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Global trade redefined: Private Equity

Dealing with tariff uncertainty

April 2025

This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

US import tariffs will act as a catalyst for value chain stress across Private Equity portfolio companies, with impacts ranging from risk of margin compression and supply-side uncertainty to opportunity for re-thinking pricing strategy.

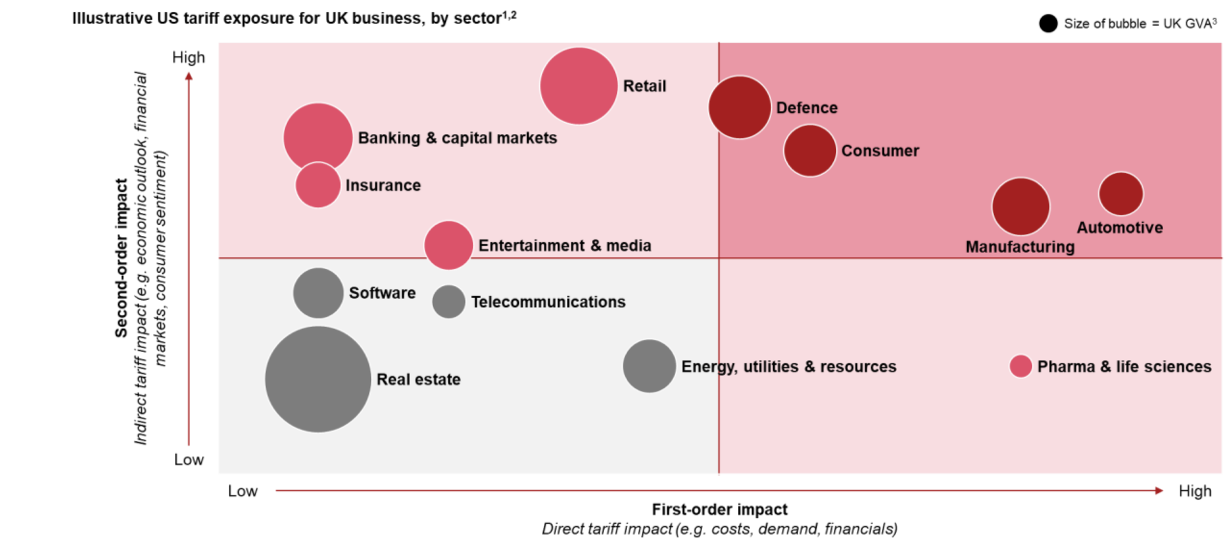
Private Equity portfolio companies in Europe remain exposed to:

- Input pressure from cost volatility or dumping-driven margin squeeze
- Demand disruptions, US/China pullbacks or retaliatory consumer effects
- Liquidity or execution complexity e.g., stockpiling, lead times etc.

Tariff dynamics will vary across end industry but will likely disproportionately impact portfolio companies with complex global supply chains, low pricing power and rigid operational footprints. Significant short- to medium-term risks and opportunities now exist, with noticeable impact on the potential exit options. Private Equity must act decisively to map exposures, model implications and identify viable commercial and operational levers.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930.

The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the "baseline" tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the "baseline" tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes "reciprocal" tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

Taking stock of tariffs

Understanding the impact on Private Equity portfolio companies

The impact of tariffs is likely to be multi-faceted and feed through a number of transmission channels

Input cost shock
Likelihood of increased input costs where multinational supply chains pass through the US. Possibility of reduced input costs if China redirects exports to the EU, but subject to anti-dumping regulation, logistics rebalancing and selective dumping measures.

Demand and market saturation
If significant share of Chinese exports is rerouted to Europe, there is a threat of market oversupply, leading to pricing pressures and margin compression.

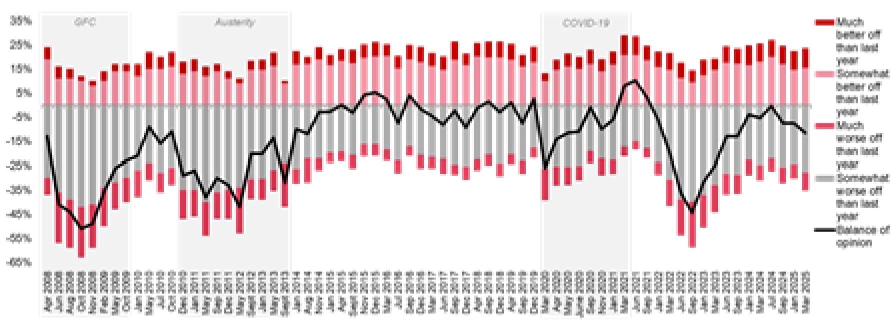
Supply chain disruption
Immediate need for businesses to understand full supply chain, including gaining visibility of Tier 2-5 suppliers, to identify possible sources of disruption and extent of possible input cost increase.

Policy retaliation
Possible escalation in trade tensions could lead several geographies to apply reciprocal tariffs or other anti-free trade policies (e.g., EU regulatory actions, such as anti-dumping duties), which could compound the impact of cost increases across complex cross-border supply chains.

Currency fluctuations
Potential volatility in currency exchange rates is likely to deliver up- and down-side on both input cost and sales prices. Businesses should understand their degree of exposure to currency valuations and consider hedging strategies over the short- to medium-term.

PwC Consumer Sentiment Index, 2008-25

“Thinking about your disposable income in the next 12 months, do you think your household will be…?



Source: PwC Consumer Sentiment Survey (March 2025)

Taking stock of tariffs

Understanding the impact by sub-sector

Primary challenges for Private Equity portfolio companies

Private Equity portfolio companies will likely face multiple sources of challenges, each with different exposure pathways and implications.

Input costs

Market saturation

Supply chain disruption

Regulatory risk

Financial volatility

Global input dependent

Exposure via upstream cost or component sourcing

Exposure

- Reliant on components or raw materials sourced globally
- Tariff effects may be indirect (Tier 2/3 suppliers) or direct through price inflation or shipping delays
- FX movements and supplier stockpiling may also create cost volatility

Action

Stress test gross margins, consider **buffer inventory** and model **multi-sourcing** scenarios.

End-market volatility exposed

Exposure via customer industries, end markets or macro effects

Exposure

- Not directly tariff-affected, but serve customers who are (e.g., auto OEMs, green tech)
- May experience a combination of:

i. Order slowdowns
ii. Delayed customer spend
iii. Margin compression passed downstream

Action

Monitor **pipeline** health, protect key **customer relationships** and adjust **demand scenarios.**

Margin suppression from saturation

At risk from over-capacity being diverted to EU

Exposure

- Finished goods (e.g., components, materials etc.) may be dumped into the EU at low prices
- Could see rapid price erosion, margin squeeze, or market share loss
- Even if input costs fall, pricing pressure could more than offset benefit

Action

Revisit **pricing strategy**, explore **product tiering/mix**, watch for red flags in **pricing KPIs.**

Taking stock of tariffs

Assess the impacts and short-term actions

Tax and operational assessment

While the medium- to long-term structural impact on portfolio companies may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority for Private Equity funds is to thoroughly assess and quantify the tariff implications from a tax and operational perspective across their portfolios. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

01 Conduct/validate impact assessments, including understanding the physical product/material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods are substantially manufactured.

04 Understand the value build-up of the price to ensure the custom value is correct and review cost components.

05 Consider from a transfer pricing perspective that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

06 Consider the US specific valuation principles.

07 Review contracts to confirm whether they include a tariff cost adjuster / escalator in terms of cost.

08 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.

A Call to action

How to prepare for the new world order

Private Equity firms need to prepare their portfolio companies for a new world order which is characterised by regional power blocs, state capitalism and bilateral relations. This transition will create geopolitical volatility in the short term and global trade realignment in the medium term.

Private Equity can make some 'no regret moves' now to mitigate initial risks to margin and more structural changes to transform their portfolio companies' business models – that collectively embed resilience to counter any geopolitical shocks (tariffs or otherwise).

	Short term 'no-regret' moves Absorb initial shock from market disruption while maintaining near-term resilience	***Medium- to long-term response*** Structural changes to protect competitiveness and future-proof operating models in the face of persistent trade realignment
Commercial strategy and pricing	**Protect margin via fast pricing moves and client actions** • Consider the tax points noted on the previous page, and evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view) • Use of cost-plus pricing models with tariff indexation • Understand customer segments to apply targeted margin protection • Ability to introduce temporary price surcharges where justified (e.g. surcharge clauses) • Understand at-risk customers and likelihood of churn	**Reposition commercial strategy for structural margin and customer defence** • Use of value-based pricing (e.g., justified by quality, compliance or ESG differentiation) • Product mix dependency on commoditised/substitutable SKUs • Opportunities to develop bundled or tiered pricing structures • Level of concentration in tariff-sensitive segments or markets • Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective.
Operations, footprint and supply chain	**Contain exposure using immediate supplier and logistics levers** • Evaluate tier1/tier 2 supplier exposure by country • Inventory coverage and ability to ride out tariff-driven cost spikes • Feasibility of switching to alternative transport modes or routes (e.g., EU FTA partners) • Contractual flexibility in logistics and warehousing agreements (e.g., rerouting, buffer stock clauses)	**Redesign supply and production footprint for long-term resilience** • Availability and quality of alternative suppliers in low-tariff or subsidised jurisdictions • Fit of current manufacturing footprint with evolving trade regimes • Feasibility of regionalisation or relocation • Alignment of footprint strategy with government incentive schemes
Financial and liquidity	**Stabilise working capital and cash amid cost volatility** • Working capital risk from inventory build-up, slower customer payments, or tariff timing mismatches • Breach risk in existing covenants due to cost/revenue volatility • Near-term liquidity flexibility (e.g., pre-emptive refinancing, credit line utilisation)	**Build financial flexibility for sustained disruption scenarios** • Margin and cash burn thresholds under sustained trade pressure • Capex plans that may require reprioritisation due to new supply chain realities • Resilience of debt structure under prolonged input inflation or customer delay scenarios

Key contacts

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