariff-related pressures.

Retail: Playing offense with scale

- Retailers are among the most exposed to rising import costs, but many are using scale as a key weapon. Walmart, for instance, has emphasized “playing offense” by absorbing as much cost as feasible to keep shelf prices low.
- Meanwhile, Target and Amazon are accelerating diversification of suppliers, shifting some sourcing to nations less impacted by tariffs.
- However, the era of deep discounting appears to be ending: by July–August 2025, discernible price increases began surfacing, suggesting that retailers’ cost absorption strategies are reaching their limits.
- Another emerging adaptation is a “B2B2C” routing model, where a U.S.-based intermediary (often owned by the foreign seller) imports at wholesale rates — facing lower tariffs — and then delivers to the customer at retail prices. This can create tariff “buffer zones” within the supply chain.

Technology : Political capital

- The tech sector’s experience illustrates how firms can sometimes bend regulatory burdens via political investments.
- Apple secured tariff exemptions after announcing an additional \$100Bn U.S. investment.
- TSMC similarly committed over \$100Bn to U.S. semiconductor plants, partly to strengthen its standing with U.S. regulators and policymakers.
- Such moves underscore how capital commitments and political signaling can soften regulatory headwinds.

Autos: Profit squeeze

- The auto sector faces some of the starkest tariff challenges. Ford has guided to a \$2Bn tariff-related drag in 2025, while EV maker Rivian warned that tariffs add “a couple of thousand dollars” per vehicle. GM meanwhile warned that tariffs could reduce profits by \$4-5Bn.
- Unlike in retail or tech, automakers typically have limited

levers to absorb or offset these costs, so tariffs often translate into direct profitability erosion.

Midsize firms: Fewer shields

- Large multinationals can buffer tariff shocks via scale, geography, and supply chain flexibility. Midsize firms, however, lack these advantages.
- According to JPMorgan, universal tariffs could impose nearly \$190Bn in added import costs on midsize companies. Wholesale and retail midsize firms are especially exposed, and many may be forced to absorb margin pressure directly.

Looking Ahead

- As per the OECD, the full effects of tariff increases have yet to be felt. Many changes are being phased in with companies initially absorbing some tariff increases through margins. However, the impact of tariffs is becoming increasingly visible in spending choices, labour markets and consumer prices.
- Tariffs are accelerating a shift toward “multipolar” supply chains. Firms are diversifying suppliers, investing in nearshoring, building redundancy (at higher cost) and tightening inventory discipline. The strategic focus is shifting from pure efficiency to resilience, a transformation that is beginning to reshape capital-allocation decisions across industries.
- For investors, the stakes are significant. Goldman Sachs calculates that the effective U.S. tariff rate has jumped to 13% from 3%, with the potential to reach 17%. Markets are pricing in an increase in operating margin for U.S. based companies for 2026. Meanwhile, during President Trump’s first tenure, tariff rates rose from 1.5% in 2018 to 3.0% in 2019, which resulted in a lost year of earnings growth in 2019, partly due to margin contraction.
- In the current tariff-driven environment, the corporate playbook rewards agility, but investors should particularly favour companies with strong pricing power as they are likely to outperform the peers and maintain profitability even amid rising tariffs.

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