

---

# WILL CHINA TENSIONS LEAD TO A NEW ECONOMIC COLD WAR?

Jeremy Schwartz — Global Chief Investment Officer

06/10/2020

Last week's *Behind the Markets* podcast featured a special guest, Maria Bartiromo of Fox Business, alongside Leland Miller, CEO of China Beige Book, with Wharton Professor Jeremy Siegel, discussing the May jobs report, the reopening of the economy and the increasing tensions with China.

Given that the coronavirus originated in China, and China was the first country to shut down segments of its economy, the readings of Chinese economic activity are important input to gauge how economies of other countries may perform following their own reopening. Miller's firm has its own proprietary metrics to gauge China activity. His data shows manufacturing and services in expansionary territory. Retail is still in the doldrums, so we are not seeing a rebound in consumer spending yet. Miller's intuition says that where the government could direct the economy to get it humming again, it is bouncing back, but discretionary demand is still slow.

## **New Economic 'Cold War' with China**

For the global economy and financial markets, the tensions brewing with China were a major focus of our discussion with Miller and Bartiromo.

Bartiromo believes the biggest long-term fallout of the coronavirus will be supply chains moving back to the United States and elsewhere. In February, we discovered 90% of active ingredients in prescription drugs were dependent on China manufacturing. Bartiromo heard reports in February of ships being directed to return to China when they were on their way to the U.S with critical supplies.

Bartiromo does not believe China will fulfill its commitment in the Phase 1 trade deal, but the potential positives from the deal prevent even harsher tariffs from being enforced.

Bartiromo discussed a number of key concerning issues, from intellectual property (IP) theft and forced technology transfers to militarizing the South China Sea, border tensions with India and the security rules in Hong Kong. She sees the overall relationship with China deteriorating, and Professor Siegel agrees this is apt to become the new economic "Cold War."

## **The Impact of Restricted Access from China**

China and the U.S. are the two biggest economies in the world, and if the U.S. restricts access, China will retaliate on our goods as well. Professor Siegel sees President Trump clearly making an anti-China stance a key election issue, but the Democrats also echo similar sentiments, so there may just be nuanced differences in the policy rhetoric.

For investors, we are focused on new laws requiring Chinese firms listed in U.S. exchanges to be held to the same accounting standards as U.S. firms. Many of the large Chinese technology firms, in particular, have the same auditors as U.S. firms, like an Ernst & Young in China. But the records must remain in China, and this may become an issue. Miller does not see this as a short-run performance issue and thinks over time it may be resolved. There are three years before firms are required to delist. We will be watching that story closely.

Professor Siegel thinks we need China and they need us. The markets clearly want to see a resolution of tensions, so this will be a major dominating issue that we will be coming back to on *Behind the Markets* and in our commentaries.

We thank Bartiromo and Miller for sharing their thoughts with us. Please listen to the full conversation below.

Behind the Markets on Wharton Business Radio · Behind the Markets Podcast: Maria Bartiromo & Leland Miller

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.