



## ECONOMIC COMMENTARY

Dr. Francois Stofberg

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### THE GLOBAL TRADE RESET: THE NEW NORMAL?

The global trade environment is undergoing its most dramatic transformation in decades. The United States (US), once the champion of free trade, is now orchestrating a tariff-driven realignment of global commerce. At the centre is President Donald Trump, whose aggressive trade agenda is shaking markets, bruising allies, and redrawing the rules of economic engagement.

Currently, the focus is on China, where July trade data is expected to show another blockbuster surplus, estimated at around \$103.4 billion. This would increase the annual trade surplus to 4.9% of gross domestic product (GDP), up from 4.1% last year. What is striking is that this surge comes despite a 10.9% decline in exports to the US in June. China has adapted by rerouting trade through flexible supply chains and doubling down on globally competitive sectors. Still, the momentum may be fading, as recent manufacturing indices suggest weakening new export orders, while domestic demand remains fragile. Without fresh policy stimulus, China's exports could lose steam. But, for now, Beijing is using its trade strength to fill the vacuum left by US disengagement, even as Europe braces for diverted Chinese exports.

Meanwhile, the Bank of England is expected to cut interest rates to 4%, though uncertainty clouds the outlook. With inflation still elevated and the jobs market softening, the Monetary Policy Committee remains divided. Their likely stance? Proceed gradually and keep options open. Rate cuts are expected to continue through to April next year but recent inflation surprises could slow that pace.

In the US, another striking divergence is emerging. Big tech companies like Microsoft, Nvidia, and Meta are thriving, propelled by artificial intelligence optimism and robust earnings. But the broader economy is wobbling. Weak employment data, slowing GDP growth, and disappointing earnings in consumer and industrial sectors tell a more fragile story. More than half of the S&P 500 companies have reported shrinking margins. Trump's latest tariffs add to the divide. Switzerland, expecting a modest 10% deal, was stunned by a 39% tariff (one of the world's highest). Negotiations collapsed dramatically, showcasing the volatility of today's trade diplomacy and leaving key Swiss sectors exposed.

Nowhere is the fallout clearer than in the US automotive sector. Once promised a "golden age", manufacturers are now concerned about massive losses. The "Big Three" alone have flagged a \$7 billion tariff-related hit in 2025. Ford posted an \$800 million quarterly loss. Stellantis faces disadvantages, owing to how the trade agreement rules between the US, Mexico, and Canada are applied. Even Tesla anticipates "tough quarters ahead". Yet, amid the turmoil, some are adapting. Detroit Axle, a mid-sized parts supplier, saw a 20% sales increase after raising prices to offset tariff costs. Competitors folded while Detroit Axle survived. Profits are still down 80% but the workforce remains. It is a snapshot of the new economic landscape: Volatile, uncertain but survivable for the agile.

All of the above underscores a deeper reality: Global trade is under strain. Strategic tariffs, institutional decay, and political opportunism have eroded the foundations of multilateral trade. The World Trade Organisation, once a symbol of fairness, is now effectively paralysed. And while the US may see short-term gains from reshuffling supply chains, its long-term isolation from other trading blocs looms large.

In this era of tariff roulette, economic resilience depends not only on corporate agility but also on political foresight. For investors, businesses, and policymakers, the message is clear: The global trade reset is not a temporary detour; it is the new normal.

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