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# Investment Event

# US-China trade tensions escalate

President Trump extended US tariffs to the remaining USD300bn of US imports from China not already subject to tariffs, at a rate of 10%, effective on 1 September

The decision was motivated by a lack of progress in trade talks and alleged failure to comply with the terms of the G20 truce

Most of the goods impacted by the new tariff are consumer goods, implying a greater risk to consumer spending

### Our views

Our core asset class views are unchanged. We maintain a pro-risk stance in our multi-asset portfolios given a supportive global policy backdrop

## US tariffs extended

On Thursday 1 August, US President Trump unexpectedly announced a plan to move forward with an **additional 10% tariff on USD300bn worth of imported Chinese goods**. The move is in addition to the USD250bn of Chinese products already subject to 25% tariffs. The tariffs take effect on 1 September, which leaves some time for further negotiations, although Chinese authorities may choose to retaliate.

Shortly afterwards, Japan decided to remove South Korea from a list of countries that benefit from less stringent checks on exports of certain products, with possible implications for global supply chains, especially in electronics. The measure will become effective on 28 August.

The US decision followed an inconclusive high level meeting in Shanghai in late July, although both parties declared it “constructive”. Moreover, President Trump said that China has not bought as many US agricultural products as was agreed during the G20 Summit last June, and was not taking enough measures to curb illegal export of an opioid medication.

The initial **market reaction** was negative. US equities dropped 2% in the hour following President Trump’s announcement, before stabilising as the sharp decline in Treasury yields eased some investor concerns. At the time of writing, 10-year yields are trading roughly 10bp lower following the announcement, reaching their lowest level since the election of Donald Trump in 2016.

Gold and the Japanese yen benefitted from their perceived “safe haven” status, with gains in the latter resulting in the underperformance of Japan’s stock markets relative to other Asian equity markets, which also fell. Interestingly, the yen returned to the level that prevailed before the US and China agreed to a trade truce at the G20 summit.

## Increased risk to growth

The value of the tariffs (USD 30bn) represents less than 0.2% of US GDP and around 0.2% of China’s GDP. **The direct impact of these tariffs should, therefore, be limited**. In addition, the US consumer sector is robust – confidence is above average levels, unemployment is low and the saving ratio is at healthy levels – which should allow it to absorb moderately higher prices on affected goods. Moreover, the Fed is clearly aware of the downside risks to the economy and has shown it is prepared to act to sustain the current economic expansion.

Nonetheless, there is a risk that the latest round of tariffs has a more meaningful impact on growth, given:

- The goods impacted are mostly consumer products, including smartphones and laptop computers
- China accounts for a relatively large share of US imports of these products (more than 30%).
- The proportion of value added on these products that comes from foreign countries, including the US, is fairly high.
- President Trump also said that the rate could be raised to 25% and above, which may weigh on business and consumer sentiment.

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## Market considerations

Despite the increased downside risks to growth, we believe the direct economic impact of these tariffs is limited. Furthermore, in the event of any adverse confidence effects which may impact growth more meaningfully, **we believe global policymakers – particularly in the US and China – have enough tools and demonstrated willingness to support the economy**. Overall, relative valuations remain consistent with a pro-risk stance in our multi-asset portfolios.

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