

Risk Rotation, Not Rates Pain, Chip-ping Away Confidence

In a Nutshell:

- US tech sector-led equity wobbles are a **stark reminder** that headline **US trade geoeconomic risks loom large**.
- This is highlighted by Nvidia's 3.5% drop ostensibly **on Bessent's suggestion of licenses required for sales of modified chips into China**.
- **US State/Presidential creep** into the tech sector *to the detriment of margins* and *imposed top-line/demand pressures* warn of **potential hit to valuations**.
- The **tyranny of US trade antagonism** admittedly undermine confidence in the USD.
- But "Pay America" extraction to US's benefit may **perversely backstop the USD temporarily in the near term**.

Risk Rotation, Not Rate Pain

- US equities wobbled led by a **sharp tech sector sell-off** as the *looming threat of US trade barriers* took the shine off recent rallies.
- Nasdaq dropped 1.5%. And the 0.6% fall in S&P500 was driven by Info-tech and Communications technology sectors plunging 1.9% and 1.2% respectively.
- The **2-3bp pullback in UST yields** across the yield curve, with a **slight bull flattening** bias is **consistent with rotating out of equities driven by equities-specific risk**.
- **Rather than the rates pain** (specifically, from higher rates) **pressuring equities lower**. To *which the tech sector tends typically more sensitive to*.
- Admittedly, rich valuations do not help, leaving tech darlings susceptible to bouts of pullback.
- But the **wider rotation into defensive stocks** alongside a *boost to USTs* (lower yields) and a *firmer USD* speak to **some degree of "risk off" instinct**.
- Specifically, attributed to **lingering, and specific risks from US trade barriers to the tech sector**.

Chipping Away at Confidence

- And *Nvidia's 3.5% hit* is the *smoking gun on US trade antagonism chipping away at confidence*.
- Tellingly, *Nvidia's pain* may be traced to **US Treasury Secretary Bessent suggesting** (in an interview with CNBC) that **Nvidia would require licenses to sell any new chip variant to China**.
- Which is a **stark reminder** that the **tech sector**, especially those that are part of the **cutting-edge AI ecosystem**, is **subject to headline geoeconomic risks from pugilistic US trade policies**.

- The troubling conclusion is that the **chip sector outlook may be considerably dimmed** in the context of **coincident levies such as**:
 - i. *Trump's 15% (of revenues) tariff to be imposed on chip exports to China*, and;
 - ii. *the overhang of looming 100%/200%/300% semiconductor sectoral tariffs* (which are harder to challenge in courts).
- Point being, this **US State/Presidential creep into tech, and the wider private sector, is unhealthy** as it threatens to **erode margins** (export tariffs) and **dent demand/topline** (restrictions/quotas).
- **If this plays out as worse case outcomes**, there is a **compelling case to revise down future earnings** and correspondingly, **valuations**.
- And in any case, the **danger of more geoeconomic uncertainty risk premium to be priced in, to the detriment of price multiples, cannot be ignored**.

Ironically, an Interim “Pay America” USD Backstop

- To be sure, this **slippery slope of interventionist policy adventurism**, to the detriment of the private sector, **undermines trust/confidence in US policies** and **markets**.
- Crucially, this **threatens to ultimately** come back to **roost as risk premium in US assets**.
- The **single biggest danger** from this is the **erosion of the USD's reserve currency status, alongside the loss of faith in USTs as the unchallenged global reserve asset**.
- ***But arguably not imminently*** so.
- Point being, the **“Pay America” extraction** from private sector and trade partners alike ***may in fact perversely backstop the Greenback temporarily***. At least for the time being.

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