MARKET INSIGHTS

from Ziegler Capital Management

Let's Talk Trade

WRITTEN BY

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ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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After a chaotic end to 2018, markets have bounced back throughout the first part of the year. Speculation as to exactly what caused the meltdown in the waning weeks of 2018 centered mostly around two concerns.

1. An overly aggressive Federal Reserve (Fed) inarticulately communicating with global investors, which we have recently written about here.
2. Current trade issues between the U.S. and China pose a risk to both economies as global growth appears to be slowing.

There is no doubt that our current trade dispute is clouding global sentiment and dampening demand. We believe that these disagreements represent a far greater risk right now to the U.S. economy than any other external force. Administration officials have backed off of their hard March 1 deadline for increasing tariffs on Chinese goods, which is encouraging. We commented early last year that this could have been the strategy all along, to focus attention and carve out a stronger position for negotiation. If the "deadline" is not met, U.S. tariffs on Chinese goods would increase from 10 percent to 25 percent. Amid the potential softening of language from U.S. officials, China has embarked on a campaign of purchasing U.S. natural gas, soybeans, and other goods, with the hope that these actions will stave off any hike. If tariffs do increase, it is possible that China will respond in kind.

With the Fed's most recent comments calming the markets, the 2018 market meltdown appears to have been neutralized for now. Investor focus is now on how our current trade dispute with China will be resolved. Whether or not the U.S. economy, or the global economy, is robust enough to withstand increased tariff pressures remains to be seen. However, softening language and actions by U.S. officials and concessions from China via increased U.S. purchases are encouraging signs that a resolution may be coming. What effect the elimination of these reciprocal tariffs would have remains to be seen, however, there is ample evidence that global markets will react favorably upon their dissolution. A successful resolution to our current tariff situation, on top of recent tax and regulatory reform, could alleviate a major source of concern for investors examining U.S. economic strength moving forward.

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