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Tariff Talks Fuel Risk Aversion

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Stephen Proffer, CFA
Institutional Consultant

Global equities opened lower, U.S. Treasury yields fell sharply and the U.S. dollar climbed this morning in response to U.S. and China ratcheting up protectionist policies.

What happened?

In a White House statement released last Friday, President Trump took steps to implement a 25% tariff on $50 billion of goods produced in China "that contain industrially significant technologies." In response, China's officials countered with plans to impose 25% tariffs on $34 billion of U.S. exports. Yesterday, in another White House statement, President Trump announced he ordered the United States Trade Representative to identify an additional $200 billion worth of Chinese export goods that would be subject to an additional 10% tariff. Furthermore, President Trump signaled that he would apply tariffs to an additional $200 billion of Chinese export goods if China's leaders retaliate to the second round of tariffs. Details are scarce at this time, but protectionist rhetoric from U.S. and China is weighing on markets.

How are markets responding?

Perceived deterioration in trade relations between the two largest global economies has weighed on investor appetite for risk. Global equities opened lower as investors favored traditional safe-haven assets, such as U.S. Treasuries. Commodities also opened lower on concerns that trade restrictions could slow global growth while the CBOE Volatility Index rose to its highest level since May. Despite the early sell-off, investors are in a wait and see mode seeking greater clarity on a resolution between Washington, DC and Beijing. China's officials said they will deploy monetary tools to support markets which should serve to ease monetary conditions in China; providing some reprieve for investor risk aversion.

What are the risks going forward?

Protectionist policies seem to be intensifying and neither side appears willing to back down. A response from China is certain, but without details, it is too early to measure potential impacts. Further deterioration in trade talks could curb positive business sentiment spurred by last year's Tax Cut and Jobs Act. On the other hand, heightened trade restrictions may affect certain companies and sectors but have less impact on growth in China and the U.S. We will continue to monitor these risks and new information as it becomes available.

DiMeo Schneider & Associates, L.L.C. continues to believe that investors should be patient and adhere to a well-constructed, diversified investment portfolio anchored to your goals and time horizon. Despite elevated uncertainty, we do not find compelling reasons at this time that would justify overriding our asset allocation methodology.

For further information please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

Stephen Proffer, CFA, Institutional Consultant

Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and earned a Masters of Analytics from the University of Chicago in June 2018. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Steve enjoys outdoor activities and spending time with family.