



Whither the victors?



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Trade war

A concept we've become well-acquainted with, so much so that the words seem to have lost their inherent shock value. That doesn't translate to a lack of impact, however: remember that tariffs ultimately represent a tax on consumers and can therefore impact confidence as well as growth, which we have seen recently both at home and abroad. In fact, trade-related fears were cited as the primary cause for a broad slowdown in global growth by the International Monetary Fund in the recent update to its World Economic Outlook, largely through the impact they've had on business confidence and global manufacturing activity.¹ Given this, we thought it would be helpful to review the history of how this trade war has played out thus far and where we stand today.

It should come as no surprise that President Donald Trump has chosen to pursue trade, specifically with China, as it represented a key part of his platform during the 2016 election. But we are now in the 18th month of the China-U.S. trade war, and a number of discussions, threats and tariffs levied between the two countries have clearly influenced short-term market performance. While some trade-related news that appears on the timeline on page 3 was overwhelmed by other, more fundamentally oriented events, some of the trade-related developments that appear to

Key takeaways

- Capital markets have been tracking the trade war closely, with numerous examples of trade-induced market volatility over the last 18 months.
- Trade tensions have impacted the real economy as well, dampening global economic growth by denting confidence among businesses and consumers worldwide.
- The “Phase 1 Agreement” and its accompanying truce represent progress, but a lasting resolution of some of the most fundamental issues has remained elusive.
- We remain skeptical that the 2020 election — no matter the outcome — will necessarily generate lasting resolution to deep-seated and strategic rivalries unearthed by the trade war.

have influenced stocks in a more direct fashion are presented on the next page.

Today, just over 18 months since the first shots were fired in the current trade war, the U.S. has imposed tariffs on a total of \$550 billion worth of Chinese products while China has retaliated with tariffs of its own covering \$185 billion worth of U.S. goods. While the “Phase I” agreement reached on October 1 represents progress, time will tell whether it was reached in good faith or if the motives of either side were less than sincere. In any event, trade-related market volatility may be with us for a while: as it stands today, the U.S. is set to implement the next round of tariffs in mid-December, and the Chinese have promised to respond by year-end.



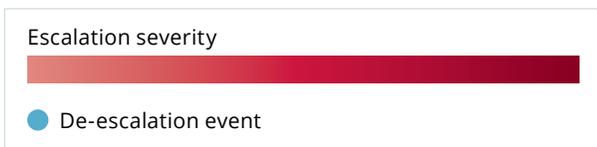
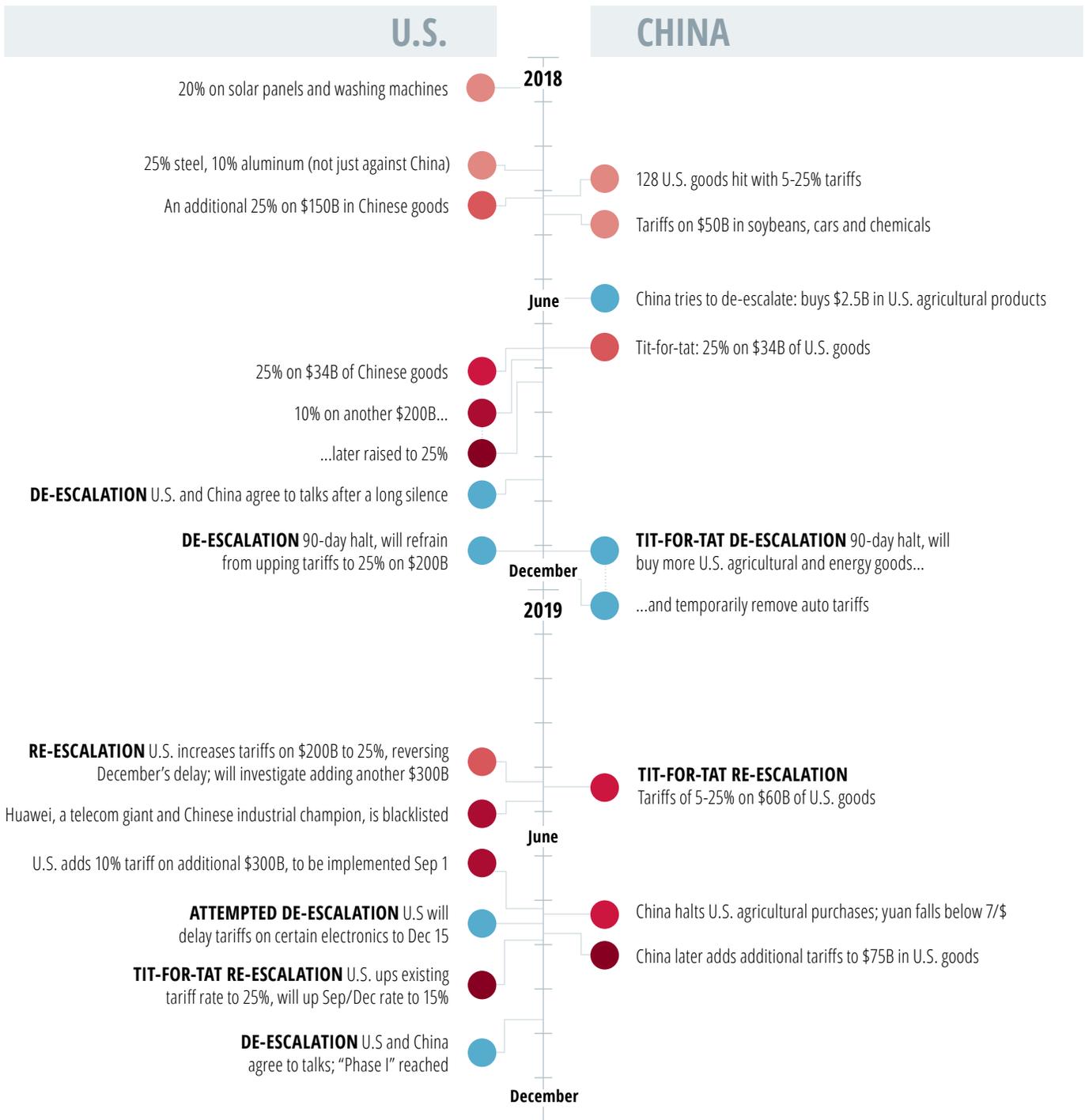
Market* effects from trade-related events

- March 22, 2018** The U.S. plans to file a WTO case against China for unfair licensing practices and investment restrictions. **Market down 2.5%.**
- March 23** The U.S. announces steel and aluminum tariffs of 25% and 10%, respectively, for all producers (not just China). **Market down 2.10%.**
- April 2** China retaliates to the metal tariffs with tariffs of 5-25% on \$3 billion worth of U.S. goods. **Market down 2.2%.** But, stocks recover over the next several sessions despite tit-for-tat tariff threats from both sides.
- October 25–30** In the first move to de-escalate, the U.S. and China resume talks following weeks of silence. **Market up 1.9%.** Stocks continue higher in spite of U.S. threats to apply tariffs on all remaining Chinese goods if talks between President Trump and President Xi Jinping at the G20 Summit fail.
- November 19** The U.S. proposes export controls on emerging technologies. **Market down 1.7%.**
- May 13, 2019** After several months of relative quiet — including several attempts by both sides to de-escalate — the U.S. and China trade jabs covering \$300 billion in Chinese goods (U.S.) and \$60 billion in U.S. goods (China). **Market down 2.4%.**
- August 1–5** The U.S. announces a 10% tariff on \$300 billion in Chinese goods. **Market down 0.9%.** Days later, China lets its currency weaken below 7/\$ and halts purchases of U.S. agricultural goods. **Market down another 3%.**
- August 23** China plans to impose retaliatory tariffs on \$75 billion in U.S. goods; U.S. threatens to raise tariffs on all Chinese goods to 30%. **Market down 2.6%.**
- October 11** Talks resume after a long hiatus, and a “Phase I” deal is reached. **Market up 1.1%.**

* Market refers to the S&P 500® Index which is a broad representation of the U.S. stock market.



Trade war timeline



NOTE: Dates and times of events deemed significant are approximately represented on the timeline above.



1 International Monetary Fund, World Economic Outlook, October 2019. imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019.

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