Trump 2.0: More guns, less butter in a new global order?

The early months of the second Trump presidency have already sent strong signals of systemic realignment in global trade and defence. From the dismantling of multilateral trade norms to escalating demands for NATO allies to increase military spending, Trump 2.0 is reshaping the foundational institutions built after World War II. These shifts have profound environmental, social and governance implications for investors like U Ethical, where long-term portfolio strategy is founded.

The geopolitical turn: tariffs, bilateralism, and national security

Trump's revived trade doctrine—centred on "reciprocal tariffs" and bilateral deals—has shaken confidence in multilateral trade frameworks. For ESG investors, this signals a potential return to supply chain nationalism and reshoring. While such moves may support domestic manufacturing, they can also amplify risks of human rights abuses, particularly in emerging markets where suppliers may cut costs through exploitative labour practices.

Indeed, global supply chains, already tested during COVID-19 leading to a shift from "just-in-time" models in favour of "just-in-case" resilience planning, are under renewed pressure. Retaliatory tariffs and supply chain bifurcation could also leave countries like Australia forced to choose between U.S. and Chinese trade blocs, unsettling for Australian-listed firms.

Even companies that anticipate lower negative impact from US tariffs are still assessing their strategies. In April, automotive parts manufacturer Amotiv noted that US tariffs are not expected to have a "material impact" on the group during the 2025 financial year as revenue exposure to the US is approximately 8% of total revenue. However, Amotiv noted "In response to these recent tariff announcements, the Group is assessing a range of tactical and strategic actions to manage the risks and realise the opportunities of these changes. These include re-sourcing of finished goods, re-pricing and use of alternative manufacturing and supply locations."[1]

Defence budgets rise, ESG spending squeezed

The Trump administration's exhortations for NATO members to boost defence spending to 5% of GDP—up from the 2% guideline—are resonating. In 2024, world military spending soared to US$2.7 trillion, with Europe seeing the sharpest rise since the Cold War, according to Stockholm International Peace Research Institute (SIPRI). Germany's policy reversal on fiscal deficits illustrates how defence is now prioritized even within previously constrained budgets.

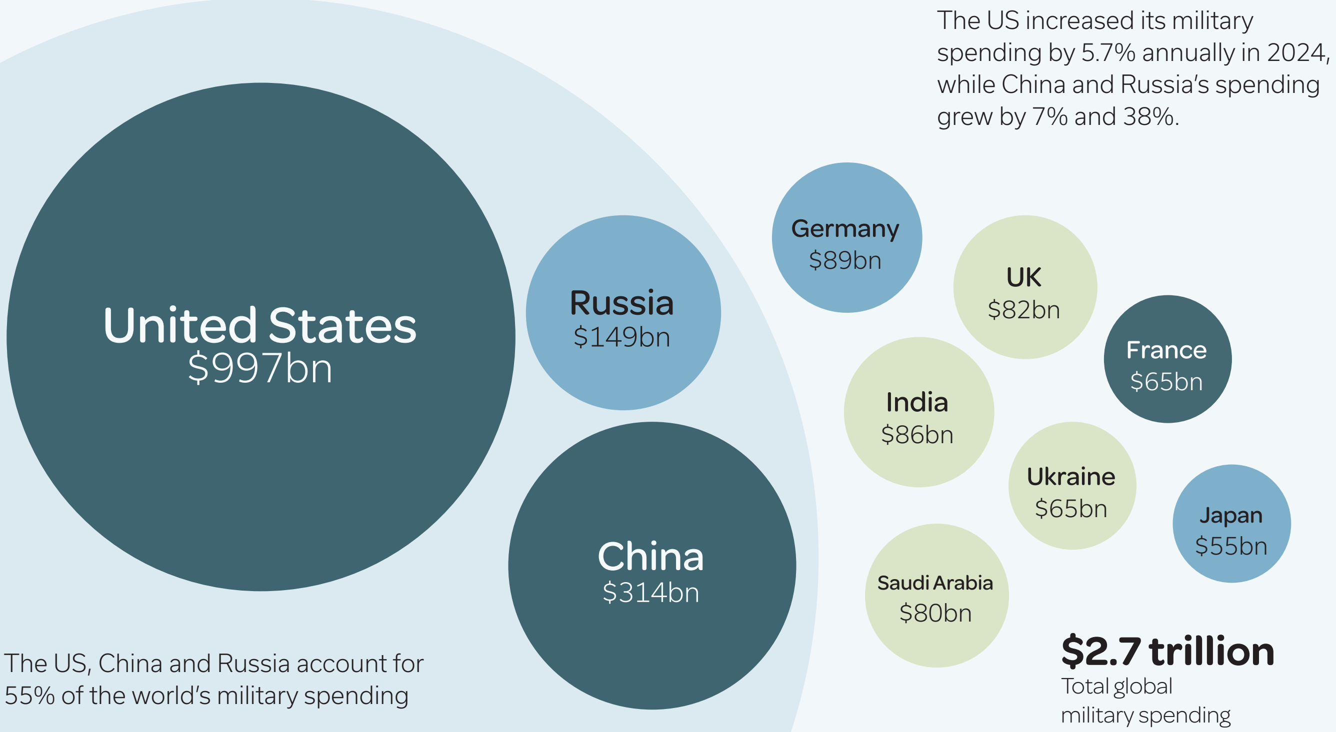
This tilt toward "hard power" diplomacy runs the risk of diverting capital away from social spending for governments that cannot increase fiscal spending. For companies, it raises questions about competing capex priorities: onshoring versus decarbonisation, defence contracts versus UN Sustainable Development Goals (SDG)-aligned innovation. In turn, ESG investors must navigate a shifting terrain of what constitutes ethical alignment.

The ESG dilemma: between SDGs and the defence economy

Trump 2.0 also presents broader challenges around SDG goals like healthcare. Health and Human Services Secretary Robert F. Kennedy Jr's vaccine scepticism could impact portfolio companies such as CSL, which produces influenza vaccines. In its half-year results to 31 December 2024, CSL noted that total revenue in its vaccine division was down 9%, commenting, "significantly low immunisation rates, particularly in the United States, have impacted the broader influenza vaccine market.[2]

With governments pivot to increased national security spending, companies could also follow suit in developing product and services. Alphabet's recent revision of its AI ethics to enable defence-related applications underscores the dilemma[3]. SAP's involvement in defence logistics software, and Mercedes-Benz's revenue from military vehicles have raised questions regarding how close they come to meeting U Ethical's 5% revenue materiality threshold—triggering scrutiny on ethical grounds.

Top 10 countries with the largest global military spending



Source: SIPRI. Trends in World Military Expenditure 2024. Data for China, Russia and Saudi Arabia are estimates.

Meanwhile, data and metrics that have been used to align investments with SDG-positive outcomes could face challenges. With progress towards achieving the SDGs faltering and the 2030 deadline looming, the risk is that investment strategies that heretofore sought sustainably opportunities using SDG-alignment could prove less predictive.

Silver linings do emerge. Germany's EUR500 billion infrastructure fund includes a EUR100 billion Climate and Transformation Fund—tying decarbonisation to national security imperatives. Energy independence, long an ESG goal, is reframed as a security necessity, providing renewed impetus for climate-aligned investments.

Pharmaceutical company risk: A case study in tariff fallout

President Trump's use of tariffs has been both widespread and specific, depending on the country or sector. In particular, Trump has threatened to add additional tariffs on non-US manufactured pharmaceuticals, a move that could impact $1.6 billion in annual Australian exports and specifically has weighed on the recent performance of portfolio company CSL. Trump has threatened additional tariffs on pharmaceutical products manufactured in countries that operate subsidised medicine schemes, including Australia's Pharmaceutical Benefits Scheme (PBS). These schemes, which often take the form of negotiating directly with drugmakers, limit the price US pharmaceutical producers can charge in countries including Australia.[3]

If implemented, such a tariff could directly impact CSL's product lines which are produced outside of the US.

Separately, Trump has also told pharmaceutical companies to lower their prices to match prices in comparable companies otherwise the US government may impose "most favoured nation" pricing.[4]

While U Ethical remains a long-term investor in CSL, we are attentive to how tariffs will impact on their business and valuation.

Conclusion: a new era of ethical complexity

While immediate portfolio impacts from Trump's second term remain limited, the broader shift to a fractured, militarised, and less cooperative global system introduces profound long-term risks. SDG-alignment is under pressure, capex is being reallocated, and defence exposure across portfolios is rising. U Ethical's rigorous ethical screens and deep monitoring capacity will be tested.

Ultimately, this is a call not just for ESG vigilance, but for strategic clarity. Navigating a "more guns, less butter" world requires a refined understanding of systemic risk, and a reaffirmation of what ethical investing means in an era of global uncertainty.

Rachel Alembakis
Stewardship Manager

Sources:

[1] The Guardian, Google owner drops promise not to use AI for weapons, 2025
[2] Mercedes-Benz, Defence Trucks, 2025
[3] Financial Review, Pharmaceuticals to be hit by 'major' Trump tariff, CSL slumps 5pc, 2025
[4] ABC News, Trump wants lower drug prices and pharmaceutical tariffs - what does that mean for Australia?, 2025

Image credits: Unsplash, Joshua Rawson-Harris

U Ethical

Level 6, 130 Lonsdale Street,
Melbourne VIC 3000
Website www.uethical.com
Email info@uethical.com
Telephone 1800 996 888