

After The Close

Escalating Trade Tensions Between the U.S. and China Pressure Equities

Lori Wilking-Przekop, Senior Director, Equity Research

June 25, 2018

Trade Tensions with China and Possibly Others Escalate

Global equity markets declined today following a Sunday night report from *The Wall Street Journal* that the Trump Administration plans to impose curbs on Chinese investment and restrictions on U.S. technology exports to China. According to *The WSJ*, the forthcoming policies are attempting to combat Beijing's "Made in China 2025" initiative. Recall, in 2015, China's central government outlined a goal of dominating 10 futuristic, high-value industries in the next 10 years, including semiconductors, robotics, and cloud computing. As *Ameriprise Senior Economist*, Russell Price noted in an April *Economic Views Brief* (published 04/25/18), "...these industries are currently the "bread-and-butter of Western economies, most notably, the U.S..."

Major Domestic Equity Indices - Today

Benchmark	Index Level	Net Change	% Change
S&P 500 Index	2,717	-37.8	-1.4%
Dow Jones Industrial Average	24,253	-328.1	-1.3%
Russell 2000 Index	1,658	-28.1	-1.7%
NASDAQ Composite	7,532	-160.8	-2.1%

All data via FactSet as of approximately 4 PM ET

The U.S. Treasury Department is said to be drafting rules that would block firms with at least 25% Chinese ownership from buying companies involved in "industry significant technology." However, investment in companies below that threshold could still be blocked if the White House believes Chinese firms could gain control through board seats, licensing agreements, or other significant measures. Monday morning, Treasury Secretary Steven Mnuchin declared *The WSJ's* report as inaccurate. In a tweet, Secretary Mnuchin indicated the restrictions would not be "specific to China, but to all countries trying to steal our technology." However, in a late day CNBC interview, Trump trade advisor Peter Navarro appeared to contradict the prior reports by stating "there's no plan to impose investment restrictions on any countries that are interfering in any way with our country." While the exact details and numbers of the plan are still being decided, we believe today's news reports signal trade relations remain influx. In our view, *The WSJ* report is another sign that U.S./China discussions on trade are not progressing well at the moment and our trade

relationships around the world could begin operating under a different playbook.

Tech Sell-off Weighs on the S&P 500 and NASDAQ

With China representing its second largest end-market (as a percent of revenues per FactSet), an expanding market opportunity, and a key supply chain contributor, the Technology sector came under pressure leading to both declines in the S&P 500 and the NASDAQ indexes. Shares of semi-conductor manufacturers, relative outperformers in the S&P 500 Info Tech Index year-to-date slumped in Monday's trading session. We believe the semi-conductor sell-off reflected a combination of trade concerns and near-term profit-taking. The so-called bond proxies of Utilities and Consumer Staples were relative outperformers within the S&P 500, as investors rotated into more defensive sectors. Due to its constituents' greater exposure to foreign trade, the Dow came under pressure, posting its ninth decline in the last ten sessions.

Committee View

As noted in this morning's *Before The Bell*, it remains impossible to properly discount how far trade tensions could rise and their ultimate effect on global growth. Despite all the bluster associated with global trade at the moment, our base case assumption continues to see cooler heads prevailing and a reduction of tension over time. Unfortunately, we could see an escalation of trade tensions from here, and before countries finally realize nobody wins going down the path we are on.

U.S. stocks are outperforming the rest of the world, the U.S. dollar has strengthened, and manufacturing activity in America is outperforming the rest of the globe. We believe these trends could continue through the rest of the year. U.S. assets also tend to outperform in periods of uncertainty, such as times like these. More importantly, the fundamental backdrop also favors U.S. assets. U.S. growth is stronger compared to the rest of the globe, U.S. profits are accelerating, and the American consumer is in the best shape they've been in going back a decade. **In our view, investors should stay long the U.S., focus on the fundamentals, and discount (for now) the rhetoric around U.S./China trade tensions.**

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS OF INTEREST, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT.

- For further information on any of the topics mentioned, please contact your financial advisor.
- Unless specifically stated otherwise, comments contained in this document should not be construed as an investment opinion or recommendation of any securities mentioned. Charts depicted are from FactSet unless otherwise noted.

GLOBAL ASSET ALLOCATION COMMITTEE

David M. Joy

VP – Chief Market Strategist

Brian M. Erickson, CFA

VP – Fixed Income Strategy

Anthony M. Saglimbene

VP – Global Market Strategist

Jay C. Untiedt, CFA, CAIA

Director – Senior Research Analyst

Russell T. Price, CFA

VP – Senior Economist

Frederick M. Schultz

Senior Research Analyst

Christine A. Pederson, CAIA, CIMA

Director – Senior Research Analyst

Lori A. Wilking-Przekop

Senior Director -Equity Research

Patrick S. Diedrickson, CFA

Senior Research Analyst

Thomas Crandall, CFA, CAIA

Senior Quantitative Analyst

Joseph Wong, CFA

Director – Asset Allocation

Jon Kyle Cartwright

Senior Director – Fixed Income Research

Justin H. Burgin

VP – Equity Research

Ameriprise Financial

1441 West Long Lake Road, Suite 250, Troy, MI 48098

Investment.research.group@ampf.com

For additional information, or to locate your nearest branch office, visit ameriprise.com

The content in this report is authored by American Enterprise Investment Services Inc. ("AEIS") and distributed by Ameriprise Financial Services, Inc. ("AFSI") to financial advisors and clients of AFSI. AEIS and AFSI are affiliates and subsidiaries of Ameriprise Financial, Inc. Both AEIS and AFSI are member firms registered with FINRA and are subject to the objectivity safeguards and disclosure requirements relating to research analysts and the publication and distribution of research reports. The "Important Disclosures" below relate to the AEIS research analyst(s) that prepared this publication. The "Disclosures of Possible Conflicts of Interest" section, where applicable, relates to the conflicts of interest of each of AEIS and AFSI, their affiliates and their research analysts, as applicable, with respect to the subject companies mentioned in the report.

Each of AEIS and AFSI have implemented policies and procedures reasonably designed to ensure that its employees involved in the preparation, content and distribution of research reports, including dually registered employees, do not influence the objectivity or timing of the publication of research report content. All research policies, coverage decisions, compensation, hiring and other personnel decisions with respect to research analysts are made by AEIS, which is operationally independent of AFSI.

Investment Professionals, Inc. ("IPI"), an affiliate of AEIS and AFSI and a subsidiary of Ameriprise Financial, Inc., may also distribute this report to its financial advisors and clients of IPI. For important disclosure information relating to IPI, including potential conflicts of interest, please visit https://www.invpro.com/wp-content/uploads/2012/04/IPI_COMPANY_DISCLOSURES-1.pdf.

IMPORTANT DISCLOSURES

As of March 31, 2018

The views expressed regarding the company(ies) and sector(s) featured in this publication reflect the personal views of the research analyst(s) authoring the publication. Further, no part of research analyst compensation is directly or indirectly related to the specific recommendations or views contained in this publication.

A part of a research analyst's compensation may be based upon overall firm revenue and profitability, of which investment banking, sales and trading, and principal trading are components. No part of a research analyst's compensation is based on a specific investment banking transaction, nor is it based on sales, trading, or principal trading. A research analyst may have visited the material operations of one or more of the subject companies mentioned in this research report. No payment was received for the related travel costs.

Additional information and current research disclosures on individual companies mentioned in this research report are available on our website at ameriprise.com/legal/disclosures in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor. You may also submit a written request to Ameriprise Financial, Inc., 1441 West Long Lake Road, Troy MI, 48098. Independent third-party research on individual companies is available to clients at ameriprise.com/research-market-insights/. SEC filings may be viewed at sec.gov.

Tactical asset class recommendations mentioned in this report reflect The Ameriprise Global Asset Allocation Committee's general view of the financial markets, as of the date of the report, based on then current conditions. Our tactical recommendations may differ materially from what is presented in a customized long-term financial plan or portfolio strategy. You should view our recommendations in conjunction with a broader long-term portfolio strategy. Not all products, services, or asset classes mentioned in this report may be available for sale at Ameriprise Financial Services, Inc. Please consult with your financial advisor.

INDEX DEFINITIONS

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

DISCLAIMER SECTION

Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third-party research reports and updates for risks pertaining to a particular security.

This summary is based upon financial information and statistical data obtained from sources deemed reliable, but in no way is warranted by Ameriprise Financial, Inc. as to accuracy or completeness. This is not a solicitation by Ameriprise Financial Services, Inc. of any order to buy or sell securities. This summary is based exclusively on an analysis of general current market conditions, rather than the suitability of a specific proposed securities transaction. We will not advise you as to any change in figures or our views.

Past performance is not a guarantee of future results.

Investment products are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

AFSI and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

Ameriprise Financial Services, Inc. Member FINRA and SIPC.