Spectrum Asset Management

Principal Asset Management℠

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Bank, insurance, and utility fundamentals resilient to U.S. tariffs

On April 2, President Trump announced a broad series of tariffs, imposing a 10% baseline on all imports and reciprocal tariffs of up to 50% or more depending on the specific goods imported and export nation. These tariffs aim to address trade imbalances but risk escalating global tensions and retaliatory measures. The tariffs and the associated uncertainty have the distinct possibility of boosting and prolonging inflation, as well as pressuring economic growth and employment – if only for a while. Spectrum continues to be cautious on credit choices, focusing on stronger and more resilient issuers. We continue to believe that the banks, insurers, and utilities we hold will manage likely challenges well, with any effects being on earnings, rather than capital.

Global banks are entering this period in solid shape regarding capital, earnings, funding, and asset quality. Our expectation is that for the rest of 2025, and perhaps into 2026, we will see earnings pressure from softer economies, reflecting reduced loan and transaction demand, cost pressure, and higher precautionary loss provisions. While nations might try to stem the economic effects of the tariffs with fiscal moves, many nations have limited fiscal flexibility. In addition, the uncertainty of counter-tariffs, negotiated tariff abatement, and associated timing creates uncertainty that will further pressure banks. Nevertheless, Spectrum is optimistic that the banks in which it invests have the franchise and financial strength to weather these challenges.

Insurers in which we invest enter this period with strong capital, diversification, and profitability. Property & casualty companies could be more directly affected by higher inflation (e.g., on repair parts) but can also raise premium rates. Life insurers are more sensitive to macro conditions given their larger, complex investment portfolios. Nevertheless, they are mainly buy-and-hold investors in high-grade fixed income. Higher rates are generally more favorable for fundamentals, though leading insurers have proven adept at managing a lower for longer environment if such a scenario were to recur. As life and annuity company investments back stable policyholder obligations, they have been growing investments in more illiquid private and structured credit. We focus on insurers with well-managed exposures.

Utilities remain focused on defending investment-grade rating profiles amidst record capital spending. Corporate hybrids are core to their funding plans as they build critical infrastructure to provide reliable, clean power for broader electricity demand, such as from data centers. Spectrum's utility investments are typically well-regulated companies in supportive jurisdictions and/or firmly contracted with quality counterparties. As such, they should be less sensitive to the geopolitical and macroeconomic backdrop than unregulated power and renewables-specific companies.

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Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Fixed Income investments are subject to interest rate risk; when interest rates rise, the price of debt typically declines.

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