

# *The Boy Who Cried Wolf*

*By Bob Deitrick, CEO*

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- *Last Thursday, President Trump said the U.S. will slap a new set of 10% tariffs on an additional \$300 billion of Chinese goods beginning September 1<sup>st</sup>.*
- *Last night, Monday, China retaliated by stating they will not be buying any new agricultural products from the United States for the remainder of 2019.*
- *In our view, President Trump's latest attack in this enduring trade battle with China is likely to hurt the American economy more than Beijing's. We will explain why we feel that is the case.*
- *Andrew Collier of Orient Capital Research described Trump's latest tariff move as a "sword at the throat" of the U.S. economy - rather than China's.*
- *Trump said in February of 2018 that "trade wars are good and easy to win..." That maxim has yet to ring true so far...*

## **Stocks Battered Again as US-China Trade Tensions Escalate**

*In one of Aesop's fables, a shepherd boy repeatedly tricked nearby villagers into thinking a wolf was attacking his flock of sheep. When the wolf does appear and the boy calls for help, the villagers believe that it is another false alarm and the sheep are eaten by the wolf. In the later English-language poetic versions of the same fable, the wolf devours the boy too.*

*Last week, for the 5<sup>th</sup> time in 18 months, the stock market hit all-time highs only to be beaten back by the President's most recent torrent with Beijing. This is the 5<sup>th</sup> time in the same period where the White House conveyed that significant progress had been made in the trade war - implying a deal was in the offing – only to be followed by capitulation and more threats toward China. Eventually, the market, like the villagers in Aesop's Tale, will lose faith that a resolution will be reached regarding these trade hostilities.*

*Last Thursday, Trump said the U.S. will slap a new 10% tariff on \$300 billion of Chinese goods beginning September 1<sup>st</sup> - adding to existing tariffs that Washington and Beijing have already levied on one another's goods. China retaliated last night by stating they will not be purchasing any new U.S. agricultural products this year. We fear how this will impact farm prices over the next few months as we go into harvest this fall.*

*This is obviously a very hardline tactic from the Trump administration. This tit-for-tat with China, which has been ongoing for 18 months, has become counter-productive. This new set of tariffs will directly impact consumer-related products for the first time - like toys, cell phones, laptops and patio furniture et al. This set of new tariffs will hurt the U.S. consumer more so than China.*

*We have been saying for months now that the trade war needs to end and soon, yet today, there appears no end in sight. This latest move by Trump was made despite his own staff who urged him last week not to implement the new tariffs. Peter Navarro was the only member of his cabinet who*

*agreed on this recent move. This leaves our economy in the ominous situation where we may get hit substantially if the market is not convinced that progress is being made toward a compromise with China. The United States is at risk of a triple threat if things do not improve:*

- First, this negativity and uncertainty will eventually begin to impact corporate earnings projections and that will impact stocks directly.*
- Second, if the consumer begins to act like the villagers in the Aesop Tale, they may begin to reduce spending and that shift in demand will impact earnings and employment in retail shops across the country. We have not seen an indication of that to date, but in a mature business cycle like this one, that could materialize quickly.*
- Finally, consumers will become wary - especially if the market remains volatile and if inflation becomes a factor going into Christmas. The U.S. consumer represents two-thirds of American GDP (GDP = consumption + investment + government spending + net exports).*

*We have seen significant weakness in the U.S. business sector, CAPEX (Capital expenditures) spending tumbled 5.5% in the 2<sup>nd</sup> quarter. The business community is already acting like the villagers from Aesop's Tale, with business investment having been cut considerably in 2019. Trump's tariff announcement last week came after officials concluded the latest round of negotiations in Shanghai. The Shanghai talks followed a tariff ceasefire between Trump and Chinese President Xi Jinping at the G-20 summit just a month ago. The protracted trade war between the U.S. and China has rattled markets since last February and it has raised concerns about the outlook for the global economy. The VIX more than doubled over the last week, from 12 to 24 - a concern as well.*

*If these new tariffs go into effect next month, it may affect inflation and drag down the profitability of American multinationals. As Wilford Brimley said in the classic movie "Absence of Malice" - starring Paul Newman and Sally Field in 1981, "It is damn likely" that China will firm up its bottom line and they can go into a Dean Smith "Four Corners" strategy and run out the clock if they want. Remember that China does not have to worry about elections. We do.*

*Please feel free to call us at any time as we hope so see you again sometime soon for a strategic planning session and review. Until that time, have a great week!*

*Please Attend one of all Our upcoming Events this summer and fall:*

- Our Annual Night Out at Huntington Park is on Friday August 23<sup>rd</sup> at 7:15*
- Our Annual Board Meeting will be held from October 8<sup>th</sup> to the 12<sup>th</sup>*
- Client Market Seminars will be held November 13<sup>th</sup> and 15<sup>th</sup> at Eddie's*
- Our PFP Christmas Event will be at Eddie's on Sunday December 15<sup>th</sup>*

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