



I fought the war, and the war won

A year on from Liberation Day, our analysts look at who is winning the trade war.

Update
28 April 2026

China and the USA have been engaged in an ongoing trade war for much of the past decade. The issue was catapulted back into prominence following the re-election of President Trump, culminating in the ‘Liberation Day’ announcement in April 2025. With this now a year gone, and attention firmly focussed on the war in the Middle East, our two analysts debate who has been the winner, and, perhaps more importantly, where the best investment opportunities exist.

China thrives in adversity: Ryan Lightfoot-Aminoff

Despite being the primary antagonist on the other side of the trade war, I’d argue that China has been the clear winner. The country has been under tariff pressure since 2018, during President Trump’s first term, which continued under the Biden administration before being ramped up again in 2025 as President Trump returned to power. As a result, China’s economy has become considerably more resilient to external shocks, having diversified its export market, developed key domestic industries, and cornered key parts of global supply chains to become critical to other economies.

Improved diversification

China has notably reduced its reliance on the US over the past decade. The share of China’s exports destined for the US has fallen from c. 18% in 2015 to c. 14% at the end of 2024. In exchange, China has exported more to its ASEAN neighbours, from 16% to 21% over the same time period. There has also been a considerable increase in imports from these countries into China, helping to create a more localised market and reducing the impact of the US in the region. One notable beneficiary of this has been Vietnam, which has benefitted from multinational firms moving their supply chains out of China during the first phase of the trade war and benefitting from Vietnam’s own educated and skilled labour force. This trend was something that **Vietnam Enterprise Investments (VEIL)** has benefitted from over the years, through a portfolio tilted towards companies expected to benefit from the strong, domestically led growth of the country.

Smaller Asian companies have also benefitted from this, as they are typically more domestically focussed and therefore would benefit from this localised trade. Nitin Bajaj, manager of **Fidelity Asian Values (FAS)**, takes a value-driven approach to Asia small caps, which has contributed to a strong domestic focus, particularly within China. For example, he invests in Xtep, a shoe

Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

brand that designs, manufactures, and sells almost exclusively in China, although it is beginning to expand into other Asian countries too, therefore offering exposure to the growing domestic market.

Tech leadership

China has also developed a domestic AI industry after being cut off from market-leading chips in the trade war. Whilst not operating at the leading edge of the technology like in the US, the architecture is at the ‘good enough’ level for China’s own interests. This has considerably reduced its reliance on global manufacturers whilst also driving innovation in the country and implementing a vertically integrated system that offers a strong long-term technological advantage. One trust capitalising on this is **Aberdeen Asia Focus (AAS)**. Manager Gabriel Sacks notes the potential for the localised AI story remains strong, with China contributing notably to relative performance throughout the past year. Whilst the first half of 2025 saw alpha come from a broad range of stock-selection sources, later in the year, beneficiaries became more concentrated around the AI story as this began to be recognised by investors. Gabriel now has a notable overweight allocation to the country.

The technological leadership strategy is one of the country’s ‘Made in China 2025’ goals, key sectors in which they want to become globally dominant. Whilst the full approach deserves an article in its



own right, of most relevance to the trade war has become China's dominance in clean energy technology, such as EVs, batteries, and solar panels. Taking the latter as an example, China manufactures around 80% of the world's panels, making it critical for developed economies like those in Europe looking to decarbonise. With the relationship between the US and its European allies having been damaged by Liberation Day and again by the war in Iran, China has benefitted by not only becoming a more reliable trade partner, but also by being the leading supplier for a technology that helps energy independence, something of growing importance. These leadership areas are something that Dale Nichols, manager of **Fidelity China Special Situations (FCSS)**, is looking to capture through his wide-ranging portfolio. He is overweight key areas expected to be big parts of the Chinese economy in the future, such as healthcare, technology, and consumer-facing companies. With Dale's flexible approach that invests across the market-cap spectrum, as well as private companies, FCSS is arguably one of the best ways of capturing the China opportunity that has developed in the midst of the trade war.

Leverage

To improve its own position globally, China has also taken steps to control key parts of the global supply chain. Whilst previously central to the global economy as the world's factory, China has now become the world's key producer of rare earth minerals, critical for the likes of magnets for electric motors and defence electronics. This has given China considerable leverage in trade negotiations, laying the foundations for the post-Liberation Day battle, which ultimately led to a reduction in the tariff rate between both countries, with several key sectors excluded from the tariff regime. Other countries, notably the US and Australia, are looking to improve their rare earths supply, but China still has around 90% of processing capacity and will therefore have considerable leverage over the world in any ongoing trade disputes.

Why China won

Liberation Day is just the most recent skirmish in several trade battles between the US and China. However, China has used this environment to considerably strengthen its domestic economy, reduce its reliance on the US by increasing trade with its own allies, as well as becoming even more integral to other economies, many of which were previously allies of the US but are now looking to reduce their own reliance on the country. As such, with China now in a much stronger position globally than before the war, it is clear they are emerging as the victor.



Ryan Lightfoot-Aminoff
Ryan@keplerpartners.com

Ryan joined Kepler in August 2022 as an investment trust research analyst. Prior to this, he spent seven years as a senior research analyst at Chelsea Financial Services where he worked on fund selection for their retail clients and on their multi-asset fund range. He holds an MSc in Finance & BA in Accounting & Finance from the University of the West of England.

Dismantling the radio: Alan Ray

There is, as the current war of rhetoric between the US and Iran shows, more than one way to define 'winning'. Whilst this particular 'foreign policy choice' of the United States wasn't supposed to be about trade at all, it has rapidly become so. I think many of us could have readily named the Strait of Hormuz as a key pinch point in the global trade network, but I, for one, couldn't have reeled off all the other essential products aside from oil and gas passing through it. So, setting aside my distaste for the events of the last few weeks, there has been a lot to learn. For our own purposes, Ryan and I have decided to define 'winning' from an investment perspective, as this is a bit more practical than adjudicating on international trade rules. And, in any case, it's hard to see how anyone wins from the trade, and real wars going on right now.

The last few weeks have focussed minds on the already live debate, on the one hand, the stability and predictability of China, and on the other, the confusion and wild mood swings of the US. The US is, as we say in the UK, 'tired of listening to experts', and engaging with the rest of the world largely through hunches and grievances, rather than experience and advice.

Populists, by definition, say popular things, though. As my colleague Ryan points out, trade tariffs on China imposed in the current US president's first term were carried over during the Biden administration. Whilst polling data says all kinds of other things about politics in the US, this remains a popular policy. So, we shouldn't forget that the US's erratic trade policy is rooted in popular instinct. And was the trade system of yesterday really designed for today's interconnected world? I don't think so. Unfortunately, the US has chosen to express its frustration by playing a series of incredibly weak and increasingly predictable hands that have done no one any favours.



Nevertheless, I keep coming back to a few things. First, the US stock market's performance over the last few years has been very kind to a very few companies and quite dismissive of almost everything else. The reasons, related to AI, have been widely explored. This leaves an unusually large part of the US stock market at attractive valuations. One of the most persistently underappreciated areas is the small-cap arena, where the quality growth companies that are the backbone of trusts such as **JPMorgan US Smaller Companies (JUSC)** and **Brown Advisory US Smaller Companies (BASC)**, and this has been exacerbated more recently as a handful of AI-adjacent, largely unprofitable, small caps have left the rest of the small-cap market in the dust. I don't think this situation will persist forever. Equally, in the large-cap arena, **JPMorgan American (JAM)** is finding more opportunities in the 'value' space, and the equity-income specialist **North American Income (NAIT)** has an inherent bias to the many US companies with a long record of paying a progressive dividend.

Second, we know that the current US administration is incredibly sensitive to movements in stock, bond, and commodities markets. But this is not limited to the administration. It's quite possible to go through life in the UK not knowing one's pension is linked to the stock market, but in the US, savings are rather more transparently attached to equities and bonds, and voters really care about what the market is doing. Elon Musk provides an interesting case study. With Tesla's share price falling, his brief foray into politics ended, and he has been back at his desk ever since. But this behaviour is not limited to billion- and trillionaires. Many average-income Americans will know immediately if the market is doing badly, and it can turn public opinion on a dime.

And this goes to my third point. The US is a flexible economy with the capacity to learn and change. As much as I can see why there's an argument in favour of China's stability and predictability, ultimately, what we as investors want is innovation and growth. The US has an unparalleled track record in this respect, and whilst we all worry about the valuations of the 'Mag 7', let's not forget that they are largely where they are due to their unparalleled success. Isn't it incredible that the noise around the Iran war is so great that it would have been easy to miss that last month the US sent four people further away from Earth than ever before? The US remains a uniquely ambitious country.

I would use the analogy of taking apart a radio to describe the US right now. The administration has decided not to read the manual but take the geopolitical radio apart and find out for themselves how it works. When it's put back together, there will no doubt be a few mysterious extra screws. But I think it's very likely that the US voter will have learned some useful lessons and, to extract the last drop of juice from the analogy, will tune the radio to a new station.

In China, of course, there is only one radio station that everyone listens to.

I'd conclude by saying that in the short term, the market danger signals are obvious for all to see: a short war has turned into a very complicated situation with no easy exit, causing significant disruption to global trade, with inflation once again looming, even before the last inflation shock has properly ended. Europe and the UK seem vulnerable to energy price rises, for example. I'm not enjoying the radio being taken apart one little bit, but, grudgingly, I find it fascinating, and I'm not ready to conclude that the US is anything other than the world's leading stock market.



Alan Ray

alan@keplerpartners.com

Alan joined Kepler in October 2022. He has worked in the investment funds industry for over 25 years. The first half of his career was as an investment trust analyst, leading a highly-rated sell-side research team. More recently he has worked in corporate advisory and investment banking roles, with a focus on alternative asset classes.



Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

