“Trade Wars Are Easy to Win”
…or Are They?

Scott Minerd
Global Chief Investment Officer

October 4, 2019
History of the U.S.-China Trade War
Tariffs on Washing Machines Were the First Shot Fired in the Trade War

CPI - Laundry Equipment (3-month % change)

20% tariffs levied on imported washing machines

U.S. and Chinese Import Tariffs Have Risen Dramatically

Average Tariff Rates for the U.S. and China

- Chinese Tariffs on U.S. Exports
- U.S. Tariffs on Chinese Exports


Please See Important Disclosures and Legal Notice at End of Document.
Trade Uncertainty Surges After 20 Years of Stability

Source: Guggenheim Investments, Ahir, Bloom and Furceri, “The World Uncertainty Index” (based on the number of times “uncertainty” is mentioned in EIU reports in proximity to a word related to trade). Data as of June 2019.
“Trade Wars Are Good, and Easy to Win.”  
- President Donald Trump
On Balance, Tariffs Harm U.S. Growth

Tree Diagram of Channels Through Which Trade Tensions Affect the U.S. Economy

Source: Guggenheim Investments.

Please See Important Disclosures and Legal Notice at End of Document.
U.S.’s Overall Trade Deficit Continues to Widen Despite Tariffs

U.S. Goods Deficit with China and the World, % of GDP


Tariffs Drive U.S. Price Levels Higher, Hurting Consumption

U.S. Consumer Price Levels on Selected Tariffed Goods & Core Goods (Index, January 2017 = 100)

Selected Tariffed Goods

Core Goods PCE

Source: Guggenheim Investments, Haver Analytics. Data as of August 2019.

Recreational vehicles, household supplies, and parts, furniture, and appliances.

Please See Important Disclosures and Legal Notice at End of Document.
For China, the Direct Hit of Tariffs May Be Less than Meets the Eye

Chinese exports to the U.S. have fallen, but so have imports from the U.S.

Tariffs Have a Disproportionate Impact on Foreign Firms in China

Industrial Production by Type of Ownership (YoY%, 3-month moving average)

Exports account for 18% of production but more than 40% of China’s exports come from foreign-owned firms or joint ventures.

China’s Economy Is Undoubtedly Slowing, but Mainly Due to Financial De-risking

Financial conditions started to tighten as authorities undertook a sweeping financial de-risking campaign in 2017.

Source: Guggenheim Investments, Haver Analytics. Data as of August 2019.
Trade War Disrupts U.S.-China Capital Flows
Direct Investment Flows Between the U.S. and China Have Fallen

**Annual Value of FDI Transactions Between the U.S. and China ($bn)**

- **Chinese FDI in US**
- **US FDI in China**

Capital flight after a failed attempt to liberalize the exchange rate


Please See Important Disclosures and Legal Notice at End of Document.
Will Capital Inflows Taper off as the Trade War Heats Up?

Non-resident Purchases of Chinese Stocks & Bonds ($bn)

- Equity
- Debt

Foreign holdings of Chinese securities have risen...

Resident Purchases of Offshore Stocks & Bonds ($bn)

- Equity
- Debt

...while residents have added to foreign holdings in an effort to diversify

Source: Guggenheim Investments, Haver Analytics, China State Administration of Foreign Exchange. Data as of Q1 2019.
Accessing the Collateral Damage
Global Manufacturing Is Bearing the Brunt of the Downturn in Trade


JP Morgan Global Composite Manufacturing & Services PMIs

Falling new export orders weighing on manufacturing

Tariffs Disrupt Global Supply Chains

Origins of Value-Added (VA) Embodied in US-China Trade

Major origins of non-Chinese VA embodied in China’s exports to the U.S.
- Korea
- Taiwan
- Malaysia
- Singapore
- Australia
- Saudi Arabia
- Japan
- Russia
- U.S.
- Germany

Non-Chinese value added accounts for 20% of Chinese exports to the U.S.

Major origins of non-U.S. VA embodied in U.S. exports to China
- Canada
- Mexico
- Japan
- Germany
- U.K.
- Korea
- Saudi Arabia
- France
- India
- Italy

Taiwan, Korea, Australia, and Japan Are Most Vulnerable

- Value-Added Embodied in U.S. Exports to China (% of exports)
- Value-Added Embodied in China’s Exports to U.S. (% of exports)

Non-U.S. value added accounts for 10% of U.S. exports to China

Source: Guggenheim Investments, Haver Analytics, OECD. Merchandise trade only. Data as of 2018. Countries are selected based on their contribution of value-added to U.S.-China trade.

Please See Important Disclosures and Legal Notice at End of Document.
Japan Has Been Caught in the Crossfire …

Japanese Real GDP Growth & Contributions to Real GDP Growth (YoY%)

... As Exports to Asia Have Fallen ...


Japanese Exports By Geography (YoY%, 6-month moving average)

U.S. strength not enough to offset weakness in Asia.
... And Consumption Is About To Be Tested by the October Tax Hike

Japanese Household Consumption (YoY%)


Please See Important Disclosures and Legal Notice at End of Document.
Disclosures and Legal Notice

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management.

The information presented herein has been prepared for informational purposes only and is not an offer to buy or sell, or a solicitation of an offer to buy or sell, any security or fund interest or any financial instrument.

No representation or warranty is made by Guggenheim Investments or any of their related entities or affiliates as to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose. The views expressed in this presentation are subject to change based on market and other conditions. The opinions expressed may differ from those of other entities affiliated with Guggenheim Investments that use different investment philosophies. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources.

Past performance is not indicative of comparable future results. Given the inherent volatility of the securities markets, it should not be assumed that investors will experience returns comparable to those shown here. Market and economic conditions may change in the future producing materially different results than those shown here. All investments have inherent risks.

The views and strategies described herein may not be suitable for all investors. This material is provided with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters.

The comparisons herein of the performance of the market indicators, benchmarks or indices may not be meaningful since the constitution and risks associated with each market indicator, benchmark or index may be significantly different. Accordingly, no representation or warranty is made to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose.

Forward-Looking Statements. This discussion material may contain forward-looking statements. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Any or all forward-looking statements in this material may turn out to be incorrect. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Although the assumptions underlying the forward-looking statements contained herein are believed to be reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included in this discussion material will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation that the objectives and plans discussed herein will be achieved. Further, no person undertakes any obligation to revise such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

© 2019 Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. The information contained herein is confidential and may not be reproduced in whole or in part.

GPIM 40229