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## **Trade War-Stock Market Furor**

*A message from Dennis Michels, CFP®*

The stock market took quite a hit on Monday with the announcement that the U.S. is slapping tariffs on another \$200 billion of Chinese exports. Some important numbers to remember are 150 and 550. These numbers represent the value of what the U.S. exports to China (\$150 billion) and the value of what China exports to the U.S. (\$550 billion)<sup>1</sup>. If it comes to an all-out trade war the U.S. is in the cat bird seat. Furthermore, if we apply tariffs on *all* Chinese exports to the U.S. it is estimated that this would reduce China's GDP growth by nearly 1 ½ percent<sup>2</sup>. Since China's economy is already slowing, Chinese officials would likely view that kind of GDP hit as simply unacceptable.

I believe there are three possible outcomes of this current "trade war." First, we could see a deal in the next few weeks. That would give both sides the opportunity to make a timely, joint announcement at the June 28<sup>th</sup> meeting of the G-20 in Osaka, Japan. The second possibility is that both sides will proceed to protracted negotiations, reaching a settlement months down the road when the pain to China (and to some degree the U.S.) becomes too much. The third outcome could be that talks break down and we become entangled in a permanent trade war. I think the first outcome is the most likely. I don't think anyone wants to choose outcomes two or three.

The main obstacle I see to outcomes one and two is that President Xi has tied his, and the communist Party's, legitimacy to standing up to the U.S. He can't be seen as caving in to President Trump. It's the Asian concept of "saving face."

In summary, I think the stock market sell-off on Monday was an overreaction to this new trade news. The trade war with China will have little effect on our economy. And the fundamentals of the U.S. economy are strong. I think the current turmoil could present a good buying opportunity for confident investors.

If you'd like to discuss the trade war in more detail, or ask any other questions about the stock market or the economy, I invite you to call or email me.

Sincerely,

Dennis E. Michels, CFP®  
Senior Vice President, Investments

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<sup>1</sup> First Trust Advisors L.P. 5-13-19

<sup>2</sup> Gavekal Research, The Daily 5-13-19

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