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June 22, 2018

## **Trade War Score Card**

The trade war is impacting markets. The range of impact varies by the extent of the exposure to international trade.

The U.S. represents about 5% of the world's population but consumes about 24% of the world's energy. Americans eat 815 billion calories of food each day, roughly 200 billion more than needed. We throw out 200,000 tons of edible food daily. The average American generates 52 tons of garbage by age 75. We use one-third of the world's paper...etc. When the U.S. imposes tariffs, it hurts foreign producers more than domestic producers in aggregate.

Small U.S. companies have less exposure to foreign trade than do large companies.

The trade war scorecard shows (prices as of 6/20/18 market close):

### **U.S. versus the World**

- U.S. stocks measured by the S&P 500 up 4.35% YTD -- Winner.
- Foreign stocks measured by the Vanguard Total International Stock Index (VXUS) down -2.57%YTD – Loser.

### **Small U.S. Companies versus Large U.S. Companies**

- Small U.S. companies measured by the iShares Russell 2000 ETF (IWM) up 11.75% YTD – Winner.
- Large U.S. stocks with high international trade exposure measured by the SPDR Dow Jones Industrial Average ETF (DIA) up 0.61% YTD – Loser.

## Trade War Winners and Losers YTD



On July 6, 2018, the U.S. plans to implement \$34 billion in China tariffs (25%) on a variety of industrial items negatively impacting DJIA component stocks 3M (MMM), Apple (AAPL), Boeing (BA), Caterpillar (CAT), General Electric (GE) and United Technologies (UTX). Many stocks outside of the DJIA also will be negatively impacted like Deere & Co (DE), Harley-Davidson (HOG) and Qualcomm (QCOM). There are an additional \$216 billion worth of China tariffs under review.

With regard to the rest of the world, the U.S. has placed a 10% tariff on steel and 25% tariff on aluminum (South Korea exempted). Under review is a 25% tariff on automobiles, SUVs and auto parts.

Jerome Powell, Chairman of the Federal Reserve, said this week that the developing trade war may cause the Fed to revisit its U.S. economic outlook to the downside as many businesses are delaying investment decisions until the trade outlook is less uncertain.

The trade war is not over. The chart above shows much of the negative expectations from a trade war have been priced into the market, especially foreign stocks and large U.S. stocks. If the trade war outlook were to turn more favorable, we should expect many of the underperforming sectors of the global stock market to begin to play catch-up.

From a global stock investment standpoint, diversification may be the best way to win the trade war as an investor. Underperforming large capitalization U.S. stocks and foreign stocks could become the winners in the second half of 2018 on any news of an improvement in the trade dialog.

**Give Us a Call Today**

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