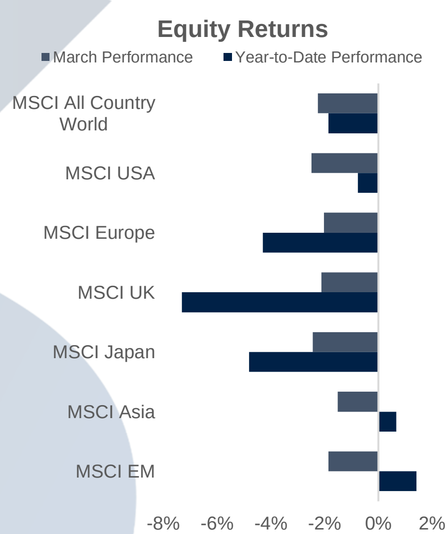
SIGNIA TALKING POINTS
March 2018

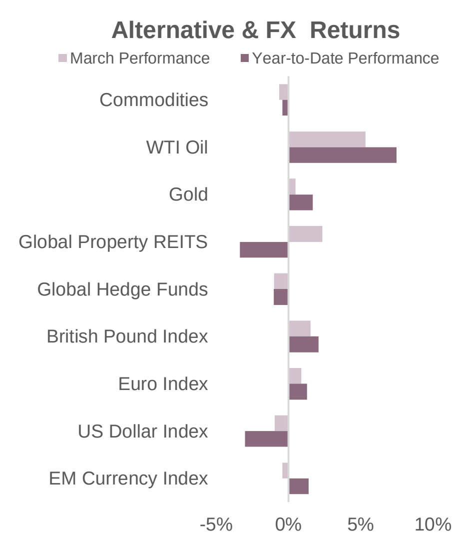
Trump's Trade War: flash in the pan or theme for 2018?

With the post global financial crisis era of financial protectionism finally drawing to a close and as regulators and central banks alike begin slowing or rolling back their oppressive financial policies, are we now evolving into an era of commercial protectionism? Cue President Trump, who in March announced protectionist trade policies aimed at China and putting 'America First' by slapping tariffs (taxes) on Chinese imports to the U.S., in the hope that higher prices of foreign goods would encourage a switch to domestic consumption, production and employment.

Since his inauguration in January 2017, Trump's presidential approval rating plunged significantly following a raft of unpopular decisions and serious allegations, but more recently it has been boosted by the announced U.S. tax cuts and protectionist trade war with China, causing equity prices to react positively to the former but negatively to the latter. Like his 'fire and fury' episode last summer it is all bark and no bite thus far, and may be just another crude negotiation tactic from the self-proclaimed 'dealmaker', albeit this time with midterm elections in November and a Chinese economy as large as the U.S. he really is playing with fire.

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 GBP; 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 31/03/2018.**

Fixed Income

- Fixed Income had a better month relative to other asset classes with the global treasuries index only slightly down at -4bps. The selloff in technology stocks prompted a flight to safety in government bonds, reasserting the inverse relationship between bonds and equities
- High yield and investment grade credit performed in line with expectations generating small negative performance as spreads widened on the month
- Emerging Market local currency debt was the top performer supported by the U.S. dollar weakening further in this period

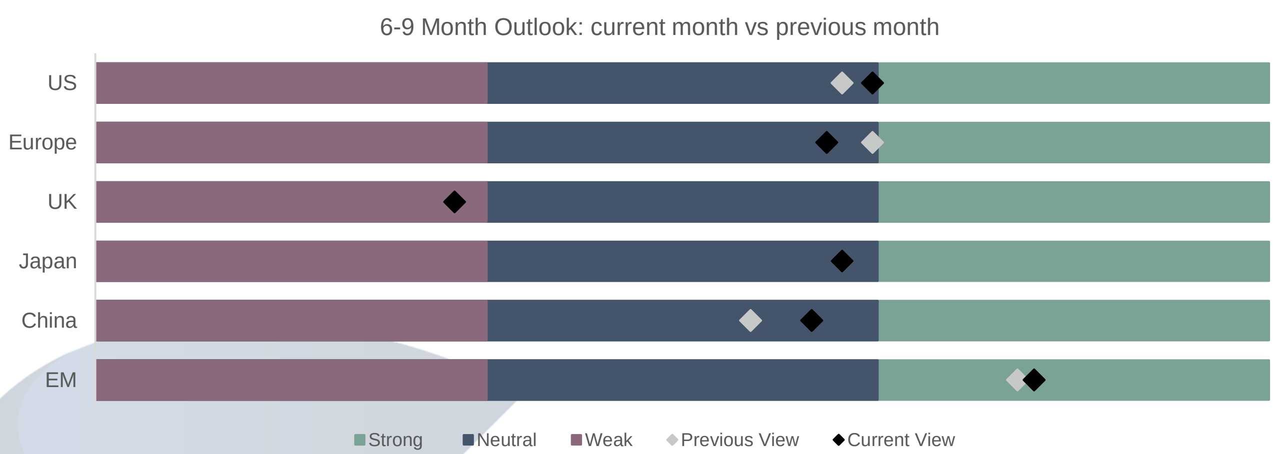
Equities

- Global equities fell on concerns of a misuse of Facebook data and the announcement of further US protectionist measures
- U.S. equities were led lower by technology stocks and the NASDAQ had the largest fall since January 2016. Small and mid-cap stocks fared much better as the economy remained robust with strong manufacturing and consumer sentiment readings
- The fall in Emerging Markets and Asia, like the US, was led by a selloff in key technology names
- Despite a sharp fall in purchasing manager surveys, European equities fell broadly in line with other developed indices

Alternatives & FX

- Commodities were slightly lower as gold's safe haven bid and oil's move higher were dampened by a sharp fall in industrial metals
- The rise in oil was in contrast to the fall in cyclical commodities, with many citing rising geo-political tensions and a falling dollar as likely drivers
- REITS parred some of this year's losses, helped by a pullback in US yields
- Sterling strengthened against the major currencies as inflation figures came in weaker than expected, potentially signalling a return to normalisation post Brexit

Signia Macroeconomic Outlook



Source: Signia Wealth. **Data as at 31/03/2018**

- US: The passing of tax cuts by congress, combined with proposed fiscal and regulatory easing, should further support the extension of what is currently a solid economic expansion in the latter stages of its cycle. Rising trade war tensions currently pose minimal economic risks.
- Europe: Economic and earnings recoveries are earlier in their cycles but are losing some momentum from several key headwinds, namely a less accommodative European Central Bank, strengthening domestic currency, and populist uprisings in Spain, Italy and Greece.
- UK: High consumer price inflation is beginning to move back in line with wage growth, but existential Brexit uncertainty with the European Union continues to weigh on consumer and corporate sentiment and the strengthening pound on the growth outlook for the economy.
- Japan: The Bank of Japan remains committed to stimulating consumer price inflation which is now picking up. The economy continues to benefit from a synchronised global economic expansion, however, recent Yen appreciation could prove to be a headwind.
- 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. President Xi Jinping's policies have been positive thus far and he now has the power to rule for his lifetime. Rising trade war tensions currently pose minimal economic risks.
- Emerging Markets: Buoyant commodity prices and a weak US Dollar environment have historically proven a successful cocktail for solid emerging market growth, which also stands to benefit from a continued synchronised global economic expansion this year.

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