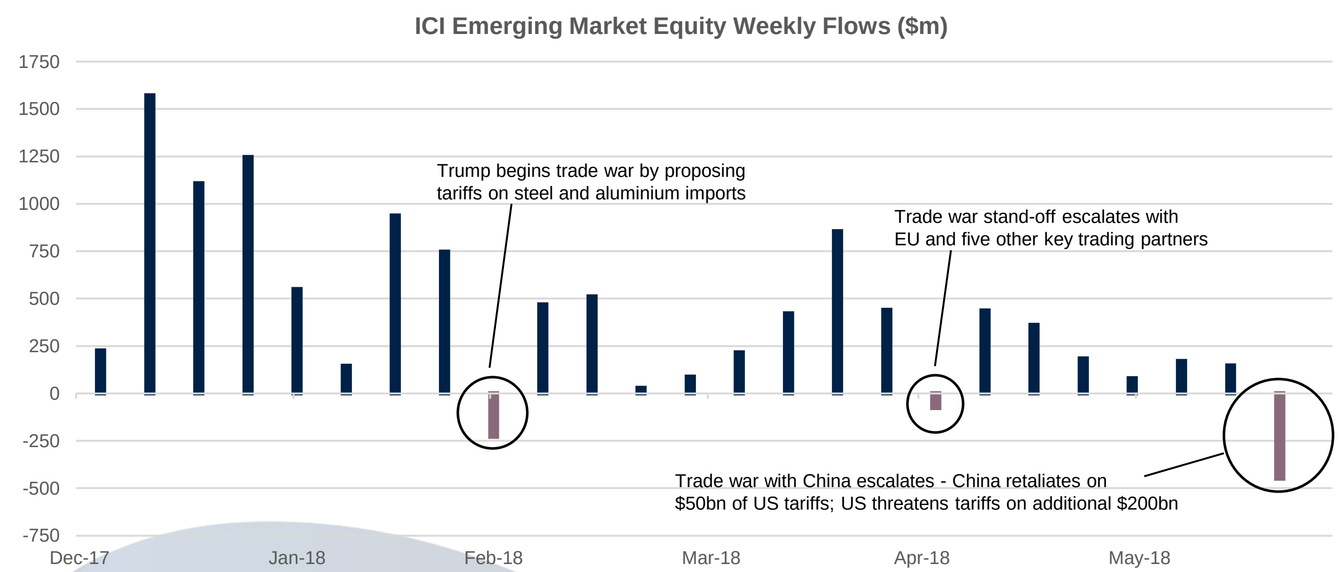
SIGNIA TALKING POINTS
June 2018

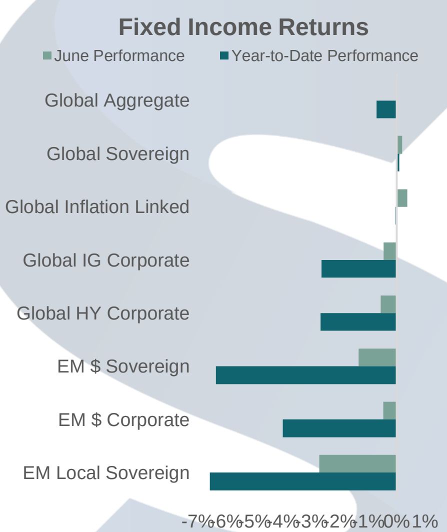
Trump Trade Wars: Going tit-for-tat with Trump is shaping investor flows into Emerging Markets

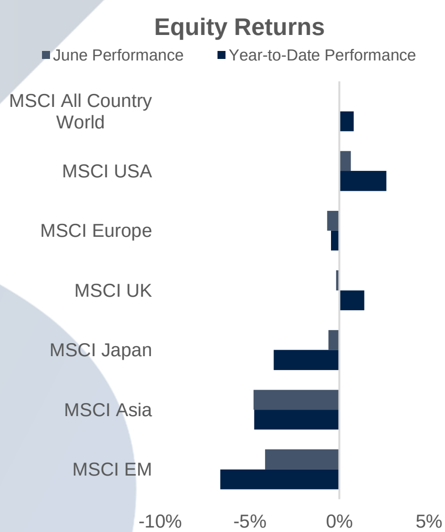
Only a few years ago the United States and Europe were discussing the possibility of eliminating almost all Trans-Atlantic trade barriers. Now, under an increasingly mercurial Trump administration, the narrative is quickly changing towards a U.S. versus Rest of the World trade spat that is threatening to dismantle a sacred post-war era trade framework for globalisation.

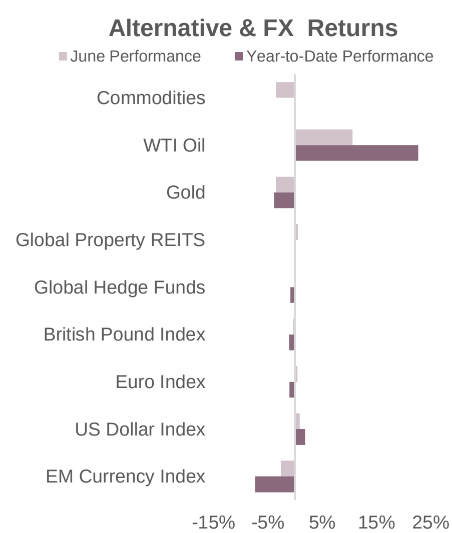
It began in February on a wave of fresh political momentum following December's U. S. tax cuts and deregulation, allowing Trump to revisit his protectionist agenda to reduce the U.S. trade deficit by announcing plans for sweeping tariffs on all steel and aluminium imports. The global reaction was swift and fierce, both at home and abroad, as senior members of congress and U.S. industry joined chorus with key trading partners from the EU to China in shared condemnation and threats of retaliation. On June 15, the U.S. announced it would begin charging additional duties of 25% on $50 billion of Chinese imports in response to "theft of American intellectual property" by pressuring American companies in China into sharing technology and trade secrets. China responded saying it would fight back with "equal scale, equal intensity". Emerging Market flows subsequently suffered their worst week this year, as investors pulled $450m from Emerging Market equity funds in response to an escalating trade war between two leading economic powerhouses that could threaten to derail the current strong and synchronised global economic growth environment.



Source: Bloomberg







Global Agg: Bloomberg Global Aggregate TR Hedged GBP; Global Sovereign: Bloomberg Global Treasury TR Hedged GBP; Global IL: Bloomberg World Govt Inflation Linked Bonds 1-10Y TR Hedged GBP; Global IG: Bloomberg Global Corporate TR Hedged GBP; Global HY: Bloomberg Global High Yield TR Hedged GBP; EM$ Sov: Bloomberg Emerging Markets Sovereigns TR Hedged GBP; EM$ Corp: Bloomberg EM USD Corporate 10% Cap Hedged GBP; EM Local Sov: Bloomberg EM Local Currency Govt TR Unhedged USD; Equities: MSCI indices reflect net total returns in local currency, except Asia and EM in USD; Commodities: Bloomberg Commodity TR Index; Global Property REITS: FTSE EPRA/NAREIT Global Index; Global Hedge Fund: HFRX Global Hedge Fund Index; British Pound: Bloomberg British Pound Index; Euro: Bloomberg Euro Index; US Dollar: Bloomberg US Dollar Index; EM Currency: JP Morgan Emerging Market Currency Index. Source: Bloomberg. Data as at 30/06/2018.

Fixed Income

- Emerging Markets continued their negative trend this month, with local debt suffering the most, mainly based on strengthening dollar and trade war fears, sparked by the Trump administration's protectionist rhetoric
- Credit markets were mixed with European credit underperforming U.S. credit due to political developments in Europe and supply dynamics hurting both investment grade and high yield markets
- Global sovereigns ended the month slightly positive on the back of further strengthening ~~in~~ of the US economy and a series of mixed political developments in Spain, Italy, Greece and Germany

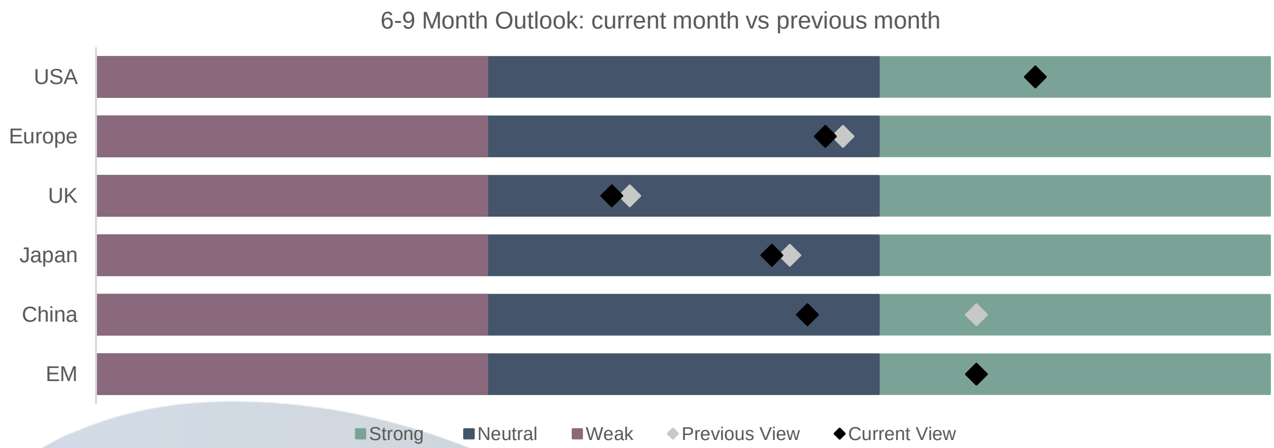
Equities

- U.S. equities were again the best performer, as data continued to indicate a strong US economy
- U.K., European, and Japanese bourses all recorded marginal losses, primarily driven by subdued global sentiment rather than domestic factors
- Asian and emerging markets witnessed significant falls, with concerns surrounding reduced global trade, rising US interest rates, and a stronger US dollar weighing on investor sentiment

Alternatives & FX

- Commodities fell slightly over the month as the fall in agricultural and industrial metals outweighed a sharp rise in oil, which continued its ascent as investors appear concerned on supply constraints across OPEC producers failing to meet demand growth
- Gold fell as investors shunned the yellow metal in favour of safe haven currencies as trade tensions escalated
- Despite a small rise in the US dollar, Emerging Market currencies continued their trend lower, led by the Argentine Peso and South African Rand

Signia Macroeconomic Outlook



Source: Signia Wealth. **Data as at 30/06/2018**

- U.S.: Tailwinds from tax cuts, expansionary fiscal policy and regulatory easing are supporting consumer and business sentiment and this has extended the second longest U.S. economic expansion in history (109 months), now in the latter stages of its cycle but still running strong. Rising trade war tensions with key trading partners is a notable risk but currently poses a minimal economic threat.

- Europe: Economic and earnings recoveries are earlier in their cycles but have lost momentum recently from several key headwinds: a less accommodative ECB, rising concerns of a trade war with the USA, a harsh winter related Q1 economic slump across the northern nations, and populist uprisings across the southern nations. Greece is now the fastest improving economy within the trading bloc.

- U.K.: Real wage growth is now positive as employee earnings growth accelerates to the highest since 2015 and pressures from high consumer price inflation ease slightly. However, corporate profit growth is declining and risks remain balanced as existential Brexit uncertainty with the European Union continues to weigh on corporate sentiment and business investment.

- Japan: The policy mix in Japan is changing. Fiscal stimulus is increasing and the Bank of Japan remain committed to monetary easing and stimulating low consumer price inflation, which continues to defy rising wages and a tight labour market. Prime Minister Abe's ratings have suffered considerably by a prolonged political scandal but have stabilised recently ahead of elections in September.

- China: Curbing pollution levels is an environmental positive but comes at an economic cost by slowing industrial output growth at a time when the corporate sector is deleveraging and economic growth is slowing. The Chinese central bank has a new governor who is trying to stimulate the economy to counter slowing credit growth and an escalating bilateral trade war with the U.S.

- Emerging Markets: Robust economic growth is being tested by a strengthening U.S. dollar and isolated risks in Turkey, Argentina and Brazil. However, buoyant commodity prices and continued above-trend global economic growth offer a boost to the broader EM complex.

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