



U.S. vs. China: Trade War or Tempest in a Teapot?

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R. Daniel Oshinskie, CFA
Chief Investment Officer
Industry Experience: 30 yrs.
Joined Rothschild in 2001.

What happened

- On Thursday, March 22nd, the Trump Administration revealed plans to levy tariffs on \$50-\$60 billion of Chinese imports
- President Trump also proposed restrictions on technology transfers and foreign acquisitions
- The announcement was based on the belief that America's trade deficit has grown "out of control" according to the President

How the Market Reacted

- Immediate market reaction was negative, with major equity indices down 2-3%
- 9 out of 11 S&P 500 sectors declined
- All 30 stocks in the blue chip Dow Jones Industrial Average were negative
- The CBOE Volatility Index, or VIX, a measure of expected swings in the S&P 500, rose 12% after shooting up more than 20% earlier in the day



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Future Considerations

- While US officials have identified potential product categories that could be subject to tariffs, industry representatives are expected to have 15 days to comment
- Some investors are concerned that these tariffs could lead to retaliatory actions from the Chinese government and possibly even other countries, potentially leading to a trade war
- Classic economic theory suggests that tariffs lead to inefficient trade, potentially

hurting the economy and therefore job growth. On the other hand, there is the possibility that these policy changes achieve some short term success in terms of protecting US industry and spurring job growth in selected areas

- Other market observers are concerned that tariffs will prove inflationary—by design, they raise prices on imported goods—and thus fiscal policy will be at odds with monetary policy (e.g., the recent Fed rate hike designed to keep inflation under control)

Our Positioning

- It may be too early to determine the short-term and long-term effects of the overall economy, or for the stock market
- Protectionism could create headwinds for the market as a whole. That said, our approach has consistently been to seek stocks with relatively attractive valuations and the ability to exceed expectations



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For more information, please contact
Benjamin Poor, Head of North America Marketing
at benjamin.poor@rothschild.com

