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Global trade redefined: Private Equity

Dealing with tariff uncertainty

July 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.

Last updated: 25 July 2025
Ref: *Accessing the situation and What could happen next*

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:

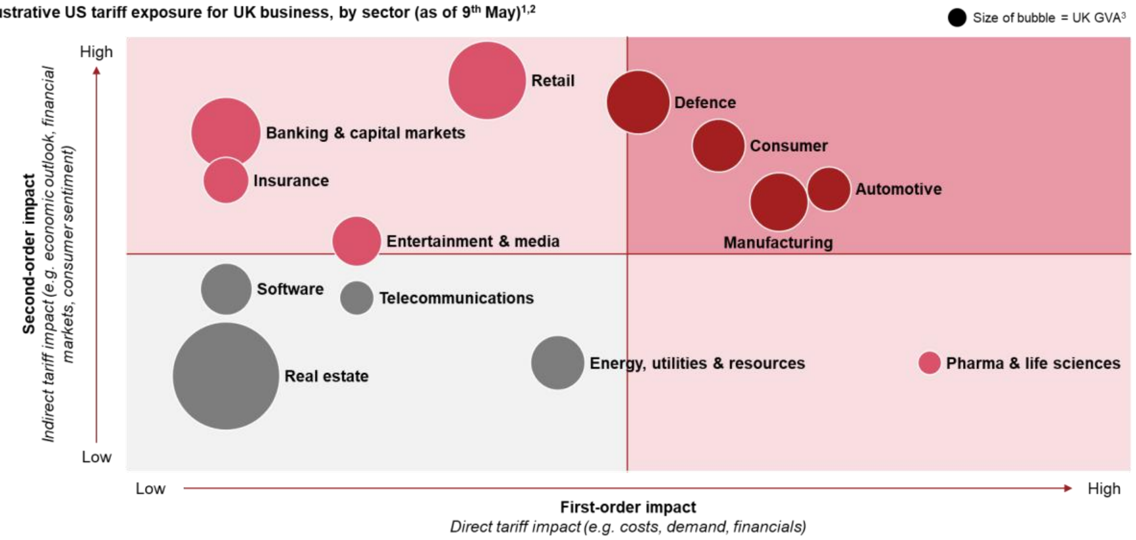
- Input pressure from cost volatility or dumping-driven margin squeeze
- Demand disruptions, US/China pullbacks or retaliatory consumer effects
- Liquidity or execution complexity e.g., stockpiling, lead times etc.

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

Illustrative US tariff exposure for UK business, by sector (as of 9th May)[1,2]



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

Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

What happened on 'Liberation Day'?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based 'baseline' tariffs; and (2) targeted 'reciprocal' measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three 'agreements' were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal 'tariff letters' which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can't yet see.

> "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

The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.

US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

Political sensitivity – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

Tax revenue – tariffs may generate up to 6% of total US federal income in 2025.[1]

Business backlash – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

New measures – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.

Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to 'shield' particular sectors:

Tariffs will focus on industries where the US sees domestic opportunities, such as steel, automotives, and semiconductors.

Priority industries are likely to evolve over time, as the US administration better understands domestic capability and international reliance.

The US is open to carving out exemptions for partners who are willing to negotiate, as illustrated by the trade agreement reached with the UK.

Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

Dynamic – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

Unpredictable – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

Escalating – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.[2]

Less credible – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

Notes: (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

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.

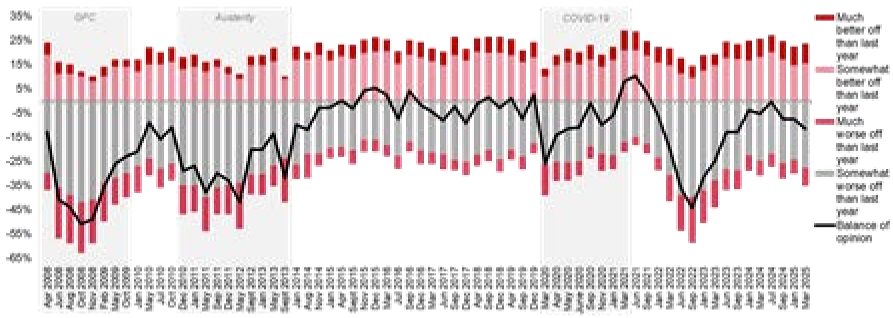
Supply chain disruption
Immediate need for businesses to understand full supply chain, including gaining visibility of Tier 2-5 suppliers, to identify possible sources of disruption and extent of possible input cost increase.

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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