
It's All About Trump, Unfortunately

The three primary drivers shaping the markets in February and into March are 1) tariffs, 2) the potential for a ceasefire in Ukraine, and 3) increased German fiscal spending. While these factors may seem distinct, we argue that they are interconnected and, in many ways, driven or triggered by Trump's policies. Also, each of these developments has significant implications for our universe of companies focused on energy security, electrification and renewable energy, all key components of our investment strategy.

Trump's Direct Impact on the Renewable Energy Sector

In previous monthly reports we have extensively discussed Trump's dismissal of climate change as a 'hoax', as well as the limits of his ability to enact sweeping changes without congressional support (see October's report: *The Energy Transition Does Not Stop with Trump*). So far, Trump has followed through on several campaign promises, including suspending offshore wind development, withdrawing the US from the Paris Climate Agreement, and halting the Environmental Protection Agency's (EPA) use of the Social Cost of Carbon metric. He has also frozen funding for certain clean energy initiatives, though some of these actions were challenged in court, with the EPA ultimately keeping its funding promises.

Despite these moves, strong legal and institutional guardrails in the US should limit Trump's ability to fully dismantle Biden's climate legacy. The most significant barrier remains legislative change, which requires congressional approval. With a slim Republican majority in Congress, the big question is whether the Inflation Reduction Act (IRA) will be repealed or significantly amended. As we argued in the October report, we do not believe the IRA will be revoked outright, but it will almost certainly face modifications. The Republican Congress is currently debating how to finance the extension of the Tax Cuts and Jobs Act (TCJA), which expires at the end of this year, and this discussion will likely shape the fate of the IRA.

Returning to the three primary drivers of last month's market dynamics, we examine their impact on our investment universe.

1. Tariffs: Trump's "Most Beautiful Word"

Tariffs have been a cornerstone of Trump's economic policy, and he has consistently framed them as a tool to enrich America by taxing both friends and foes. As we highlighted last month, the Republican-led Congress may have to rely on tariff revenue to help finance the extension of the TCJA, which is estimated to cost about \$4.5 trillion over 10 years. Trump's additional tax promises, e.g. cutting taxes on tips, eliminating the estate tax, and making the TCJA permanent, further complicate the fiscal outlook. Compounding the challenge, Trump has pledged to halve the staffing of the Internal Revenue Service (IRS), the agency responsible for tax collection.

Congress faces a daunting task in balancing these fiscal demands. While repealing the IRA was a Trump campaign promise, most pundits agree that this would not significantly address the budget shortfall. Similarly, the Department of Government Efficiency (DOGE), led by Elon Musk, claims to have saved USD 105bn and Musk is targeting annual savings of USD 1trn, a target most economists believe is farfetched. For context, according to the New Yorker, dismissing all federal employees outside the military and postal service would save only about 250 billion a year.

If savings fall short of what is needed, Congress will be forced to seek alternative sources of revenue. In this context, we believe tariffs are more than just a negotiation tool for Trump. A 10% across-the-board tariff on all US goods imports, valued at approximately \$3.3 trillion in 2024, could, if keeping

everything else the same, cover more than half the cost of extending the Tax Cuts and Jobs Act (TCJA).

Clearly, everything would not stay the same. Tariffs would likely reduce import volumes as some foreign goods become uncompetitive, thus lowering tariff income. For most imports though, tariffs will simply drive up the prices for consumers, reducing disposable income for other goods and services. Additionally, retaliatory measures from trading partners will dampen US exports and these factors will likely weigh on both the US and the global economy. Nevertheless, tariffs would still provide a sorely needed revenue income for the US government.

Interestingly, the tariff revenue could reduce the pressure to repeal or find cost savings in the IRA. In this way, tariffs could indirectly benefit the renewable energy sector in the US. Domestic producers like **First Solar (FSLR)** would stand to gain twice over as they would retain their tax credits while also enjoying a competitive edge over foreign rivals subject to import tariffs. Conversely, European companies like **SMA Solar (S92)** with production in Europe and more than 50% of its revenues in the US, would likely face challenges.

While it is not a foregone conclusion that the US will impose tariffs on Europe, we consider it highly likely and expect the EU to face similar measures as experienced by Canada and Mexico already in early April following the April 1st presentation by Trump's team reviewing tariffs on different sectors and countries.

The only certainty about Trump's tariff policies so far is the uncertainty they create. They are straining the global economy as they complicate corporate investment and supply chain decisions. This is evidenced by the frequent mention of tariffs as a risk factor in earnings calls. U.S. equities, which began the year near all-time highs and was priced to perfection, are reflecting this unease in their performance.

Given that Europe is likely to face tariff-related uncertainty soon, its strong performance this year may come as a surprise. This resilience can be attributed to the other two key drivers: the increased likelihood of peace in Ukraine and expectations of a significant boost in German fiscal spending.

2. Potential Ceasefire in Ukraine

With regards to the prospects of a ceasefire in Ukraine, we share the profound dismay felt by many Europeans over the US apparent alignment with Putin's narrative of the war, effectively ceding much of Ukraine's negotiating leverage to Russia. The fact that the US is seeking compensation through mineral rights from Ukraine, a nation victimized by aggression from what was once America's primary adversary, will undoubtedly tarnish its reputation for generations to come.

Still, due to Trump's actions, the chance of a ceasefire agreement has increased significantly. While the exact concessions Ukraine will need to make to Putin remain unclear, there is little doubt that Europe will bear most of the financial burden for rebuilding western Ukraine, estimated at approximately EUR 500bn by the World Bank Group. Rather than continuing to supply weapons and missiles, European companies may soon play a leading role in reconstructing the infrastructure in the western part of the country. In an era marked by rising protectionism, we believe it is likely that the EU will ensure preferential treatment for European companies in contracts funded by EU money.

Companies with a history of operations in Ukraine or the surrounding region, particularly those specializing in construction and infrastructure, stand to benefit significantly. The ripple effects of this

spending are expected to positively impact the broader European economy. To leverage this potential, we have launched a new investment theme, “Energy Efficiency,” which so far includes companies involved in constructing energy-efficient buildings. Additionally, our long positions in **Siemens Energy (ENR)**, **Prysmian (PRY)**, and **Nordex (NDX1)** to name a few provide further exposure to this theme and to rebuilding Ukraine, aligning our portfolio with the expected surge in demand for sustainable infrastructure solutions.

3. Increased German Fiscal Spending

The third driver of stock market performance in February was the strong indication of a significant boost to fiscal spending in Germany. This development is arguably, in no small part, a response to President Trump’s actions. The US has signalled that Europe may soon need to fend for itself, as it can no longer be assumed that America will defend Europe against common adversaries.

In response, the new coalition government of the CDU/CSU and SPD plans to borrow up to €900 billion and allocate the money to two Special Funds focused on defence and infrastructure. Germany is one of the few major economies with the fiscal capacity to significantly increase borrowing, given its relatively modest debt-to-GDP ratio of about 60%, half the level of the US. It does however require an amendment to the constitution to revise the so-called ‘debt brake,’ introduced after the financial crisis to limit government borrowing. Unfortunately, the new coalition lacks the two-thirds majority in the Bundestag needed to change the constitution, but it intends to push for the amendment in the weeks before the next legislature convenes.

There are two key challenges to this plan. First, altering the constitution after an election result that does not support the amendment may raise democratic concerns. The decision is likely to be challenged and brought before the German Constitutional Court, which could delay any changes to the constitution, new debt issuance, and subsequent spending. Second, the coalition will need support from two other parties, the FDP and the Greens, to secure the two-thirds majority in the current Bundestag. While both parties are expected to agree eventually, the Greens, in particular, are likely to demand concessions. We believe those could be quite positive for our sector as a larger portion of the infrastructure fund spending would be directed toward renewable energy and grid developments.

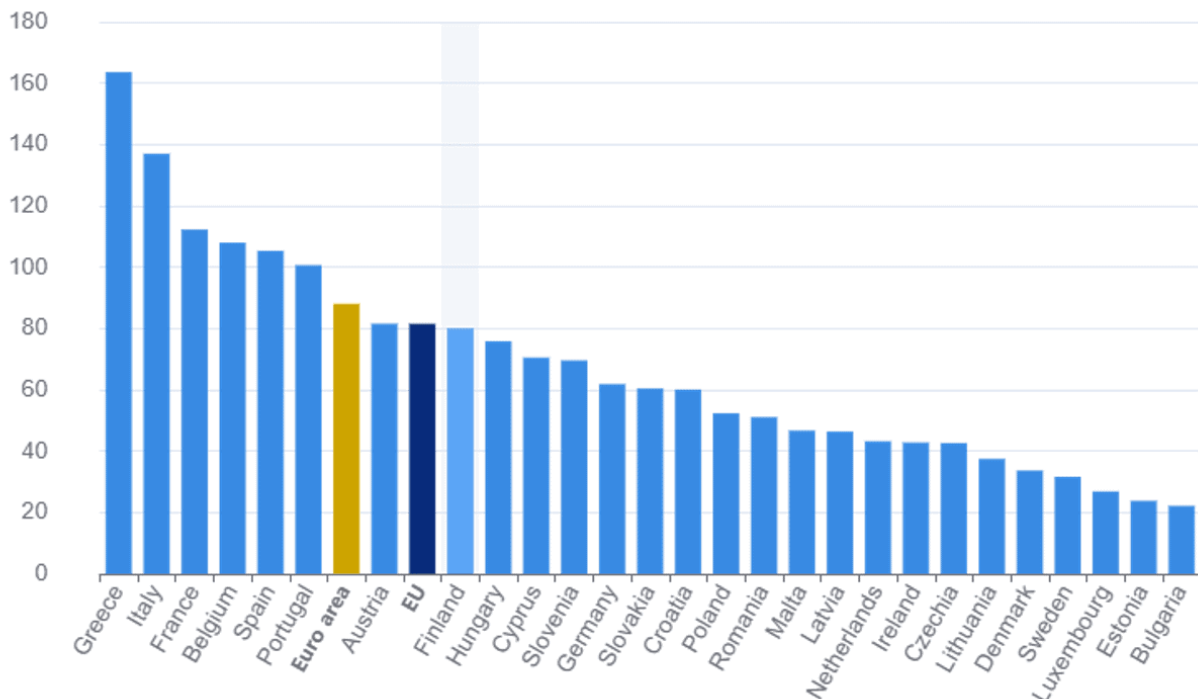
Assuming the ‘debt brake’ is amended and the two funds are successfully launched, the infrastructure fund, worth €500 billion over 10 years, will have a particularly transformative impact. Annual incremental spending of €50 billion represents approximately 1% of Germany’s current GDP and nearly 50% of its total federal investment expenditure in 2024. This would constitute a fiscal stimulus for the German economy not seen since the reunification in 1990. Like then, there will likely be positive spillover effects benefiting the broader European economy through increased trade and investment.

Moreover, the incoming German government is advocating for the EU to relax its fiscal rules, enabling debt-strained member states to ramp up defence spending. Remarkably, just six weeks into Trump’s presidency, the global landscape, or at least EU fiscal policy, has already been upended, signalling a profound shift in economic and geopolitical priorities.

A likely outcome in our view is that other EU countries follow in the footsteps of Germany. While some countries like France, Spain and Italy are highly indebted, the EU as a group has financial headroom.

General government gross debt to GDP ratio, 2024Q2

In percentage



eurostat 

Risky near-term environment

It often feels as though the news flow of the coming months is portrayed as being of extraordinary importance, but this time, we believe the sentiment may be justified.

First, we believe EU will be hit by US tariffs in early April. As such, investing aggressively in Europe in the near term is far from a straightforward decision, especially following the last months sharp multiple expansion. Still, companies focused on energy security, energy and IT infrastructure, roads, bridges, buildings and defence, particularly those with a predominantly domestic focus within Europe and Ukraine, are likely to be well positioned over the next years.

The initial market reaction to the German stimulus plans has been a broad-based rally, but we believe some companies are still undervalued while others might have already overshot their fair value. As a result, we have added both longs and shorts in Europe during the month. We are currently evaluating a list of companies that we believe could further profit from this development and plan to adjust our portfolio accordingly.

Moreover, the US government faces a potential shut down in mid-March unless Congress agrees on a continuing resolution to fund government operations for the coming months. However, the Republican-controlled House may instead pursue a budget reconciliation bill. While the success of this bill is highly uncertain, it is likely to generate headlines related to the IRA. This is of utmost importance for the clean-tech industry.

For markets, the potential imposition of tariffs and the lifting of Germany's 'debt brake' are the most critical developments to monitor. While we believe Europe is likely to face a trade war with the US, this

could be offset, at least for German equities, by the incoming government's expansive fiscal policy. Overall, the range of possible outcomes is wide, but it seems safe to assume that volatility and dispersion between winners and losers will remain elevated. This environment will present compelling trading and investment opportunities for stock pickers capable of acting swiftly on both the long and the short side.

Date Created

2025/08/26