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Benjamin A. Pace is the firm's Chief Investment Officer and leader of the Investment Committee. He has more than 25 years of experience in investment management. Prior to joining Cerity Partners, he was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has been featured in the Wall Street Journal and Reuters, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as Power Lunch, The Closing Bell, Squawk Box, and Worldwide Exchange.

CHINA TARIFFS

ECONOMIC INSIGHTS | MARCH 2018

Following up on thoughts expressed in our note of March 2nd, the Trump administration announced another round of punitive tariffs which is focused this time solely on China. Unlike the rather narrow levies on steel and aluminum announced at the beginning of the month and implemented today, this second round is structured as a 25% tariff on up to $60 billion in a broad number of goods imported from China. The rationale for these tariffs is to "safeguard our interests".

The Administration continues to affirm their ideological belief in free trade, but stress that it must be fair trade. Their contention is China unfairly limits access to certain markets and is guilty of rampant intellectual property theft. President Trump has told the Chinese government that he wants to see the trade deficit with China decreased by $100 billion. With the recent changes in high level Cabinet positions, the President has surrounded himself largely with advisors who agree with this more hawkish approach. We anticipate further measures such as restrictions on Chinese investments in the US and perhaps even travel within the US of certain Chinese nationals. It also appears the Administration will present a formal petition for relief to the World Trade Organization, but they have always been skeptical of the effectiveness of this particular avenue.

In the first act of retaliation for the initial tariffs placed on steel and aluminum, China announced it would place its own tariffs on $3 billion of American goods imported into the country. Just as the US broadened the net for products on which tariffs will be placed, we expect this to be only the first retaliatory measure announced by the Chinese government. Particular targets in the crosshairs would be US aerospace producers, soybean farmers, wine makers, and fruit growers. In addition to tariffs targeting these industries, the Chinese have hinted they may let their currency, which is roughly pegged to the dollar, to be devalued to enhance their trade advantage against the US.

Markets continue to be very jittery in this environment of increasing trade tensions. While the administration has granted exemptions to Canada, Mexico, and Australia on the steel and aluminum tariffs, they have taken aggressive action on renegotiating NAFTA and have also expressed dissatisfaction with the US trade deficit with Germany. Trade skirmishes can easily evolve into outright trade wars if neither side blinks. Broader implementation of protectionist policies by a number of countries can seriously damage the synchronized global expansion we have been enjoying for the last few years.

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The actions of the Administration may very well be the opening salvos of a negotiating tactic meant to begin the process of reducing the US trade deficit. Like tax reform, it can be strongly argued that it is better to introduce these policies from a position of economic strength. US GDP will benefit this year from the effect of tax cuts, especially in the capital goods sectors. Corporate earnings growth should be robust enough to provide somewhat of a cushion for stock prices. We believe US equity prices will not fall into a bear market this year, but the volatility we have experienced this year should continue. In a somewhat ironic twist, US equities will likely provide more downside protection than international equities as our country is more reliant on domestic consumption than most other countries.

Please contact your Cerity Partners advisor with any questions or concerns.

Sincerely,

Ben A Pace III

Benjamin A. Pace
Chief Investment Officer