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Tariffs Are Here: What Does That Mean for Private Equity?

The Trump administration has kicked off its tariff policy, yet we believe investments in private equity may be less affected than the overall economy.

With the recent announcement of new U.S. tariffs—including an additional 25% levy on goods from Mexico and Canada, as well as an incremental 10% levy on imports from China—we believe investors will need to pay closer attention to industry exposures in their portfolios.[1]

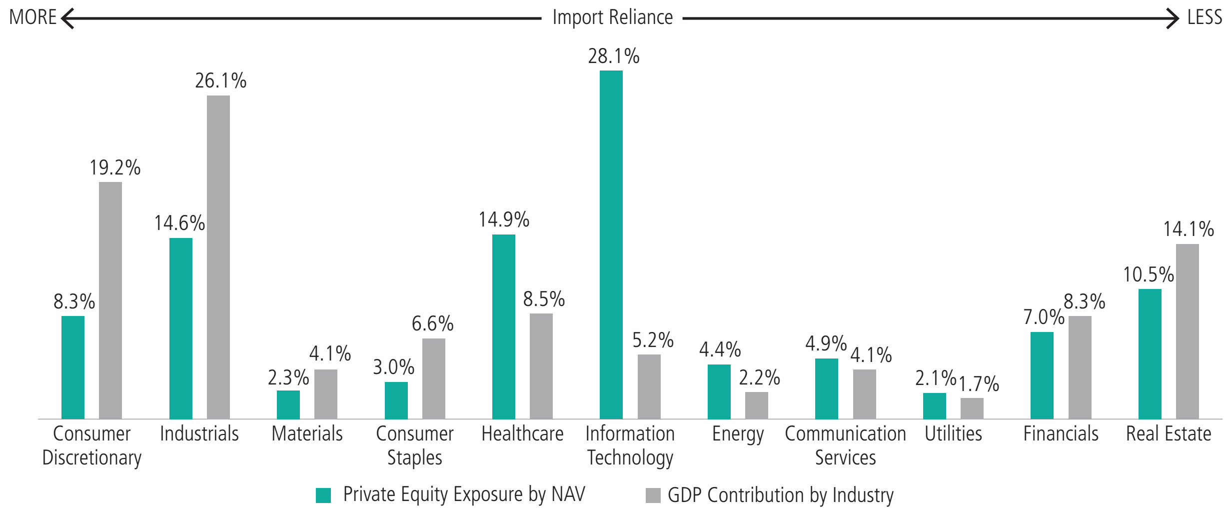
Policy negotiations continue and specifics remain fluid on the new U.S. tariff regime.[2] While private equity (PE) investors may not be immune to these developments, we believe PE portfolios may offer some welcome insulation from tougher tariffs: This is because PE managers have historically had less exposure to economic sectors that rely heavily on tangible imports—such as industrials, materials and consumer goods—and greater exposure to sectors and industries where innovation and intellectual capital are the primary drivers of value, such as information technology (IT), healthcare and financial services.

This strategic positioning, in our view, could help buffer the larger PE ecosystem from the input-cost fluctuations and supply-chain disruptions that tariffs can cause.

To illustrate this point, consider the relative contributions from different industries to overall U.S. GDP, as well as the relative PE exposure to each. As shown below, the industrials and consumer discretionary sectors—both heavily reliant on imports—contribute a collective 45.3% to overall GDP, yet they account for just 22.9% of total PE portfolio net asset value (NAV); on the flipside, the IT and healthcare sectors—which are less reliant on imports—make up fully 43% of PE NAV.

[1] Statements and observations contained in this paper are based on Neuberger Berman market observations and analysis as of February 4, 2025, and may be subject to change.
[2] As of this writing, the proposed tariffs on Mexico and Canada were delayed by a month, pending further negotiations. Source: "Trade War, Interrupted," The Economist, February 4, 2025.

FIGURE 1. THE IT AND HEALTHCARE SECTORS—WHICH ARE LESS RELIANT ON IMPORTS—MAKE UP FULLY 43% OF PE NAV



Note: Data ordered by the total amount of U.S. imports. Source: MSCI, Bureau of Economic Analysis, data as of February 3, 2024, covering the 12-month period ending in Q3 2024.

Potential Opportunities and Obstacles

In 2018 tariffs were imposed on a wide range of imports, including steel, aluminum and various goods from China. At the time, the manufacturing sector faced challenges, while sectors such as IT and services—both less reliant on physical goods—were relatively insulated.

While President Trump has said that pharmaceuticals and semiconductors are in the crosshairs for future tariffs as well,[3] we believe the impacts across these industries will likely be uneven. Although the chart above puts IT and Healthcare in the "middle field" of import reliance, we expect PE portfolios will be less affected by tariffs than the chart indicates: In our view, PE portfolios generally have limited exposure to the import-dependent areas within IT and healthcare, such as semiconductors, pharmaceutical components and medical equipment.

Naturally, obstacles remain: Should large-scale implementation of tariffs trigger another bout of inflation or other macroeconomic headwinds, we believe PE would inevitably face the same challenges as the overall economy.

At the same time, we also believe the PE industry has some inherent strategic advantages in the current environment. With near-record levels of dry powder (exceeding $1 trillion in the U.S. alone[4]), we think PE managers appear able to weather turbulence in their portfolios while poised to make opportunistic acquisitions as they come along. And as controlling stakeholders, PE managers also maintain the ability to make key operational decisions quickly within their portfolios—be it cutting costs, switching vendors or changing product lines.

At this juncture and despite potential obstacles, including the prospect of a U.S. broad-based tariff regime, we believe the PE industry could be well positioned to navigate the broader economic landscape and potentially deliver attractive risk-adjusted returns.

[3] "Trump Freezes Federal Assistance," The Economist, January 28, 2025.
[4] Preqin, data as of December 31, 2024.

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