

Investment Event

US-China “phase one” deal agreed

The US and China have agreed the terms of a “phase one” trade deal that involves, among other things, a suspension of the threatened new round of US tariffs on imports from China

While the rollback of tariffs is limited, the agreement of the “phase one” deal marks a significant improvement in the dynamics of the US-China relationship

Our views

The agreement of a “phase one” deal is a positive development, but we have to be realistic about the potential for it to boost global growth and risk appetite. Overall, we remain comfortable with a pro-risk investment strategy in our multi-asset portfolios, with prevailing uncertainty likely to cap the upside from this strategy

US and China agree “phase one” trade deal

The US and China have agreed the terms of a “phase one” trade deal that, according to the US Trade Representative fact sheet, includes:

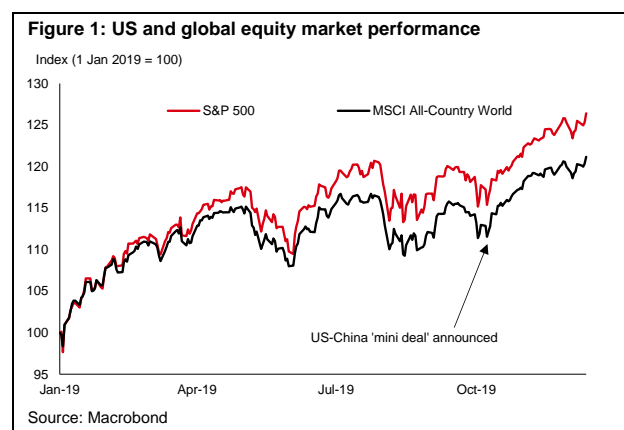
- A partial reduction of existing US tariffs on imports from China and a suspension of the threatened 15 December introduction of further US tariffs on imports from China
- China increasing its imports from the US over the next two years by USD 200bn relative to the level of imports prevailing in 2017
- “Binding and enforceable obligations” to address China’s technology transfer practices and greater enforcement of intellectual property rights
- A dispute resolution system based on regular bilateral consultations and that allows each party to take proportionate responsive actions to breaches of the agreement
- Opening up China’s financial service sector by reducing trade and investment barriers
- Commitments to refrain from competitive devaluations and targeting of exchange rates

This agreement is broadly aligned with the terms of the ‘mini deal’ struck in mid-October and is expected to be formally signed off in January.

Risk assets rally

Global risk assets have rallied recently on indications that this initial agreement between the two economic giants would be finalised.

In particular, suspension of the next round of threatened tariffs (focussed mainly on consumer goods) prevents a further potential drag on US and Chinese growth in 2020. At the margin, the reduction of existing tariffs on USD 120bn of imports to 7.5% from 15% should also help support economic activity.



Importantly, while the rollback of tariffs is limited, the agreement of the “phase one” deal marks a significant improvement in the dynamics of the US-China relationship relative to that seen over the past 18 months.

Investment implications

Political uncertainty – particularly US-China trade tensions – has been a key drag on global trade and business investment this year, weighing on the global manufacturing cycle. Therefore any thaw in tensions may help support a recovery in these parts of the economy, at a time when we have already witnessed tentative signs of a bottoming in these sectors amid global policy easing.

Nevertheless, we have to be realistic about the potential for this deal to significantly boost global growth and risk appetite. A number of issues remain unresolved and the bulk of tariffs introduced over the past 18 months or so remain in place. Further progress towards a comprehensive deal in “phase two” may also prove more challenging and there is also the risk that tariffs are reintroduced if the conditions of the “phase one” deal are not complied with.

All in all, we remain comfortable with a pro-risk investment strategy in our multi-asset portfolios. Our baseline scenario for 2020 is relatively favourable. We anticipate slow and steady growth, low inflation, accommodative policy, and single digit profit growth. Meanwhile, market pricing remains attractive for some risky asset classes. However, prevailing uncertainty caps the upside that we can expect from our investment strategy.

We continue to monitor developments with US-China trade relations closely, alongside other geopolitical developments.



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