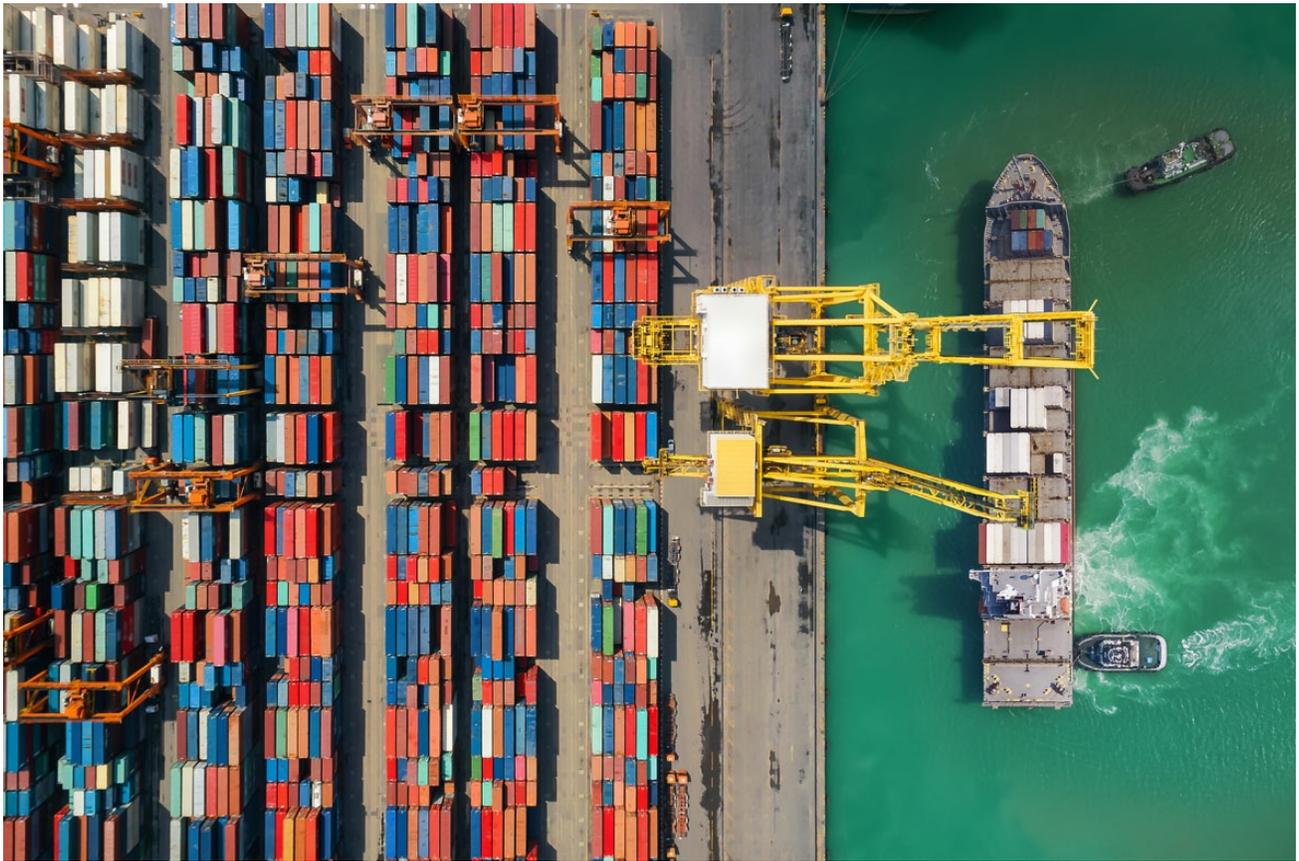


# Market Insight: U.S./China Trade War

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While we don't think it is having an impact on companies' fundamentals yet, the daily noise in the press is impacting market sentiment.

Patricia Perez-Coutts, Senior Vice President of Westwood International Advisors, feels that “in the end, this will all be a much softer impact.” Although, some stocks may have negatively reacted for another reason — many investors are beginning to doubt the growth cycle, which is supposed to begin in the second half of 2018.



**Patricia Perez-Coutts, CFA**  
Senior Vice President  
Portfolio Manager

## What is your opinion about the future developments of a trade war?

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The Trump administration responded to China's intention to implement reciprocal tariffs on U.S. exports with threats to impose 10 percent tariffs on an additional \$200 billion of Chinese imports. The section 301 investigation determined U.S. damages of \$50 billion annually from China's unfair acts, policies and practices; therefore, the latest threats are somewhat proportional to the perceived injuries from China's trade policies. The U.S. is currently slated to impose tariffs of 25 percent on \$34 billion of Chinese exports beginning on July 6.

The remaining \$16 billion of the original product list will undergo further review in a public notice and comment process, the timing of which is set to be released in the coming weeks. Should tariffs on another \$200 billion of goods be considered, they would be subject to the same process, which would ostensibly take two to three months. Thus, we see little prospects for a near-term settlement. That said, we expect, and hope, that calmer heads ultimately prevail before protectionist threats turn into aggressive action and business confidence crumbles.

## What is the impact on the equity market if the bull-bear and base case happens?

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### **Base Case**

We believe the trade conflict with China will be settled before it progresses significantly beyond the initial imposition of tariffs on \$50 billion of imports in both directions.



### **Bull Case**

No trade war will form, and equity markets will recover from current short-term pull back.



### **Bear Case**

Our analysis indicates that augmenting the trade dispute to include a total of \$200 billion of imports could reduce real GDP growth by roughly -0.2 to -0.3 percentage points. In addition, the effective \$32.5 billion “tax” on imported goods could have the effect of boosting core inflation by roughly 0.15 percentage points. A trade war would have a limited impact on Chinese economic growth, as China’s exported goods and services represent 19.6% of total GDP, and only 22% of exports are destined for North America. As a result, equity markets could experience further weakness. If things progress, we think that the stock market correction could get into the -5 percent to -10 percent range. If a settlement is then negotiated quickly, the stock market could recover and the risks to GDP mitigated. However, if a trade war gathers further momentum, it could well induce the next recession.

**Learn more about our approach to Global & Emerging Markets investing.**

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