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Navigating the Impact of Global Tariff Shifts on Business Valuations

Eight Advisory viewpoint

May 2025

Eight Advisory is a member of

8 EIGHT INTERNATIONAL

Summary

Introduction & background: the growing impact of import tariffs (1/4)

Import tariffs have become an increasingly important tool in global economic strategy, particularly amid rising geopolitical tensions. While traditionally used to protect domestic industries, tariffs are now employed as leverage in broader policy negotiations. The recent re-emergence of tariff policies may have long-lasting effects on global value chains, consumer and industrial confidence, and economic growth, significantly impacting how businesses operate and their value.

What do import tariffs mean for businesses?
Tariffs increase the cost of imported goods, which can impact businesses in several ways:

- Higher input costs
Especially for companies reliant on foreign components or raw materials.
- Investment uncertainty
Delay in investment decisions due to unclear long-term trade policy.
- Supply chain reconfiguration
As firms seek alternative sourcing to mitigate tariff exposure.
- Strain on working capital
As some businesses must pre-pay duties or face longer import cycles.
- Margin compression
When increased costs cannot be fully passed on customers.

Introduction & background: the growing impact of import tariffs (2/4)

Recent announcements of import tariffs (global context, not exhaustive)
The global trade environment in the beginning of 2025 has been shaped by significant tariff escalations, intensifying tensions among major global economies and prompting responses from countries around the world.

United States
On 1 February 2025, President Donald J. Trump signed an executive order imposing additional tariffs of 10% on imports from China and 25% on imports from Mexico and Canada. The measures aimed at curbing the illegal fentanyl trade, reducing illegal immigration and eliminating trade imbalances.
On 2 April 2025, the United States announced a blanket minimum tariff of 10% on all imports, except Canada and Mexico, which came into force on the 5th of April. Additional duties up to 50% were imposed to nations with the largest trade surpluses. However, the implementation of these higher duties (except China) was postponed and is now scheduled for July 8, subject to ongoing negotiations.
For China, the rate was initially set at 34% on April 2 but has since been revised several times reaching a high on all goods of 145% on April 17. After trade talks in Geneva on May 12, the US has agreed to postpone these high tariffs and reduce them to 30% for 90 days, as well as setting up new trade dialogues to address ongoing concerns.

China
In response to the announcement of US import tariffs, China has increased tariffs on all US goods to 125% and suspended exports of 7 critical rare earth minerals and magnets to the US As of 12 May 2025, a 90-day pause has been implemented to allow negotiations. During this period China will reduce tariffs to 10% and re-continue the export of critical rare earth minerals and magnets. While China has framed their response as essential to protect its economic interests, it has reiterated its commitment to engage in dialogue with the US to maintain balanced trade relations.

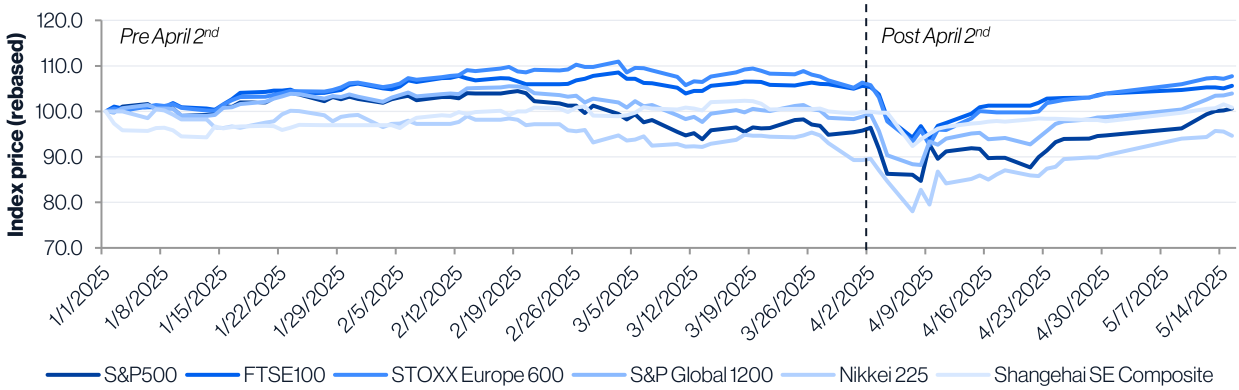
European Union (EU)
The EU had initially proposed countermeasures in response to sector-specific US tariffs on steel, aluminum, and cars, while also signaling a willingness to negotiate a “zero-for-zero” tariff agreement with the US These countermeasures were revoked the moment that the US postponed a 20% minimum blanket tariffs.
The EU is balancing negotiations efforts with preparations for a trade war, in order to protect its economic interests and promote internal market integration. As the EU navigates these turbulent trade dynamics, its efforts to balance protectionism with diplomatic engagement reflect its key role in shaping global trade and fostering international cooperation.

Introduction & background: the growing impact of import tariffs (3/4)

Impact on stock markets and fears for a recession

Stock markets have remained volatile since the announcements, with the S&P 500 falling 13.0% in the week following the announcements on April 2. The postponement of measures has triggered a substantial recovery, but potential for volatility in major indices remains if negotiations do not produce meaningful results. In addition, recession risks remain, but after the recent postponements, major banks are slightly more optimistic about avoiding a recession and have marginally increased US GDP growth rates.

Major global indices YTD performance (As at 15 May 2025)



Source: Eight Advisory Analysis

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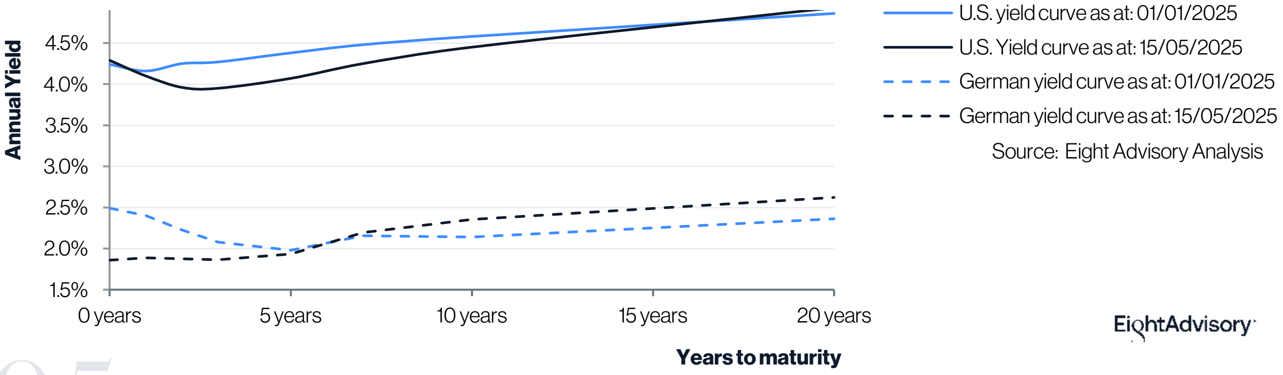
US treasury and German *bund* yield curve observations

The announcements of tariffs initially triggered a significant shift in US and German yield curves.. The shifts indicate that investors are increasingly uncertain about the US markets and long-term interest rates for Europe have also increased.

- The short-term inversion of the US yield curve indicates increased short-term uncertainty and inflationary pressure. The longer end has remained relatively consistent.
- The German Bund has undone the inversion since 1 January 2025, but the front end remains flat. Short-term interest rates have decreased significantly, while longer rates have become higher.



Source: Eight Advisory Analysis

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Introduction & background: the growing impact of import tariffs (4/4)

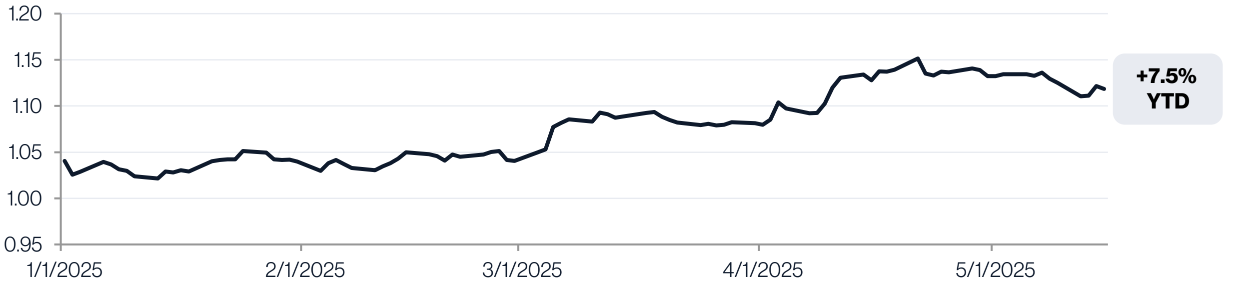
Gold rises, oil and the US dollar fall as global tariff tensions escalate

- Since the start of 2025, as seen in the graphic below, the gold price has shown a steady upward trend from January to April reaching new all-time highs. This performance highlights gold's traditional role as a safe haven in times of economic uncertainty. The ongoing global tariff discussions appears to be fuelling investors' risk aversion, leading to increased demand for gold as a hedge against geopolitical instability, inflationary pressures, and financial market volatility.

- In contrast, the dollar and crude oil prices weakened. The dollar is close to a three-year low against the euro, even though the currency was virtually on par at the beginning of this year. As a result of damaged confidence in the world's largest currency reserve, it has suffered a fall of almost 8% so far.

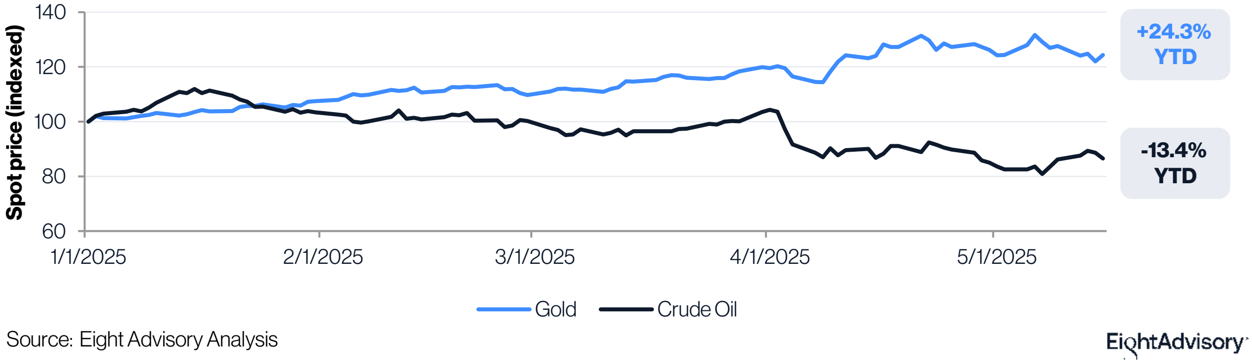
- The oil price decrease reflects growing concerns over weakened global economic activity and lower energy demand, both of which are likely consequences of escalating trade tensions. The tariff discussions are disrupting supply chains and dampening industrial output, especially in energy-intensive sectors, which has significantly driven down oil prices.

EUR/USD Exchange Rate YTD (As at 15 May 2025)



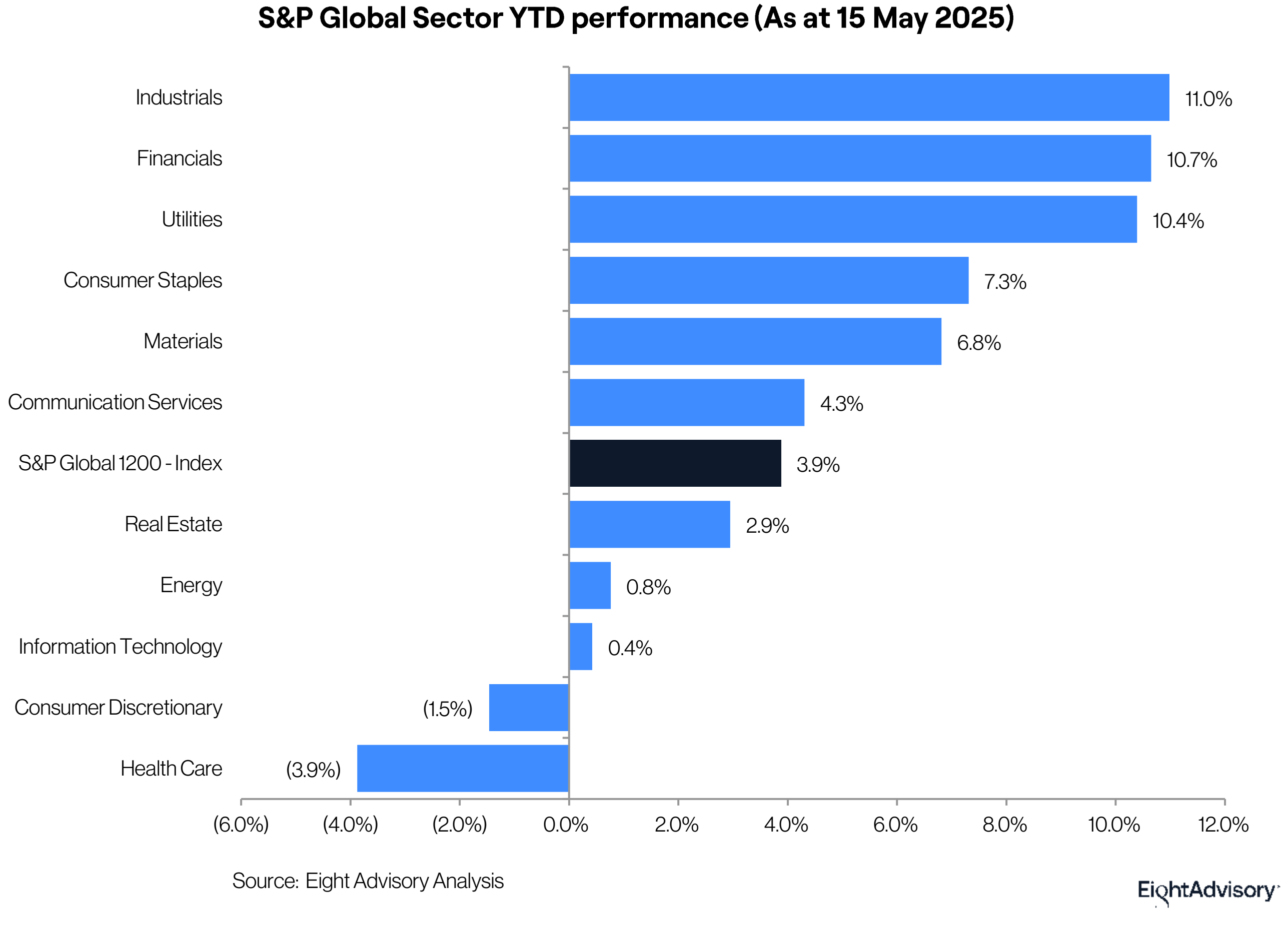
Source: Eight Advisory Analysis

Gold and Oil price YTD performance (As at 15 May 2025)



Source: Eight Advisory Analysis

Sector-level impact assessment: uneven effects across the market (1/2)



Caveats and Considerations:

- Share price reactions reflect a range of factors beyond tariffs and should therefore be interpreted with caution.
- Some companies are actively managing risk through hedging strategies, procurement deferrals, or cost absorption.
- Longer-term disruptions — such as forced reshoring or technological decoupling — may not yet be fully priced into valuations.
- The impact of tariffs also varies depending on each company's ability to adapt its business model, including through diversification, local production, or financial hedging.

Sector-level impact assessment: uneven effects across the market (2/2)

Import tariffs do not affect all sectors equally. The degree of vulnerability depends on the complexity of the supply chain, geographical sourcing, the sensitivity of input costs and the ability to pass on cost increases. Below is an overview of how the key sectors are reacting — both in terms of fundamentals and market sentiment as reflected in year-to-date (YTD) share price performance on the prior page.

Industrials (+11.0%) – Now the top-performing sector YTD, reflecting robust global demand for capital goods and logistics. Firms continue to diversify supply chains and increase automation, which is boosting margins despite input cost pressures. Infrastructure investment and improved operational agility are driving stronger results across key sub-segments.

Financials (+10.7%) – Among the strongest YTD performers, aided by solid loan growth, stable credit markets, and robust interest margins. Improved macro indicators and steady earnings delivery continue to support investor confidence. However, caution remains around exposure to volatile sectors and regulatory tightening in some regions.

Utilities (+10.4%) – A leading sector YTD, supported by investor appetite for defensive, income-generating assets amid lingering uncertainty. Regulated business models and long-term contracts underpin revenue visibility, while the energy transition is unlocking targeted growth. Higher capital costs remain a manageable headwind.

Consumer Staples (+7.3%) – Strong YTD returns, reflecting resilient demand and disciplined pricing strategies. Companies with diversified portfolios and supply chain flexibility are outperforming. Cost inflation in packaging and distribution is being offset by efficiency gains and brand strength in key consumer categories.

Materials (+6.8%) – Stabilising demand from industrial and infrastructure sectors is helping offset raw material volatility. Companies with niche or value-added offerings are leading performance within the space.

Communication Services (+4.3%)– Telecom operators remain pressured by rising infrastructure costs but streaming and content platforms are benefiting from user growth and improved monetisation strategies. Sentiment remains mixed but improving.

Real Estate (+2.9%) – The sector has posted modest gains, supported by its defensive nature. However, input cost pressures persist, particularly for medical devices and imported active ingredients.

Energy (+0.8%) – Returns are modestly positive YTD, as geopolitical risks and cost inflation continue to weigh on demand confidence. While some stability in oil prices offers a floor, upstream margins remain pressured. Infrastructure constraints and export restrictions are keeping investor sentiment cautious.

Information Technology (+0.4%) – Performance remains subdued YTD amid lingering trade concerns and global supply chain adjustments. While select areas like AI and cloud are seeing renewed investment, hardware and semiconductor players continue to face margin compression and policy-driven uncertainty.

Health Care (-3.9%) – The weakest performer YTD, despite its defensive qualities. Margin pressures from elevated R&D and raw material costs are weighing on profitability, particularly in pharma and biotech. Regulatory scrutiny and pricing constraints are dampening broader sector momentum.

Consumer Discretionary (-1.5%) – Performance reflects mounting pressure from softer consumer sentiment and global trade disruptions. Brands heavily reliant on cross-border sourcing, especially in apparel, electronics, and household goods, are experiencing reduced demand and shrinking margins.

Valuation in times of tariff turbulence: considerations and practical guidance (1/2)

01. The bigger economic picture

Volatile tariff environments call for enhanced scrutiny in business valuations. Traditional models may understate risk if key assumptions remain static. Below are several guiding principles for adjusting valuation approaches under conditions of rising uncertainty. Tariff escalation has implications beyond immediate trade flows:

- Inflation pressure Tariffs – Act like a consumption tax, raising prices in certain jurisdictions, whereas other jurisdictions may face price decreases.
- FX exposure – A decline in the US currency alter the global trade pattern (making US exports more competitive) and leads to reduced values of US businesses expressed in other currencies. FX exposure may also lead to mismatches between trading currencies and financing cash flows, if not properly hedged.
- GDP drag – Lower trade volumes, delayed investment and declining consumer confidence may weaken economic growth.
- Market volatility and policy responses – Heightened uncertainty drives fluctuations in asset valuations and capital flows. Central banks may be compelled to strike a balance between inflation, growth and unemployment.
- Commodity price exposure – The prices of key inputs like oil and metals diverge as demand expectations shift and safe-haven flows increase.

02. Business plan quality: are current forecasts still fit for purpose?

In this environment, understanding and quantifying the impact of tariff is becoming critical— not only for operational planning, but also for fair and defensible business valuations. If current projections remain unchanged from pre-tariff conditions, extra caution is warranted. Business plans should reflect:

- Updated revenue projections – Do forecasts incorporate potential demand contractions, higher prices, or erosion of competitiveness due to tariffs?
- Cost assumptions – Are import-related cost increases and supply chain disruptions factored in?
- Dependence on suppliers – Are your company's key suppliers affected by the tariffs and can they still meet delivery commitments?
- Capex and investment impact
  - Are strategic projects being delayed or reprioritised due to trade policy uncertainty?
  - The rapidly evolving tariff environment requires multinational firms to reassess forecasts frequently and take actions where required. For example, companies Have begun to curb discretionary spending such as advertising and consulting.
- Working capital needs – Are businesses prepared for short-term cash pressure (e.g. upfront duties, buffer inventory, supply-chain rerouting)?

Valuation in times of tariff turbulence: considerations and practical guidance (2/2)

03. Scenario analysis: embrace uncertainty

Given the unpredictable nature of trade policy, a single-point forecast is no longer sufficient. We recommend developing three broad scenarios and using probability weighting to determine the current value:

- Base case – Tariffs stabilise at current levels: what will be the impact?
- Upside scenario – De-escalation or rollback, improvement sentiment and margins, return to pre-disruption trajectory?
- Downside scenario – Further escalation and retaliation, leading to economic uncertainty and lower growth.
- Valuation Multiples – Caution is required when interpreting falling share prices as decline of valuation multiples. In many cases, lower equity values reflect downward revisions to earnings expectations Rather than a change in market-implied multiples. This distinction is critical for accurate valuations, especially when triangulating terminal value or using market comparisons.

04. Adjusting the discount rate when inputs are weak

If forecasts are outdated or management is unable to update them, risk must be reflected elsewhere — usually through the discount rate:

- Alpha adjustment – Adding a company- or sector-specific risk premium to capture tariff volatility may work, but how to justify this arbitrary assumption? Can it be triangulated with available market data?
- Caution with market-based WACC – Don't rely too heavily on short-term movements in beta or the risk-free rate. The risk-free rate may have increased, but has the weighted average cost of capital risen as well or is the market risk premium decreased? Betas can be significantly affected by one or two data-points as seen during the COVID period, but have the fundamentals of the industry really changed?

05. Beyond the normal five-year plan, what to consider?

In uncertain tariff environments, the terminal value, which is often a large component of the overall valuation, demands scrutiny. Relying on long-term assumptions that implicitly assume a return to "normality" may underestimate ongoing structural changes driven by protectionist policies.

- Normalisation of growth and margin assumptions – Is the terminal growth rate implicitly assuming a rollback of tariffs or a return to pre-disruption trajectory? If this is not the case, the value may be too high or too low. If margins are depressed due to tariffs or reshoring costs during the business plan period, will they rebound over time — and at what pace? It's important to remain cautious with reversion assumptions that aren't clearly substantiated.
- Reinvestment requirement – Will businesses need higher ongoing capex or working capital to navigate a more fragmented world? These drag on free cash flow and should be reflected in perpetuity models.
- Cross-check using different methods – The Gordon Growth Model is highly sensitive to small changes in growth or discount rates. Consider triangulating with exit multiples (while recognising their limitations in volatile markets).

How can we help?

Closing words:
The re-emergence of tariffs as a geopolitical and economic lever creates real-world business challenges— and adds layers of complexity to valuation. As governments continue to use trade measures strategically, companies and investors alike must adapt quickly to ensure that financial models reflect this evolving landscape.

Key Takeaways:

- Tariffs are no longer just noise— they are shaping margins, cash flows, and investment decisions. The impact varies widely across sectors and business models.
- Valuations must be based on current realities, not outdated plans. Assumptions around revenue, costs, and growth should be reassessed frequently.
- Scenario planning is no longer optional. A sound valuation requires a forward-looking view that takes into account possible trade escalations, policy shifts, and macroeconomic spillovers.
- Discount rates may need to be adjusted when forecasts are unreliable, or management isn't able to articulate mitigation strategies.

Amid the noisy and rapidly changing political announcements, companies must focus on the fundamentals: how evolving trade dynamics affect their long-term growth and margin outlooks. This forward-looking perspective, particularly over a 3-year horizon, is essential for sound strategic planning and valuation. While political developments - especially sudden tariff announcements - may dominate news cycles, effective valuation Requires us to look beyond through short-term volatility and assess structural impact on the business.

Eight Advisory support:
Our professionals use sophisticated financial modelling tools and scenario planning techniques to assess the impact of tariff changes on valuations and guide clients through these complex dynamics. We can support you with:

- Reviewing business plans for tariff-related impacts.
- Supporting internal valuation governance.
- Mapping your exposure across the entire value chain (e.g. supply chain analysis).
- Providing independent views on discount rate adjustments and risk overlays.
- Building sector-specific and scenario based financial models..
- Supporting transparent communication of valuation decisions to relevant stakeholders.

Contact our experts and see how we can help you!

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