Trump Trade War Tariffs & Markets

“We’ll not mince words here: The president’s characterization of himself as “Tariff Man” is juvenile and unpresidential. We cannot imagine Mr. Eisenhower, Mr. Kennedy, Mr. Johnson, Mr. Nixon, Mr. Ford, Mr. Carter, Mr. Reagan, Mr. Bush, Mr. Clinton, Mr. Bush or Mr. Obama ever… EVER… making a juvenile statement such as this to any other nation, much less to a nation as consequential as is China. But Mr. Trump has threatened China, and his base has enthusiastically endorsed his comments. We can only shake our heads in wonder and dismay.” Source: Dennis Gartman, his eponymous daily letter, December 6, 2018.

We agree. Markets agree. The red on the tape agrees. The flattening yield curve agrees. The deterioration of business sentiment agrees.

Culprits in order of responsibility are POTUS Trump, US Trade Representative (aka Trade War negotiator) Lighthizer, and Trade War advisor Navarro. The new Senate is planning on a debate to limit presidential trade war authority and to relocate US security provisions to the defense department and not commerce. Remember that this entire trade war narrative has been based on an executive branch’s taking a narrow, half-century-old law and interpreting it loosely to permit protectionism.

The Congress can change that. Will they? We will see.

Meanwhile the Trump administration has undone more than half of the benefits derived from tax cut, deregulation, and repatriation. Navarro poorly advised POTUS, who showed poor judgment and now likes his tariff money, since he has misled Americans by creating a de facto national sales tax imposed on the American consumer.

That is correct, dear reader. You and I pay the higher costs tariffs impose. Trump blames others and says we are imposing tariffs on “them.” Nope. The payment comes from my pocket and yours.

Business doesn’t know how to plan. So it waits. Capital investment waits. And growth slows.

We asked Mike Englund of Action Economics to update his slide used last summer on the panel we did together at a Colorado conference on Trade War effects.

We are reproducing his update below. And we thank Mike for a quick reply and superb effort. We endorse and recommend Action Economics as a basic research service. Mike writes,

“Thanks for the request. I revised the slide I believe you are referencing to include an “All China” tariff by 2020, whereby we have the 90-day cease-fire now; then a 25% tariff as previously threatened for January; then tariffs of 10% on the remainder of Chinese goods at some fall deadline, perhaps in August or September; and a hike to 25% at the end of December 2019. This scenario creates multiple ‘ledges’ for a compromise to be made.”

Policy-Induced US Real GDP Forecast Adjustments			
Real Q4/Q4 GDP Growth	2018	2019	2020
Pre-Tax and Fiscal Stimulus	2.5%	2.4%	2.2%
Post-Stimulus	3.2%	2.8%	2.4%
Tariffs as Threat (Sept. estimates)	3.2%	2.7%	2.4%
Ceasefire now, but "All China" Tariffs by 2020	3.2%	2.5%	2.2%
US Net Exports (Sept. estimates)	-$888b	-$940b	-$977b
Stimulus Size Estimates (in $bln):			
December 2017 Tax Cuts	$206	$275	$250
March 2018 Fiscal Stimulus	$70	$85	$85
September New Tariff Levels (permanent)	-$21	-$62	-$62
"All-China" Tariff by in 2020	-$21	-$95	-$116
Total	**$234**	**$182**	**$157**

Dear readers, the classic aphorism holds true: In a trade war the guns are pointed inward. No one wins.

To end this misguided and failing Trump-Navarro tariff policy requires an inflection in policy. Because of trade-war-driven economic deterioration and business slowing, we expect a change to come. When it does, growth will pick up, and stock markets will recover. We cannot replace the business and wealth losses already inflicted on Americans by the Trump-Navarro Trade War. But we can stop the bleeding, and it may take the new US Senate to do it.

Stocks are cheap, and American business wants to grow. Our ETF selections continue to focus on domestic US sectors we like. Healthcare is an example.