

## The First *Real* Signs of a Trade War with China

Over the past week, we saw the first real signs of what could be a full-blown trade war with China. The U.S. and China both announced substantial new tariffs on each other, and President Trump then stated that U.S. companies with business in China should immediately find another supplier. Equity markets around the world sold off as money flowed into safe haven assets (like Treasury bonds, gold and the U.S. dollar).

There have now been declines in U.S. equity markets for four consecutive weeks. Low risk equity assets (like consumer staples, utilities, healthcare and dividend payers) are significantly outperforming everything else. Cyclical assets, energy and commodities are bearing the brunt of the selling. The always-important transportation index is back at its late May lows. Markets are clearly forecasting slow growth growing forward.

Much of the world is already stuck in a stagnate or receding economy, with zero percent or negative interest rates. Up to this point, the U.S. has been the only bright spot - and has kept everything else afloat. That strength here appears to be coming to an end. The U.S. manufacturing sector is already in a recession. Durable goods orders came in today above expectations, based solely on aircraft supplies. Otherwise, it was at its lowest level in three years. All of this reflects the problems caused by the active trade war with China. To make matters worse, the U.S. is also threatening tariffs on France. I will not comment on the long-term goals sought here, but will say that over the next few years we are likely in for some pain if this is not resolved quickly. Nationalism has never proven to be a great idea and that is where we seem to be headed. To me, this feels like the beginning of a bear market in stocks with a recession to follow. I hope I am wrong.

We will avoid investing based on hunches, continue to take it day by day and watch the data as it comes in. We remain cautiously bullish... very cautiously!

Last week's market commentary can be found [here](#).



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