

Checking in on the U.S.-China Trade Dispute

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Key takeaways

- » Trade-related tensions eased in late November following a highly anticipated meeting between President Trump and President Xi in Buenos Aires.
- » Since then, formal and informal talks have taken place, during which Beijing has increasingly signaled its willingness to concede to a number of the U.S.'s trade-related demands.

What it may mean for investors

- » Since formal talks have only just begun, we expect this trade-related narrative to remain with the markets for some time. That said, we expect risks related to tariff escalation to remain contained so long as talks remain productive and progressive.

Investors were given a reprieve last November, as leaders from the U.S. and China agreed to halt escalation of tariffs during an annual G20 meeting in Argentina. We think that what matters to market participants today is whether the trade truce will endure past March 1, a pivotal milestone in terms of how the direction the trade war narrative will play out. From our vantage point, we believe that de-escalation of trade tensions is still the likeliest outcome—so long as bilateral talks continue to be productive, as they are today.

Recent negotiation developments

The conclusion of President Trump and President Xi's dinner in Buenos Aires left some market participants wondering what (if anything) was accomplished at this highly anticipated meeting, given that few details emerged from the engagement. We believe that the most important development was a general consensus that mutual cooperation over trade and economic issues is the best outcome over conflict. We believe that the durability of this sentiment is likely to persist so long as China follows through on the concessions sought after by the U.S. administration.

Indeed, since November, Beijing has agreed to reduce tariffs on auto imports, increased purchases of U.S. agricultural products, promised to ease long-standing, foreign joint venture regulations (including allowing foreign institutions majority ownership of financial institutions), and publicly acknowledged that more needs to be done to protect foreign intellectual property. While these are positive developments, what the U.S. administration wants is a binding, written agreement that will finally hold China accountable to their promises.

Investment implications

How much longer will investors have to face trade war uncertainties? The development of a binding agreement has only begun as negotiators from the U.S. and China meet in Beijing this week. Using past policy and trade negotiations as a frame of reference (think Brexit negotiations, Strategic Arms Reduction Treaty, North American Free Trade Agreement, etc.) we know that going from concept to agreement to implementation can take a long time—even years. In this context, we expect U.S.-China trade topics to persist well past March 1.

However, what currently matters most for the markets is whether the trade-related issue will continue to escalate, and if it does, will it impact the economy and corporate earnings. We believe that the risk of further tariff escalation will remain contained if the durability of the aforementioned sentiment remains intact (a positive for market sentiment).

Of course, this depends on both parties participating in productive dialogue during negotiations and meeting the March 1 deadline for progress on the agreement's framework. If an agreement is not secured by this key date, tariffs will increase on March 2 and likely will exacerbate market concerns of slowing global economic growth (a negative for market sentiment). Evidence suggests, however, that momentum surrounding talks as well as the necessary concessions for a formal agreement to happen are gaining pace, leading us to believe that an agreement is more than likely to happen by the March 1 deadline.

Economic Calendar

Date	Country	Report	Estimate	Previous
1/8/2019	EUROZONE	Consumer Confidence	-6.2	-6.2
1/8/2019	SOUTH KOREA	Unemployment rate SA	3.90%	3.80%
1/9/2019	EUROZONE	Unemployment Rate	8.00%	8.10%
1/9/2019	CHINA	CPI YoY	2.10%	2.20%
1/10/2019	FRANCE	Industrial Production YoY	-0.10%	-0.70%
1/11/2019	UK	Industrial Production YoY	-0.60%	-0.80%
1/11/2019	INDIA	Industrial Production YoY	--	8.10%
1/13/2019	AUSTRALIA	Melbourne Institute Inflation MoM	--	0.00%
1/14/2019	EUROZONE	Industrial Production SA MoM	--	0.20%
1/15/2019	JAPAN	Machine Tool Orders YoY	--	-17.00%
1/15/2019	FRANCE	CPI YoY	--	--
1/15/2019	JAPAN	Tertiary Industry Index MoM	--	1.90%
1/8/2019	US	NFIB Small Business Optimism	--	104.8
1/8/2019	US	Trade Balance	-\$51.8b	-\$55.5b
1/8/2019	US	JOLTS Job Openings	--	7079
1/8/2019	US	Consumer Credit	--	\$25.384b
1/9/2019	US	MBA Mortgage Applications	--	--
1/9/2019	US	FOMC Meeting Minutes	--	--
1/10/2019	US	Initial Jobless Claims	--	--
1/10/2019	US	Continuing Claims	--	--
1/10/2019	US	Bloomberg Consumer Comfort	--	--
1/10/2019	US	Wholesale Inventories MoM	--	--
1/10/2019	US	Wholesale Trade Sales MoM	--	-0.20%
1/11/2019	US	CPI MoM	--	0.00%
1/11/2019	US	CPI Ex Food and Energy MoM	--	0.20%
1/11/2019	US	CPI YoY	--	2.20%
1/11/2019	US	CPI Ex Food and Energy YoY	--	2.20%
1/11/2019	US	CPI Core Index SA	--	259.481
1/11/2019	US	CPI Index NSA	--	252.038
1/11/2019	US	Real Avg Weekly Earnings YoY	--	0.50%
1/11/2019	US	Real Avg Hourly Earning YoY	--	0.80%
1/11/2019	US	Monthly Budget Statement	--	-\$204.9b
1/15/2019	US	Empire Manufacturing	--	10.9
1/15/2019	US	PPI Final Demand MoM	--	0.001

Source: Bloomberg as of January 4, 2019

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