

Northern Trust | Trade Tussles

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US-China trade negotiations took a turn for the worse over the last week as the US further increased tariffs and the Chinese retaliated. We haven't been expecting a definitive resolution to the trade dispute and believe both sides retain incentives to reach some level of agreement.

After a stall in negotiations last week, the US announced that it was increasing the tariff on \$200 billion of imported Chinese goods from 10% to 25%. In contrast to prior tariffs, this applies to goods leaving China after the announcement, leaving a period of several weeks for negotiation before the imports hitting our shores will see the higher tariff. China responded that May 13, raising tariffs on goods estimated at approximately \$60 billion. The US has threatened additional tariffs on all remaining Chinese imports, but this process will take several months to administrate.

The impact on the global economy from the trade war is important, but not the only thing driving markets. Economic growth, inflationary trends, and the monetary policy reaction are all critical drivers that have underpinned the rally in risk assets this year. Growth signals from the US remain very solid, while European growth may be showing some signs of life. In fact, US stocks with high exposure to European economies have handily outperformed those with high exposure to the US economy this year.

Chinese growth has shown some signs of stabilization in the wake of significant stimulus this year, which is unlikely to waver after the new trade developments. Soft global inflationary trends have allowed global central bankers to remain accommodative this year, including the key pivot by the Federal Reserve in January.

In this month's investment strategy meetings, we reconfirmed our moderate overweight to risk in our tactical asset allocation policy. While markets will likely experience increased volatility as the negotiations continue, we expect risk taking to be rewarded over the next year as global growth advances and interest rates remain supportive.

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