CERITY PARTNERS

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.

TRADE PROTECTIONISM

ECONOMIC INSIGHTS | MARCH 2018

After over a year of subtle and not so subtle threats to defend certain US markets from perceived unfair competition, President Trump finally appears ready to announce steep tariffs on imported steel and aluminum. The President told a group of executives from those respective industries that he would announce next week the imposition of 25% tariffs on steel and 10% on aluminum.

Previous tariff announcements on solar equipment, Canadian lumber, and washing machines had no impact on markets. When news broke yesterday of the impending tariffs, equity markets declined close to two percent. Some of those losses were recovered by the close, but markets weakened again this morning. The initial perception among market participants is the tariffs will admittedly help our rather narrow steel and aluminum industries, but they will damage the arguably more important industries such as autos and consumer products companies whose margins will suffer through a rise in the price of these two important input materials. Of course, the larger concern is the potential retaliatory measures which could raise the price of other important intermediate or final goods.

In stating his intention to propose these new tariffs, President Trump invoked national security as a primary rationale. As this justification has not been used since the advent of the World Trade Organization at the turn of the century, the President may be acting on an ingrained ideological belief as opposed to having a broader political purpose for such an action. It appears he truly believes the Chinese have been predatory trading partners for a number of years and these tariffs are aimed squarely at China although they could impact other trading relationships.

We now await further details on the implementation of these tariffs, especially an indication of any countries that will be granted exceptions. We also await the response of our trading partners and the retaliatory tactics they may impose either directly or indirectly. The ultimate concern is whether this announcement is merely the first meaningful salvo in what eventually becomes an outright trade war.

While the President has inserted a few trade hawks in his Cabinet, notably Commerce Secretary Wilbur Ross, neither the larger White House staff nor the Federal Reserve Board are unified in supporting this strategy. The negative reaction of the equity markets will likely be an important factor in how extensive the trade restrictions become with respect to both the number of products and the trading partners beyond China who would be impacted.

One of the concerns we expressed after the election of President Trump was the sharp protectionist rhetoric he espoused on the campaign turning into a recession inducing trade war. The first year of the new Administration was consumed with the failed ACA repeal and replace effort and the successful tax reform policies. Attention has finally been turned towards trade. The immediate economic impact of steel and aluminum tariffs should be minor. The ultimate impact on global economic growth and inflation is dependent upon any retaliatory response.

With US economic growth likely to remain in the 2.50-3.00% range this year and the tailwind provided to earnings from the tax cut, a recession is not in our near term forecast. However, central bank tightening and heightened fears of a trade war could slow this economic growth sooner than we originally forecast. Increased trade frictions add another reason to our contention that the multiple expansion phase of this bull market is likely over. Positive revenue and earnings growth expected in 2018 should prevent the onset of multiple contraction and allow equity markets to generate positive returns this year in a more volatile environment.

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

Sincerely,

Benjamin A. Pace
Chief Investment Officer