Market Commentary on the Q1'2025 Results Season:

Towards a Paradigm Shift in Global Trade Policy

For all the years we had closely followed the quarterly reporting season for listed companies, this has no doubt been one of the **most challenging and disruptive periods** – variously described by senior executives as being 'in the middle of a **highly dynamic operating environment**' (Christopher Calio, CEO of RTX) and 'operating in a **rapidly evolving world**' (Kathy Warden, CEO of Northrop Grumman) – with **'uncertainty being back' as 'history resumes'** (Ted Pick, CEO of Morgan Stanley) and **'significantly elevated risk'** (Jeremy Barnum, CFO of JPMorgan Chase).[i] As the **world is in a 'wait & see mode'**, the reference to the previous enthusiasm of liberal capitalism about the 'end of history' after the collapse of Soviet communism was fascinating as corporate management started to realise that 'changes go beyond tariffs' (Jane Fraser, CEO of Citigroup) and imply a **major transformation of the established global trade policy framework**.[ii]

While investment banks reported that **'clients defer strategic activity'** (Morgan Stanley) and are 'pausing their plans' (Citigroup) as long as **uncertainty remains about future trade policy**, the **'rapidly shifting market sentiment'** (David Solomon, CEO of Goldman Sachs) following the shock of the US tariff announcement in early April – and potential tit-for-tat tariff escalation – signalled that we are currently going through a **major structural, secular and systemic paradigm shift with an unknown destination**.[iii] With senior executives being used to operate in a free trade world largely at arm's length from direct political interference and bureaucratic tutelage, this paradigm shift implies the **re-emergence of primacy of politics,[iv] with additional political risks coming from non-trade barriers** (regulation, standards, currency, bans) as well as **'weaponised capital'**, having potentially a greater impact on changing global supply chains.[v]

Against this backdrop, and with first signs of **US tariffs having a severe impact on container bookings and business confidence in April**,[vi] it is perhaps no surprise that most analyst questions focused on the implications of the **changing global trade regime, companies' specific response** – typically described as 'self-help measures' (cost control, pricing, sourcing, footprint rationalisation)[vii] – and their **short and medium-term outlook**. With regards to the latter, it was interesting to see to what **extent transparency and details on the potential impact of trade tariffs differed between various companies**, ranging from a 'no meaningful impact' (Peter Nilsson, CEO of Trelleborg) to estimates in great minutiae both for Q2'2025 (allowing for the 90 days' grace period) and FY2025 (RTX, Baker Hughes, Boeing).[viii]

While we had extensively written about export control, currency shifts, emerging markets and global e-commerce in anticipation of the newly evolving global trade regime in our previous market analysis, here we combine short-term developments (**reassessing M&A activity, investor pressure on green investments**) with a **case study on the defence industry, nearshoring in Hungary and Serbia as well as investing in Turkey** and, from a more long-term perspective, **generative AI consumer applications**. While the ongoing trade conflict may currently preoccupy investor interest, with AI reasoning and inference making further progress, there is not only a bright outlook for accelerating computing and new AI infrastructure for enterprise IT (Jensen Huang, CEO of NVIDIA) but also great expectations for a breakthrough in consumer applications for generative AI.[ix]

REASSESSING M&A ACTIVITY

One immediate result from growing uncertainty and waning investor confidence in recent weeks has been the slowdown in M&A activity - from previously completed mega deals (Mars/Kellanova, Verizon/Frontier Communications) and high-profile transactions by private equity groups (Blackstone/AirTrunk, Silver Lake/Endeavor) to bolder overtures (Qualcomm/Intel) and audacious stake-building (UniCredit/Commerzbank) in 2024.[x] Given the sharp drop in stock market valuation, changes in anti-trust policy and open political intervention by the new US administration, the long expected recovery of the M&A market has been further delayed, with global transactions during the first quarter of 2025 being reportedly down by almost 30 per cent year-on-year and 44 per cent since the peak in 2021.[xi] While senior executives tried to keep good faith, conceding the 'risk of M&A activity slowing' but then claiming that there is 'no fundamental shift' (David Solomon, CEO of Goldman Sachs), the implications for further fee compression and cost cutting in the industry seem to become clear.[xii]

In contrast to what is happening in the US, two sectors in Europe – banking and telecoms – seem to open up for more cross-border transactions, partly attributed to the change of the EU Competition Commissioner, Teresa Ribera, as well as to multi-year lobbying by industry executives and more recent support from the Draghi report on European competitiveness.[xiii] In banking, Italy is currently in the limelight of M&A interest as local market consolidation has gathered pace, following the sale of a 15 per cent stake in Monte dei Paschi di Siena (MPS) by the Italian Treasury in December 2024 and the ultimate fight over control of Banca Popolare di Milano (BPM) in an attempt to challenge the two big players, UniCredit and Intesa.[xiv]

While it goes beyond the scope of this market analysis to investigate all the intricacies of a highly complex web of Italian cross shareholdings, suffice to say that this goes hand-in-hand with UniCredit's stake building in Germany's Commerzbank, where it managed to increase its share ownership to 28 per cent by December 2024.[xv] At the time of writing, the attempted UniCredit/BPM deal remains in limbo – as is the case for BBVA/Banco Sabadell in Spain despite the recent antitrust approval – with the Italian government having imposed conditions under the golden power rules while, in turn, the Spanish government still needs to decide.[xvi]

INVESTOR PRESSURE OVER GREEN INVESTMENTS

Amidst falling investor enthusiasm about clean energy projects, largely as a result of continuing high project costs due to the elevated inflationary and interest rate environment as well as policy uncertainty,[xvii] it is the active intervention by both mainstream institutional investors and hedge funds to pivot away from ambitious net zero targets and, notably in the US, corporate diversity & inclusion agendas, which have increased investor pressure over green investments in recent months.[xviii] With European asset managers having generally gone much further in their own climate change commitments and transparency on socially responsible investing compared to their US counterparts, which often resulted in weaker performance and was more driven by EU reporting requirements, the new US administration certainly brought a 'chilling effect' on the back of growing litigation against activist groups and mainstream institutions in the US.[xix]

Despite the political pressure and regulatory burden,[xx] many long-term oriented pension funds and institutional investors in Europe continue to consider climate change as a priority in their investment strategy, but they had to watch, at the same time, how European companies increasingly started to rethink their renewable energy investments and opted for share buy-backs instead.[xxi] European oil & gas companies, notably bp and Shell, provide an example to what extent investor pressure forced them not only to scale back their ambitions in renewable energy but also to return to their traditional fossil fuel investments.[xxii] Given current macro-economic turbulence, shifting trade regimes and a lower oil price, some of these companies had to reduce not only shareholder return in form of dividends and buy-backs but also capex spending while, at the same time, trying to identify scope for new cost savings (Kate Thomson, CFO of bp).[xxiii]

In this context, another interesting discussion evolved around the European energy system moving from 'green' to security of supply, given not only the cut-off from sanctioned Russian gas but also the pressure by the new US administration to step in with US LNG (Patrick Poyanne, CEO of TotalEnergies).[xxiv] Closely related to that were the many questions analysts raised during the Q1'2025 reporting season about the reasons of the blackout in the Iberian peninsula in late April and whether the higher share of renewables implies structural risks.[xxv]

CASE STUDY: DEFENCE INDUSTRY

Over the last few months, we have closely followed the defence industry in North America, Europe and Asia,[xxvi] which became more prominent on the investor radar screen since the Russian military aggression against Ukraine in February 2022 and gained further interest through a) the threat of the new US administration to stop providing security commitments to Ukraine;[xxvii] b) other European NATO countries and Canada pledging higher defence budgets and, at the same time, realising that they may have to defend European security without the US;[xxviii] and c) growing venture and private capital pressure to review strict ESG concerns about investing in weapons.[xxix] Moreover, the announcement by the new German government of EUR 500bn investment into defence coupled with the EU's plan to mobilise EUR 800bn for European re-armament started a new rush by European companies to tap the defence spending boom.[xxx]

While it is still early days, this 'paradigm shift in European defence security' (Charles Woodburn, CEO of BAE Systems) implies not only the build-up of sovereign capability in Europe – with a distinction between 'what is available today and what needs to be invested in future' (Micael Johansson, CEO of SAAB) - but also a new industrial realignment with a closer overlap of civilian and military production in terms of manufacturing capabilities, technology platforms, engineering skills, R&D and human resources.[xxxi] In addition, given long lead times and a growing military threat from Russia, there is also more cooperation needed for scale and speed (Guillaume Faury, CEO of Airbus),[xxxii] which was best evidenced in the recently announced joint production of rockets and missiles in Europe between Lockheed Martin and Rheinmetall, this being a good illustration how Transatlantic industrial alliances can still work under the evolving tariff regime.[xxxiii]

Ironically, what was largely seen as a 'duty free' global defence production by most US senior executives (Christopher Calio, CEO of RTX) has now got entangled into both the war on tariffs and the new US administration's efficiency drive in state departments, including the purge of the Pentagon's upper echelons in mid-February.[xxxiv] It is perhaps a sign of the time that US senior management remained extremely tight-lipped about current regulatory and procurement changes in the US while, at the same time, downplaying the impact of new tariffs on their business and highlighting the importance of the Golden Dome for America initiative.[xxxv] With the focus for more local content getting stronger in the US, there were some isolated calls among European executive directors to follow the US example,[xxxvi] although the general mood remains to 'strengthen the delivery capacity in the new normal', including multi-domain operability and the urgency of a growth strategy among European defence companies (Roberto Cingolani, CEO of Leonardo).[xxxvii]

INVESTING IN TURKEY

Given its geographic location, young population and size of the market, Turkey has always been attractive for multi-national companies, although foreign investor interest has been frequently undermined by autocratic politics, high inflation and currency volatility.[xxxviii] While there is no doubt about Turkey's attractive hub position for logistics, energy supply and trade, the newly adjusting supply chains might take this market more into consideration, given that 80 per cent of Turkey's trade is with countries on a free trade agreement (customs union with the EU, 'friendly neighbours' in the Middle East, Central Asia and North Africa), while the US accounted for only 5 per cent of Turkey's trade in goods, with a $1.5bn surplus in Turkey's favour.[xxxix] However, while Turkey might consider itself as a political and economic bridgehead between East and West, not only purchasing Russia's S-400 missile defence system despite its NATO membership but also commissioning its first Russian nuclear power plant,[xl] and aiming for deeper trade ties and soft power initiatives in Africa,[xli] politics can quickly change and undermine investor confidence.

The arrest of the popular mayor of Istanbul, Ekrem Imamoglu, caused not only prolonged mass protests but also a massive market turmoil, with the Central Bank having to spend $25bn in defending the lira, which compares with net foreign reserves of $65bn at the end of 2024, while carry trades by hedge funds and other investors at that time reportedly amounted to $35bn (taking advantage of interest rates above 40 per cent).[xlii] This has raised the broader issue of the country's risk premium, evidenced in one-year credit default swaps spreads and uncovered interest parity premium (both had surged after the arrest of Imamoglu), with investors pricing in a greater depreciation risk and a more persistent rise in default risk. More importantly, while the authorities might be able to contain short-term panic in financial markets, sustained investor confidence will no doubt require more democratic integrity and political stability.[xliii]

NEARSHORING IN SERBIA AND HUNGARY

While Turkey always had its attractions in terms of geography and size of the market, Serbia and Hungary recently gained more investor interest in the context of nearshoring by European companies after post-pandemic supply chain disruptions and the earlier US-China trade conflict under Trump 1.0. Both countries kept close economic relationships with Russia despite Western sanctions and, at the same time, sought more Chinese direct investments by becoming members of the China Belt and Road Initiative. In many ways, both countries are seen as an entry point into the larger EU market – similar to the role Mexico plays for the US market – and were frequently investigated by EU authorities for providing preferential treatment and/or Chinese companies receiving state subsidies.[xliv] With Hungary having reportedly attracted a quarter of Chinese investment in Europe since 2022, notably from EV and battery groups to avoid a 45 per cent tariff for vehicles produced in China, it remains to be seen to what extent this will cover the government's own target of a 4.5 per cent budget deficit in 2025 as the EU continues to withhold funds.[xlv]

While Hungary has been an EU member state since 2004, Serbia was left with deep scars after the war in the 1990s, facing Western economic sanctions and simultaneously seeking closer ties to Russia and China. Some recent events, however, brought Serbia back to the radar screen of Western senior executives and investors. First came the lithium deal with the EU in Serbia's Jadar valley in August 2024, being relicensed to Rio Tinto, which closely followed Serbia's agreement to buy 12 Rafal jets from France rather than Russian MIGs and the revelation that Serbia is a key supplier of ammunition to Ukraine.[xlvi] By then, other Western companies like Microsoft, Siemens and Rivian had already made substantial investments, being attracted by cheap, skilled labour and the proximity to the EU market. A second major event was the collapse of a roof at the Novi Sad train station, with the terminal having been renovated under China's Belt and Road Initiative, leading to accusations that people close to the president profited from the contract and resulting in the largest public protests in Serbia since the 1990s.[xlvii]

While Serbia received in late March a 30-days' extension by the US Treasury of a deadline for Russian state-owned Gazprom and its subsidiary to sell their majority holding in Serbia's NIS refinery or face sanctions,[xlviii] the 'Janus of the Balkans', looking both East and West, now faces an existential threat, which will be closely followed by Western investors and corporate executives, who have built their nearshoring platform in Serbia.

GENERATIVE AI CONSUMER APPLICATIONS

While we have frequently written on growing investor enthusiasm about generative AI, the iPhone moment for consumer application has not materialised yet, despite great efforts made by start-ups and large technology companies alike to race ahead with the new 'killer app'.[xlix] With customer services having been dehumanised in the drive for cost cutting, automation and efficiency for some time – and more often caused frustration with call centres, automated messages and chatbots – there is now hope for AI to not only provide the intelligence tools to achieve faster responses and tailored feedback but also to recognise emotional cues and analyse text and/or voice tone to sense anger or sadness.[l] As reasoning and inference have made great progress in recent months, there is now hope for an inflection point in AI, moving from generative to agentic AI, where computers can reason how to solve problems and plan action (Jensen Huang, CEO of NVIDIA).[li]

Against this backdrop there is currently a great race among start-up companies to develop new consumer AI apps, ranging from tools to create or edit all forms of contents and digital media to those that can handle deep research (software coding, screening candidates for jobs, building websites), however they face a number of issues: a) how to turn an AI-powered tool designed for one task into a core part of a customer's software; b) whether these new apps will retain consumer-like characteristics as they mature, which often results in higher churn rates than in business software; and c) facing significant costs of goods – in the form of fees paid to LLM companies each time their services are used – with the hope that these usage fees will eventually plunge.[lii] In turn, large technology companies (Google, DeepMind, OpenAI) are heavily competing for AI-powered personal assistants, developing 'multi-modal' tools for interpreting voice, video, images and code in a single interface while, at the same time, carrying out complex tasks like live translations or planning a family holding. While smart assistants have been trained for nearly a decade, there is now hope for smoother and more rapid voice interactions as well as superior understanding thanks to LLMs that power new AI models.[liii]

In this context, it is fascinating to see how Chinese tech groups (Alibaba, Baidu, Tencent) are flooding the market with new AI models – with the real shock due to their accessibility and openness (free to download, modify and integrate) – which adds another tweak to the paradigm shift in global trade policy.[liv]

Peter and Irina Kirkow
4 May 2025

APPENDIX

SIX EMERGING SUPPLY CHAIN MOVES

EXAMPLES

Industries are already reacting to new tariff announcements

Supply chain moves			Industry relevance: E-commerce	Automotive	Electronics	Life Sciences
1	Wait and see	Maintain current operations without immediate changes to supply chain or transportation until further clarity is achieved		(✓)	✓	✓
2	Adjust pricing	Optimize prices, including passing through tariff costs where possible, either applicable to finished goods or input costs	✓	✓	✓	
3	Pause deliveries	Reduce volumes, including a temporary pause in transportation, to enable further analysis on supply chain strategy and cost implications	✓	✓	✓	
4	Front-load deliveries	Accelerate short-term shipments to build inventory during the available 90-day grace period			✓	
5	Shift production or supplier footprint	Reevaluate and adjust production locations to optimize supply chain flows and mitigate tariff exposure - supply the U.S. from alternative sites	✓	✓	✓	✓
6	Shift delivery mode	Adapt logistics by switching, for instance, from postal networks to general cargo, or from parcelized shipments to bulk transportation	✓			

Note: early assessment of industry moves based on market research and sales feedback – to be updated over time

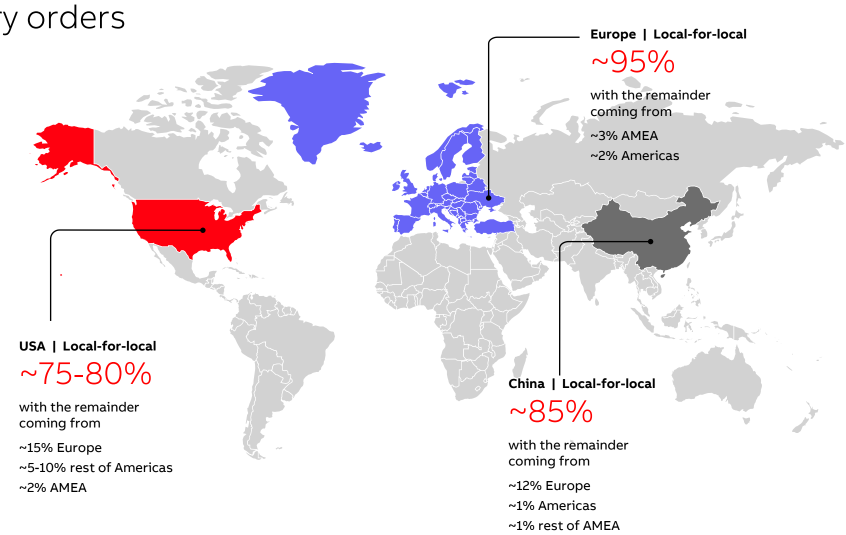
Growth in all regions – strong local-for-local footprint

Q1 2025 regional, country orders

The Americas	+11%
USA Up in all Business Areas	+9%
Canada	+20%
Brazil	+82%

Europe	+1%
Germany Steep growth in PA and RA; Strong decline in EL and MO	-4%
Italy	+47%
United Kingdom	+27%

AMEA	+4%
China Up in all Business Areas	+13%
India	+1%
United Arab Emirates	+29%



All data presented on a YoY comparable basis; all growth comments refer to comparable growth trends. Performance highlighted for largest 3 countries in $ mn terms in each region.
EL = Electrification. MO = Motion. PA = Process Automation. RA = Robotics & Discrete Automation. Note: local-for-local figures based on Management estimates and % based on revenues 3rd party 2024.

ABB

RTX 2025 tariff environment

BACKDROP

Strong U.S. industrial base

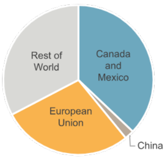
- ~70% of employees
- ~65% of product spend
- Majority of labor manufacturing hours

Investment in the U.S.

- ~$10B over last 5 years in facility expansion and modernization
- ~$2B additional planned in 2025

$12B of net exports in 2024

- ~$26B of exports
- ~$14B of imports



2024 Imports

POTENTIAL DIRECT IMPACTS[1]

Tariff Category	Operating Profit Impact
Canada and Mexico	~$250M
China / Tariffs from China	~$250M
Global Reciprocal	~$300M
Steel and Aluminum	~$50M

ASSUMPTIONS

- Tariffs remain in place for rest of year
- Canada and Mexico at 25%
- China at 145% / Tariffs from China at 125%
- Global reciprocal at 10%
- Steel and aluminum at 25%

MITIGATIONS INCLUDED

- Military duty free
- USMCA
- Temporary imports under bond
- Drawbacks
- Free trade zones
- Operational and contractual actions

[1]At rates noted in the assumptions; represents direct tariff cost impacts and does not include changes in customer buying behavior or operational and supply chain disruptions

Tariff Impact, FY'25 Framework & 2Q'25 Guidance

Tariff Impact

BKR

- Estimated **$100M - $200M** potential net impact to consolidated 2025 EBITDA[1]
- Monitoring **secondary trade policy effects** on GDP, energy demand and customer behavior

OFSE

- OFSE revenue **~80% outside the U.S.**
- Benefit from **U.S. manufacturing footprint** for domestic sales
- **Some cost headwinds** tied to imports

IET

- **Manageable Industrial Tech exposure** to US-China trade
- **Limited tariff risk for equipment backlog** given contractual terms
- Mitigation initiatives and productivity gains expected to **largely offset impact**

FY'25 Framework

BKR

- Trade policy & tariff uncertainty **introduces high degree of variability**
- **Tempered outlook** for the company in 2025
- Assumes oil price **stable at current levels**

OFSE

- **International / NAM spending:** down mid-to-high single digits / low-double digits
- Continual cost efficiency drives **margin improvement**
- Wider range of **potential outcomes**

IET

- Full-year **guidance still achievable**
- FY'25 Guide: **Orders**: $12.5B - $14.5B, **Revenue**: $12.4B - $13.1B, and **EBITDA**: $2.2B - $2.4B
- IET offers **greater visibility**

2Q'25 Guidance

BKR[2]	
REVENUE ($M)	6,300 – 7,000
Adj. EBITDA ($M)	1,040 – 1,200
OFSE	
REVENUE ($M)	3,300 – 3,700
EBITDA ($M)	600 - 700
IET	
REVENUE ($M)	3,000 – 3,300
EBITDA ($M)	520 – 580
OTHER	
CORPORATE COSTS ($M)	Approx. 80
D&A ($M)	Approx. 285

1. Impact to consolidated EBITDA assumes the following: 1) impact based on tariff rates applied during 90-day pause 2) these rates remain in place through year end 2025. 3) includes assumed mitigation actions. 4) Does not account for the potential impact of retaliatory tariffs or other tariffs that are not currently in place.
2. Adj. EBITDA is a non-GAAP measures – see appendix for GAAP to non-GAAP reconciliations. Management cannot reliably predict or estimate, without unreasonable effort, the impact and timing on future operating results arising from items excluded from Adj. EBITDA. We therefore do not present a guidance range or reconciliation to the nearest GAAP financial measure.

Baker Hughes

ENDNOTES

[i] It was extremely interesting to follow the opening remarks of senior management during the ongoing Q1'2025 reporting period as they took the time to think about profound structural changes and what implications this might have not only for their business but also the relevant industry and broader economy. The quotes provided here were taken from the RTX Q1'2025 analyst call on 22 April 2025, Northrop Grumman on 22 April 2025, Morgan Stanley on 11 April 2025 and JPMorgan Chase on 11 April 2025. The CEO of ABB, Morton Wierod, summarised this in saying that 'uncertainty is not good for decision making' (ABB Q1'2025 analyst call on 17 April 2025). Ted Pick's bold statement that we reached the 'end of 'the end of history'' and 'history resumes' was certainly one of the conceptual highlights of the Q1'2025 reporting season so far, though it was implicitly shared by many of his counterparts (and not just in banking). Other relevant debates related to the question whether the US will remain the 'preeminent economy' and whether the US dollar will continue to be the 'main currency' (Jane Fraser, CEO of Citigroup, at the Q1'2025 analyst call on 15 April 2025), as well as the 're-architecting of industrial policy', where America is trying to find it's place in the world (Ted Pick, CEO of Morgan Stanley, at the Q1'2025 analyst call on 11 April 2025). In this context, the massive sell-off US Treasuries following the new tariff announcements was an early indication of a potential regime shift of the 'safe haven' status of US sovereign debt, see: Arjun Neil Alim, Harriet Agnew and Costas Mourselas, *'US Treasuries sell-off deepens as 'safe haven' status challenged'*, Financial Times, 9 April 2025.

[ii] Citigroup Q1'2025 analyst call on 15 April 2025. For first estimates of punitive tariffs not changing trade deficits and essentially backfiring, see: Martin Wolf, *'Trump's tariffs will damage the world'*, Financial Times, 9 April 2025. In this context, an interesting discussion – even if the US administration were eventually to backtrack on tariffs – was that the uncertainty created becomes itself a 'sort of tariff' as efficient capitalism builds on trust, reliability and predictablity of legal arrangements and trade institutions, see: Jason Furman, *'The hopeful tariff endgame isn't so hopeful'*, Financial Times, 8 April 2025. A very different view was expressed by the former chief economist of the Bank of England, Andy Haldane, who maintains that tariff talk has largely been rhetoric so far and that 'forces of mean reversion and self-preservation' will eventually prevail, see: Andy Haldane, *'The rise of the panicans'*, Financial Times, 29 April 2025. One clear indication came from senior executives pointing to a stronger 'regionalisation' and, as a result, providing more autonomy and delegating more responsibility to their regional businesses, notably in the US and China (Hakan Samuelsson, CEO of Volvo Cars, at the Q1'2025 analyst call on 29 April 2025). For a similar observation in Asia and Latin America, see: Ruchir Sharma, *'Mapping the high tariff world'*, Financial Times, 21 April 2025. The CEO of Airbus, Guillaume Faury, emphasised the 'need to come back to the *ex ante* situation' and, on the basis of recent discussions with his US-based business partners, to 'reverse to zero tariff 1979' (Airbus Q1'2025 analyst call on 30 April 2025), although the latter is controversial to what extent this has really been a 'zero tariff" agreement for all countries involved.

[iii] Mohamed-El Erian, *'US tariff shock underscores the instability of a shifting world'*, Financial Times, 3 April 2025. For the quote from CEO David Solomon, see: Goldman Sachs Q1'2025 analyst call on 14 April 2025. The CEO of DHL Express, John Pearson, used the Chinese proverb 'water finds its way flowing' to describe not only the resilience of the global trade system but also the creativity of buyers and sellers to find a way around trade tariffs (DHL Group CMD 2025, 3 April 2025). At the time of writing, the most intelligent summary of changes in global supply chains so far came from the CEO of DHL Group, Tobias Meyer, who identified six major moves from their perspective as a global logistics company (DHL Group Q1'2025 analyst call on 30 April 2025, see Appendix).

[iv] While senior management largely avoided discussing politics, the two most explicit statements came from Jamie Dimon, CEO of JPMorgan Chase, saying that 'the most important thing is for the Western alliance staying together' as 'with economic recession we can deal with' (JPMorgan Chase Q1'2025 analyst call on 11 April 2025) and, more specifically for the relevant industry, from Brian West, CFO of Boeing, that 'free trade policy across commercial aerospace remains important' (Boeing Q1'2025 analyst call on 23 April 2025).

[v] For an excellent discussion of non-trade barriers by various FT reporters, see: *'US trade demands that go far beyond tariffs'*, Financial Times, 9 April 2025, and for the risk of a return to capital control, see: Ian Harnett, *'How 'weaponised trade' could lead to 'weaponised capital''*, Financial Times, 4 April 2025. Interestingly, the CEO of ABB, Morton Wierod, pointed to the fact of different technical standards in his industry (NEMA and IEC) complicating the disruption of established supply chains in North America and Europe, respectively, which could have a further impact on production (ABB Q1'2025 analyst call on 17 April 2025). While various companies reported that there has been 'no

change of customer behaviour so far' (C.C. Wei, CEO of TSMC, at the Q1'2025 analyst call on 17 April 2025) and hence they felt only a 'limited impact from the global turmoil' (Börje Ekholm, CEO of Ericsson, at the Q1'2025 analyst call on 15 April 2025), others were more outspoken about a long-term secular shift of supply chains to Southeast Asia, see: Harry Dempsey, *'Tariffs will not halt supply chain shift to SE Asia, says Uniqlo founder'*, Financial Times, 10 April 2025. Similarly, first reports emerged that Apple plans to move production of its iPhones to India to avoid US tariffs on China, see: Michael Acton et al., *'Apple aims to source all US iPhones from India in a pivot away from China'*, Financial Times, 26 April 2025 and in an earlier report, Michael Acton and John Reed, *'Apple turns to India to help ease Trump's China tariffs'*, Financial Times, 10 April 2025.

[vi] The severity of this slump in demand is best illustrated by Hapag-Lloyd reporting that Chinese customers had cancelled about 30 per cent of their bookings out of China in April and, from a separate source (container tracking service Vizion), standard 20-foot shipping containers from China to the US being down by 45 per cent year-on-year in mid-April, see: Peter Foster et al., *'Demand slump fuelled by Trump tariffs hits US ports and air freight'*, Financial Times, 28 April 2025. Boeing reported that China has not taken delivery of 50 airplanes since the announcement of new US tariffs (Robert Ortberg, CEO of Boeing, at the Q1'2025 analyst call on 23 April 2025). For European business confidence falling to its lowest level since November 2022, see: Olaf Storbeck, *'Eurozone business confidence plunges over US trade war'*, Financial Times, 23 April 2025.

[vii] For an extensive discussion of those 'self-help measures', see AkzoNobel Q1'2025 analyst call on 23 April 2025, with a clear focus on more pricing action in 2025 and a stronger commitment to efficiency measures. Similarly, the Ericsson Q1'2025 analyst call on 15 April 2025, elaborating on their efforts for providing differentiated services, aiming for 'resilient supply chains' and, perhaps most importantly, building an 'ecosystem of component suppliers' among Western alliance partners as 'competition from Chinese vendors has increased' and Ericsson suffered 'some foorprint losses' (Börje Ekholm, CEO of Ericsson). Even Elon Musk, CEO of Tesla and leading the Department of Government Efficiency (Doge) of the new US government, admitted that 'lower tariffs are generally a better idea for prosperity', while discussing in length their efforts to localise supply chains and multi-source every component (electrolyte, lithium, cathode) as well as power generation (Tesla Q1'2025 analyst call on 22 April 2025).

[viii] At its Q1'2025 analyst call on 24 April 2025, Trelleborg claimed that they have 'no indication of weekly orders being impacted' by tariffs and 'no need for increased safety stocks' (Peter Nilsson, CEO of Trelleborg). Similarly in smaller markets like Austria, the CEO of Andritz, Joachim Schönbeck, emphasised that 'there has been no impact from tariff policy so far' and hence they could leave their guidance unchanged, although one analyst elegantly pointed to the fact that all except one of the four divisions were not necessarily in the epicentre of tariffs (Andritz Q1'2025 analyst call on 30 April 2025). In turn, other companies provided great detail (see relevant tables for RTX and Baker Hughes in the Appendix), with Boeing sharing with analysts an estimate of $500mn of annual net input costs for supply chains, implying 70% of deliveries to customers outside the US and a 10% backlog to China (Brian West, CFO of Boeing, at the Q1'2025 analyst call on 23 April 2025).

[ix] GTC Financial Analyst Q&A on 19 March 2025.

[x] Maria Heeter and Ivan Levingston, *'Big corporate predators bolster global M&A market'*, Financial Times, 26 September 2024.

[xi] Ivan Levingston, Oliver Barnes and Joshua Franklin, *'Dealmakers reassess hopes for Trump bump as M&A slips to decade low'*, Financial Times, 24 March 2025. One of the big exceptions in Q1'2025 was the announced $32bn acquisition of cyber security specialist Wiz by Google parent Alphabet, see: Ivan Levingston et al. *'Google parent Alphabet agrees to buy cyber security group Wiz for $32bn'*, Financial Times, 18 March 2025.

[xii] Craig Coben, *'The American deal machine is sputtering'*, Financial Times, 9 April 2025. The CEO of Morgan Stanley, Ted Pick, talked about 'plenty of market making going on' in recent weeks (Morgan Stanley Q1'2025 analyst call on 11 April 2025), but this is arguably very different from completed M&A deals. Similarly, the CEO of Citigroup, Jane Fraser, described the current level of client engagement as being 'off the chart' (Citigroup Q1'2025 analyst call on 15 April 2025). When asked about potential consolidation in the industry, the CEO of Volvo Cars, Hakan Samuelsson, agreed that this might happen once there is more economic visibility, especially among suppliers for combustion engines (Volvo Cars Q1'2025 analyst call on 29 April 2025).

[xiii] Barbara Moens and Kieran Smith, *'European telecom groups line up deals in hope of looser merger rules'*, Financial Times, 21 April 2025. One research document claims that this is 'Europe's decisive moment in connectivity' and highlights that 'an overly fragmented market, burdened by heavy rules and lack of scalability, has negatively impacted investment growth' (Robert Wood and Simon Sherrington, *State of Digital Communications 2025*, Connect Europe, January 2025). For the media industry, Bertelsmann started considering to revive the aborted merger between French

broadcaster M6 and TF1, see: Laura Pitel and Adrienne Klasa, *'Bertelsmann chief seeks to revive €3.6bn French TV merger'*, Financial Times, 22 April 2025.
[xiv] Patrick Jenkins, *'Orcel vs Caltagirone: a Machiavellian fight for the future of Italian finance'*, Financial Times, 16 December 2024.
[xv] Olaf Storbeck, Simon Foy and Silvia Sciorilli Borrelli, *'UniCredit lifts Commerzbank exposure to 28%'*, Financial Times, 18 December 2024. For a good discussion of UniCredit's combined approach of in-market and cross-border consolidation, see: Simon Foy, Silvia Sciorilli Borrelli and Olaf Storbeck, '*UniCredit's journey from foreign predator to domestic consolidator'*, Financial Times, 26 November 2024.
[xvi] These constraints relate reportedly on how the combined entity would run its future credit activities and liquidity, restrictions on its right to dispose shareholdings and appropriately manage assets under management, as well as its activities in Russia, see: Simon Foy and Silvia Sciorilli Borrelli, *'UniCredit says Banco BPM deal in limbo after Italy imposes conditions'*, Financial Times, 22 April 2025. On the strategic positioning of the attempted takeover of Banco Sabadell by BBVA, see the article of its Chairman: Carlos Torres Vila, *'It's a good thing that European dealmaking is back on the table'*, Financial Times, 9 October 2024, and, more recently: https://www.bbva.com/en/bbva-offer-sabadell/carlos-torres-vila-far-from-losing-sabadells-business-clients-will-gain-bbva-as-their-best-ally-for-growth/. For the recent antitrust approval in Spain, see: Simon Foy and David Sharrock, '*Spain's antitrust watchdog approves BBVA's €11bn hostile bid for Sabadell'*, Financial Times, 1 May 2025.
[xvii] Rachel Millard, *'Green energy stocks fall back to levels last seen 5 years ago',* Financial Times, 16 March 2025.
[xviii] Attracta Mooney and Rachel Millard, *'Investors in clean energy funds backtrack as rates and Trump cloud outlook',* Financial Times, 20 January 2025. For the new US administration sending letters to major European companies to comply with an executive order banning diversity, equity and inclusion, see: Leila Abboud, Adrienne Klasa and Henry Foy, *'US tells European companies to comply with Donald Trump's anti-diversity order'*, Financial Times, 29 March 2025. In the US, major companies such as Walmart and Kraft Heinz had reportedly started to delete and/or re-write references to climate change, see: Attracta Mooney and Susannah Savage, *'US multinationals purge website references to climate change'*, Financial Times, 15 March 2025.
[xix] Attracta Mooney and Kenza Bryan, *''Chilling effect' spreads to European asset managers over climate even as risks rise'*, Financial Times, 21 January 2025.
[xx] On the excessive reporting burden as a result of the EU's sustainable finance rule book, see: Alice Hancock, '*EIB fears 'reputational disaster' over revised EU green reporting'*, Financial Times, 7 January 2025. For an example how new EU emission rules have been watered down for cars with combustion engines, see: Richard Milne, *'Is Europe losing its nerve on the green transition?'*, Financial Times, 12 March 2025.
[xxi] Laura Pitel, *'RWE caves to investor pressure over green investments after Trump victory'*, Financial Times, 13 November 2025. Interestingly, the CEO of Andritz, Joachim Schönbeck, argued that – on the basis of their own growing order book in the Hydropower division – there is evidence for the energy transition shifting to renewables (Andritz Q1'2025 analyst call on 30 April 2025).
[xxii] For bp and Shell scaling back on power generation, see: Malcolm Moore and Rachel Millard, *'BP and Shell rein in electricity ambitions to escape 'valley of death''*, Financial Times, 11 December 2024. For a more extensive discussion of bp's pivot back to traditional oil & gas in the wake of the Elliott activist campaign, see: Malcolm Moore, *'Will going back to basics restore BP's fortunes?'*, Financial Times, 22 April 2025.
[xxiii] The CFO of bp, Kate Thomson, mentioned, among other things, that they had taken out about 3,000 third-party contractors of the supply chain so far while targeting another 3,400 in due course (bp Q1'2025 analyst call on 29 April 2025). For Elliott stepping up its activist campaign to force bp increasing its free cashflow by an additional 40 per cent through deep cuts in spending, see: Malcolm Moore, Costas Mourselas and Oliver Barnes, '*Hedge fund Elliott turns up heat with demand for deep spending cuts'*, Financial Times, 23 April 2025.
[xxiv] At the TotalEnergies Q1'2025 analyst call, the CEO Patrick Poyanne strongly defended their integrated strategy of Power and Renewables – in contrast to bp and Shell's pivot back to fossil fuel – insisting that this is a more resilient business and 'not depending on the oil price', while pointing to the fact that they are selling power 24/7. The lower oil price in Q1'2025 was still one of the major disussion points at analyst Q&A, particularly in the context of oil & gas majors having to reduce their capex (bp) and/or facing higher gearing, which increased at TotalEnergies from 8.3% at the end of 2024 to 14.3% by 30 March 2025, raising concerns about the affordability and sustainability of shareholder return, notably share buy-backs (TotalEnergies Q1'2025 analyst call on 30 April 2025).
[xxv] This was essentially confirmed by first investigations into the recent blackout in Spain and Portugal, pointing to the 'unusually high supply of solar power' while lacking, at the same time, 'enough firm power' (readily available, reliable

energy supply from fossil fuels or nuclear), see: Ian Johnston and Alice Hancock, *'Spain and Portugal blackout blamed on solar power dependency'*, Financial Times, 1 May 2025. The CEO of TotalEnergies, Patrick Poyanne, responded to the enquiry about structural changes in the renewables industry that 'if the grid becomes more than 30 per cent renewables it gets unstable', which he essentially implied for the recent experience in the Iberian peninsula (TotalEnergies Q1'2025 analyst call on 30 April 2025). For TotalEnergies' recent acquisitions in the renewables energy sector in Germany, see: https://totalenergies.com/system/files/documents/totalenergies_1q25-results-press-release_2025.pdf.

[xxvi] Unfortunately, following the Asian defence industry was not as straightforward as in North America and Europe as listed companies did not necessarily provide webcasts for analyst calls in English. So we were left with trying to find whatever was available in English on their website and/or following the financial press. For a good summary of major players in Japan and South Korea, see: William Sandlund, Harry Dempsey and Song Jung-a, *'Asian defence stocks soar to record highs as Europe prepares to re-arm'*, Financial Times, 18 March 2025 and, specifically on Hanwha Aerospace in South Korea, see: Song Jung-a, '*South Korea's biggest defence group plans $2.5bn share sale to expand overseas'*, Financial Times, 21 March 2025. For an overview of growing investor interest in Indian defence stocks, see: Krishn Kaushik, *'Indian investors rush into highly valued defence stocks'*, Financial Times, 7 January 2025.

[xxvii] For an in-depth study by a research team at the IISS on the intricacies of a special European reassurance force in Ukraine to deter Russia from renewed attacks, see: Ben Barry et al., *A European Reassurance Force for Ukraine: Options and Challenges*, (The International Institute for Strategic Studies, March 2025). Whether the recently signed natural resources deal between Ukraine and the US will still provide support for air defence systems to the extent it used to be and/or whether the US might renege this promise remains to be seen, see: Christopher Miller and James Politi, *'US and Ukraine sign natural resources deal'*, Financial Times, 1 May 2025.

[xxviii] For the significant shortcomings of military procurement in Germany (and wider Europe) facing the war economy in Russia, see: Guntram Wolff et al., *Fit for war in decades: Europe's and Germany's slow rearmament vis-a-vis Russia*, (Kiel Institute for the World Economy, Kiel Report no.1, September 2024).

[xxix] For a discussion of the campaign by venture capital funds, see: John Thornhill, '*The conflicted investment case for defence tech'*, Financial Times, 4 October 2024; and for private equity lobbying their investors to water down their ESG criteria when it comes to the defence industry, see: Euan Healy and Robert Smith, *'Private credit firms take aim at ESG for holding back financing for European defence'*, Financial Times, 27 April 2025.

[xxx] Richard Milne, *'European companies rush to tap defence spending boom'*, Financial Times, 27 March 2025 and, specifically on Rheinmetall in Germany: Patricia Nilsson and Laura Pitel, *'Armin Papperger, the German defence boss intent on re-arming Europe'*, Financial Times, 11 March 2025.

[xxxi] For first signs of this developments on the ground in Germany, see: Patricia Nilsson, *'From trains to tanks: Germany's rearmament marks industrial shift'*, Financial Times, 23 April 2025. The relevant quotes by senior executives were taken from the BAE Systems FY 2024 analyst call on 19 February 2025 and the SAAB Q1'2025 analyst call on 25 April 2025. While executive management of European defence companies noted that the 'momentum in Europe is particularly positive' (Pascal Bouchiat, CFO of Thales, at the Q1'2025 analyst call on 24 April 2025) they also conceded that the implementation of political statements 'don't happen overnight' (Micael Johansson, CEO of SAAB, at the Q1'2025 analyst call on 25 April 2025).

[xxxii] Airbus Q1'2025 analyst call on 30 April 2025. For a good explanation of the current industrial realignment in Europe, see: Candace Rondeaux, '*Ukraine war pushes Europe into a race to build up its defence base'*, Financial Times, 25 November 2024. For the search of more scale in ammunition production in Europe, see: Sylvia Pfeifer and Nic Fildes, *'Europe searches for scale in race to boost ammunition production'*, Financial Times, 14 October 2024.

[xxxiii] https://www.rheinmetall.com/de/media/news-watch/news/2025/04/2025-04-30-lockheed-martin-und-rheinmetall-buendeln-kraefte. The CEO of RTX, Christopher Calio, also pointed to a 'strong installed European base and partnerships', with co-production in various weapons' systems (RTX Q1'2025 analyst call on 22 April 2025).

[xxxiv] Sylvia Pfeifer, Clara Murray and Steff Chavez, '*US companies left out of defence stock rally amid Trump's Pentagon cuts'*, Financial Times, 25 February 2025.

[xxxv] RTX estimated that the impact of new tariffs for their business would amount to $250mn in 2025 while emphasising that China accounts for only 2% of their global imports. As a result, they maintained that there were 'no major changes in customer behaviour in April' and that 'the order book remains intact' (Neill Mitchill, CFO of RTX, at the Q1'2025 analyst call on 22 April 2025). Similarly, the CEO of Northrop Grumman, Kathy Warden, insisted that there are 'no significant risks' from the new tariff regime, with only 5% being sourced from outside the US, mostly in Europe (Northrop Grumman Q1'2025 analyst call on 22 April 2025). In turn, the CEO of General Dynamics, Phebe

Novakovic, conceded that there is more customer caution but 'the pipeline of orders is still very strong' and that the tariff impact is 'still mostly speculation' (General Dynamics Q1'2025 analyst call on 23 April 2025). The Golden Dome for America initiative, along the lines of Israel's impenetrable shield, was frequently mentioned by US senior executives at the Q1'2025 reporting season, highlighting that this would become a 'proven deterrant capability' (Jim Taiclet, CEO of Lockheed Martin, at the Q1'2025 analyst call on 22 April 2025).

[xxxvi] Patricia Nilsson and Sylvia Pfeiffer, *'Germany's Hensoldt urges EU to follow US on local arms procurement'*, Financial Times, 3 January 2025.

[xxxvii] Leonardo Industrial Plan 2025, 11 March 2025.

[xxxviii] Given geopolitical tension and Turkey being located between various hotspots of military conflicts, the CEO of DHL Group, Tobias Meyer, still considered Turkey to have a 'difficult geography' but underlined the attraction being in a high internet usage and an estimated 6-8% structural growth of e-commerce by 2030 (DHL Group CMD 2025, 3 April 2025). If military conflicts in the neighbourhood were to settle peacefully, this may become a 'geographic tailwind'. At the Q1'2025 analyst call, Tobias Meyer highlighted Turkey's 'intrinsically good geographic location' and demographics as being particularly attractive for their business (DHL Group Q1'2024 analyst call on 30 April 2025).

[xxxix] These statistics were provided by the Turkish finance minister, Mehmet Simsek, in a recent interview for the Financial Times, see: John Paul Rathbone, *'Turkey sees opportunity in tariff turmoil, finance minister says'*, Financial Times, 8 April 2025. For the important role of Cevdet Yilmaz pulling the strings behind the scene in defending financial orthodoxy despite President Erdogan's open intervention in Central Bank decision making, see: Adam Samson, *'The Erdogan whisperer behind Turkey's economic pivot'*, Financial Times, 2 January 2025.

[xl] Gönül Tol, *'Nato must wake up to Russia's nuclear power deal with Turkey'*, Financial Times, 22 August 2024.

[xli] Aanu Adoeye, Adam Samson and Aditi Bandari, *'Turkey's expanding leverage in Africa'*, Financial Times, 2 January 2025.

[xlii] Joseph Cotterill and Costas Mourselas, *'Foreign investors wary of Turkey despite $25bn lira intervention'*, Financial Times, 29 March 2025, and, at an earlier stage, Adam Samson, *'Turkey spends record $12bn defending lira after Erdogan rival's arrest'*, Financial Times, 22 March 2025.

[xliii] Sebnem Kalemli-Özcan, '*Markets are reaching for the Turkish risk premium'*, Financial Times, 2 April 2025. In a letter from the Silivri prison near Istanbul, Ekrem Imamoglu, made the passionate call for 'credible, transparent and rules-based economic policies' as otherwise investor confidence would disappear and capital flow elsewhere, see: Ekrem Imamoglu, *'Why Turkey's democratic future matters for the world'*, Financial Times, 16 April 2025.

[xliv] Andy Bounds, Henry Foy and Marton Dunai, *'EU probes BYD plant in Hungary over unfair Chinese subsidies'*, Financial Times, 20 March 2025.

[xlv] Marton Dunai, Edward White and Alex Irwin-Hunt, *'Orban turns to China to boost recession-hit economy'*, Financial Times, 18 November 2024. For major Chinese EV companies reviewing their strategy as the 45 per cent EU tariff has slowed down their expansion in Europe, see: Gloria Li, Kana Inagaki and Thomas Hale, '*Chinese carmakers reset European ambitions as EU tariffs bite'*, Financial Times, 29 April 2025.

[xlvi] Misha Glenny, '*Serbia's strongman ruler leans west with a lithium deal'*, Financial Times, 8 August 2024. The lithium deal had caused a massive public outcry given environmental concerns despite the claim by the government that this could boost Serbia's GDP by EUR 12bn annually or close to 20 per cent, see: Marton Dunai and Leslie Hook, *'Rio Tinto steps up campaign to win over public for lithium mine in Serbia'*, Financial Times, 24 September 2024. For an ecological risk assessment of the Jadar lithium mine by a research team from Serbia, see: Dragana Dordevic et al., *The influence of exploration activities of a potential lithium mine to the enviroment in Western Serbia*, Scientific Reports 2024) 14:17090, www.nature.com/scientificreports. For protests by tens of thousands in Belgrade in late summer, see: Marton Dunai, *'Serbian protests escalate over proposed lithium mine'*, Financial Times, 3 September 2024.

[xlvii] Marton Dunai, *'Crisis threaten 'beginning of the end' for Serbian president'*, Financial Times, 7 April 2025.

[xlviii] Marton Dunai, *'US throws lifeline to Serbia over oil sanctions'*, Financial Times, 29 March 2025.

[xlix] Arguably, most of the progress so far has been made in software coding and new productivity tools in combining natural work with AI support, see: Melissa Heikkilä, Tim Bradshaw and George Hammond, *'AI 'application' start-ups become big business in new tech race'*, Financial Times, 14 April 2025.

[l] Anjli Raval, '*AI won't fix the real issue with customer service'*, Financial Times, 17 March 2025.

[li] Jensen Huang, NVIDIA GTC Keynote, 18 March 2025. The inflection point is seen in a platform shift to machine-learning computers, making the transformation from reinforcement training for data retrieval and understanding in recent years, which implies a fundamental transition in computer architecture. The next industrial step forward is from agentic AI to physical AI/robotics, developing to AI factories and computer-aided engineering.

[lii] Richard Waters, *'Rise of the AI apps'*, Financial Times, 14 March 2025.
[liii] Madhumita Murgia, *'The race for an AI-powered personal assistant'*, Financial Times, 14 January 2025.
[liv] June Yoon, *'Why China is suddenly flooding the market with powerful AI models'*, Financial Times, 19 March 2025.