ARTISAN PARTNERS

Note on Tariffs and Volatility

17 April 2025

The reciprocal tariffs announced by President Trump last week have precipitated a global selloff in equity markets. Much of the reason for the scale of the drawdown has been due to the bizarre calculations the Trump administration announced in formulating the reciprocal tariffs, far exceeding anything the financial markets had anticipated. We believe Artisan Non-U.S. Growth and Artisan Global Equity portfolios has been relatively well positioned for the announcement last week since last year. Much of this was down to adherence to our process through stock selection in our preferred themes, as much as it was to our avoidance of industries likely to be hardest hit by such tariffs. Further refinements to holdings during Q1 reinforced the portfolio and underscored its resilience, with most of our higher conviction holdings having either no exposure or limited exposure to tariffs.

First, we have been underweight technology for several years arguing that the valuations were unjustified relative to their expected growth rates. That position was rewarded when the sector sold off sharply in February, as the markets re-evaluated the enormity of capital investment on artificial intelligence (AI)-related capital expenditure plans by the major hyper-scalers. Secondly, our positions in the industrial sector, notably the defense holdings, were rewarded this quarter, as they have been all year, as European countries responded to the perceived withdrawal of US protection by clearing the path for increased defense spending. The America First policy highlights the increasing tensions as well as the need for investment and more self-reliance by countries that were until recently, regarded as close allies and trading partners. Third, our diversified approach to European financials was rewarded in Q1, particularly by banks that continued to raise dividends and buyback stock. Our holdings in insurance and other non-bank financials also proved resilient this past quarter.

Our avoidance of the auto industry also helped as this sector remained highly vulnerable to tariffs. Aside from tariff-related risks, lower-margin industries, like autos, do not align with our process as they lack pricing power, are highly capital intensive, face global competition and are highly sensitive to interest rates and the consumer cycle. Our long-term avoidance of commodity industries and manufacturers in general also falls into the same category.

Finally, starting in December, we increased our China holdings, attracted by compelling valuations and improving investment conditions. These investments were primarily in companies focused on China's domestic consumer market. However, we have since reduced these positions due to higher-than-expected tariffs on China and a more cautious outlook for consumer spending.

Other portfolio adjustments have proven beneficial such as reducing our healthcare holdings beginning late last year and selling Canadian listed railway CPKC in February as tariffs were likely to impact cargo shipments to and from both Canada and Mexico.

While much remains unknown about our trading partners response to the US tariffs, or to any potential change in US policy, our founding PM Mark Yockey and the rest of the team remain committed to our process and invest in quality companies with attractive valuations.

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This summary represents the views of the portfolio managers as of 17 April 2025. Those views may change, and the strategy disclaims any obligation to advise investors of such changes.

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