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Market Update: 11th December 2019

Despite months of optimism over a phase one trade deal, we continue to edge closer to the December 15th tariff hike on Chinese imports with no sign that the two powers have come to an agreement during their ongoing talks. Back in September, both sides showed concerns that the trade war was negatively affecting their economies as the total tariffs on US and Chinese goods reached $185 billion and $550 billion respectively. These concerns appeared to act as a catalyst for the creation of a 'phase one' trade deal, which would see both sides rolling back existing tariffs and moving forward on some of the key issues behind the conflict. Many were speculating that the imposed tariffs on December 15th - when the US is set to impose a 15% tariff on around $160 billion worth of Chinese imports - would act as a sort of deadline for the two sides to finalise and sign the deal, however with the tariffs due to come in on Sunday, there is still no sign of an agreement.

China expecting a delay, but US keeping quiet

Chinese officials announced on Tuesday that they are expecting President Donald Trump to delay the set tariff increase, giving more time to negotiate the interim 'phase 1' trade deal that both sides continue to insist is close to fruition. The Trump administration has so far not sent a clear signal on its willingness to delay the tariffs, but Trump is set to meet with his trade team on Thursday as talks over a potential delay continue.

How would markets react?

Officials from both sides continue to insist a deal is in their mutual interests. A tariff reprieve would lift confidence in the global economy and signal that the two sides are determined to push through a deal, despite heightened tensions over non-trade conflicts including the US's stance on Hong Kong's human-rights protests and alleged abuse in Chinas Xinjiang province. However, the slow progress in the trade talks illustrates the suspicion of a deteriorating relationship, and difficulty agreeing upon a deal.

If tariffs scheduled for December 15th are implemented it would be a huge shock to the market consensus. Global equities came within a whisker of their all-time highs last month, propelled in part by optimism that at least an interim US-China trade deal was in the offing. However, equities were sent tumbling last week when trump reinstated tariffs on Brazil and Argentina as well as showing a lack of urgency over a phase one trade deal – a potential insight to how markets will react if Trump goes through with the planned tariffs.

Key Risks

While the President may be stepping up his trade offensive in an attempt to frame his hard stance on trade for his re-election campaign, the tariffs would likely cause significant decline in global equities in the short term, as investors will worry about the negative effects of the damaging trade war on an already slowing global economy.

Other key risks come from a continuation of the trade war. The slow progress in the trade talks highlights concerns that the two powers are unable to come to an agreement on the 'phase one' trade deal. If they can't agree on that it raises concerns about how much longer the trade war will go on for, and the negative effects it will have not just on the two countries, but the global economy as a whole.

Additionally, the ongoing impeachment process in the US may be providing China with motivation to wait out on negotiating a trade deal to hope for different personal to agree term of a trade deal with. Again, this raises concerns about how much longer the trade war will continue for.

Positioning

Our portfolios remain defensively positioned and are well positioned should the tariffs be imposed. Portfolios also benefitted from low overseas currency exposure as sterling continued to strengthen ahead of the UK Election. It is clear that markets are likely to continue to display high levels of volatility, therefore our defensive allocation allows us to reduce excess risks and focus on identifying new opportunities as they arise.

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