



## Monthly economic outlook for Private Equity

19 February 2025

### Policy uncertainty creeps in

A flurry of US policy proposals has created uncertainty and posed serious challenges to global markets. Global companies and policymakers are increasingly guarding themselves against shocks, particularly those related to US trade barriers. Companies are also waiting for policy uncertainty to subside before making significant investments. Financial markets have responded quickly to policy proposals and reversals.

Policymakers outside of the United States are looking to other regions to support their export markets. For example, the EU recently finalized a trade deal with a group of South American countries (Mercosur)<sup>i</sup>, updated a deal with Mexico, and reopened talks with Malaysia. China is engaged in trade talks with several Latin American countries.<sup>ii</sup> The direction of outbound investment by Chinese companies has shifted from the United States and Europe to emerging markets.<sup>iii</sup> Trade flows will likely follow.

In addition to policymakers, companies are also reevaluating their global footprint. A Conference Board survey<sup>iv</sup> found that 71% of 500 CEOs intend to make significant changes to their supply chains in the next three to five years, up from 54% a year earlier. For all 1,700 C-suite respondents, including the CEOs, 85% intend to change supply chains, up from 70% last year. Among executives in Southeast Asia, 90% intend to make significant changes to supply chains. A separate survey conducted by the American Chamber of Commerce<sup>v</sup> in China found that 30% of US-based companies have either shifted sourcing and production out of China or are planning to do so. This number has doubled since 2020.

Although dealmakers were excited about the potential of tax cuts, less regulation, and fewer anti-trust investigations in the United States, it looks like the mood has lately turned more somber due to uncertainty about tariffs. For example, one measure of M&A activity dropped significantly in January.<sup>vi</sup> An inflationary policy mix could also put upward pressure on interest rates, which would further restrain deal activity.

The recent announcement that the United States would place 25% tariffs on goods coming from Mexico and Canada and a 10% tariff on goods from China, had a major impact on financial markets. Globally, equity prices fell (with especially large declines for automotive companies), the US dollar increased in value, oil prices increased, and the price of gold soared.<sup>vii</sup> Some of this was reversed when news broke that the tariffs on Mexico and Canada would likely be paused. Meanwhile, as of this writing, tariffs are being placed on US imports of steel and aluminum, while tariffs are being threatened on other countries.

Those financial market gyrations can also affect the real economy. The threat of higher tariffs has increased the value of the US dollar relative to other currencies. Emerging markets are particularly

vulnerable to changes in the exchange rate. A depreciation in their currencies can increase the cost of imports, thereby raising inflation and interest rates. This in turn can increase financing costs for the private and public sector. Countries that rely heavily on the United States for trade, such as Mexico, are among the most exposed.

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## End notes

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<sup>i</sup> <https://apnews.com/article/uruguay-mercosur-european-union-trade-agreement-free-trade-south-america-44ca8d0eef524b84014ad266c286f8fe>

<sup>ii</sup> <https://www.cfr.org/backgrounder/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri>

<sup>iii</sup> <https://www.elibrary.imf.org/view/journals/002/2024/276/article-A004-en.xml>

<sup>iv</sup> <https://www.conference-board.org/topics/c-suite-outlook/press/c-suite-outlook-2025#:~:text=A%20big%20increase%20among%20US,increase%20from%2061%25%20in%202024.>

<sup>v</sup> <https://www.cnbc.com/2025/01/23/us-companies-in-china-looking-to-relocate-at-a-record-high-survey-finds.html>

<sup>vi</sup> <https://www.ft.com/content/c9a3106b-0801-450a-8b26-0b3a3b45c297>

<sup>vii</sup> <https://www.nytimes.com/2025/02/02/business/stocks-trump-tariffs.html>