TRADE TRUCE OR NO TRUCE?

Jeremy Schwartz — Global Chief Investment Officer
12/04/2018

The trade dispute with China and the Federal Reserve's (Fed) continual hiking of interest rates are the two most important drivers of the market's recent volatility. We had a great lineup on Friday's "Behind the Markets" podcast discussing these two critical issues, which included Wharton Professor Jeremy Siegel, Liqian Ren of WisdomTree, Marc Chandler of Bannockburn Global Forex and Andy Rothman of Matthews Asia.

Professor Siegel believes the speech last week by Federal Reserve Chairman Jerome Powell and his critical words "the Fed Funds Rate is not far from the neutral rate" settles Trump's assault on Powell as the whipping boy and cause of market volatility—now the primary issue Trump must confront for causing market volatility is his trade dispute with China.

Although the headlines over the weekend were positive and we've avoided the worst-case scenario, the issues are far from solved.

Chandler was the glummest and most concerned of our podcast participants and suggested we've entered a new "Cold War" with China that will divide the world. He highlighted a clause in the new North American Free Trade Agreement with Canada and Mexico that forbids entering into a trade agreement with a non-market economy (code for China). Chandler thinks this was precedent-setting and future trade agreements with Europe will contain a similar clause. China is also taking a similar tack in their global deals by saying that if you want Chinese aid, you cannot recognize Taiwan.

Going into the G20 meetings this past weekend, Rothman did not think we would get a full resolution, but rather that we would see signs of a truce. Rothman pointed out how even Trump's own economic team finds a trade war could subtract 50 to 100 basis points off GDP growth in 2019, and this is affecting the markets, sentiment and corporate profits—all against Trump goals. It turned out that Rothman was exactly right, as President Trump's and President Xi's teams met during the summit and agreed to a 90-day "ceasefire" of the trade war.

Rothman believes a changing tone and direction of bilateral conversations with China could create an opportunity in the Chinese markets—lifting concerns and pessimism. He sees earnings growth as being good, valuations as being depressed, and macro conditions also as pretty good.

Rothman also believes China is the world's best consumer story—with phenomenal growth in income driving phenomenal growth in retail sales—all while savings rates are still high.

Ren further questioned framing the tensions between China and the U.S. as a "trade war." She sees this as a "dispute," but overall, she also questioned pessimism of guaranteed losers in this trade dispute. She pointed out that Chinese social media posts often welcomed the trade tariffs President Trump enacted because China's response was to lower their internal taxes—making many American-made goods, such as cancer drugs and cars, cheaper for Chinese consumers.

This supports Rothman's view that China is the world's best consumer story, and the pause to negotiate trade issues is more of a catalyst to revisit exposures to the battered-down emerging markets.

One cautious note: Ren pointed out over the weekend that Chinese news reports of the dinner conversations had a very different tone and explanation than U.S. stories. While the market initially cheered Trump's message, we may be back three months from now facing a new round of tariff debates. Unfortunately, this new tariff dispute and uncertainty feels like the new normal and an issue we will be coming back to again and again over the coming months.

Please listen to our full podcast below.

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)

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.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

Basis point : 1/100th of 1 percent.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.