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**“Trade Wars Are Easy to Win”  
...or Are They?**

Scott Minerd  
Global Chief Investment Officer

**October 4, 2019**

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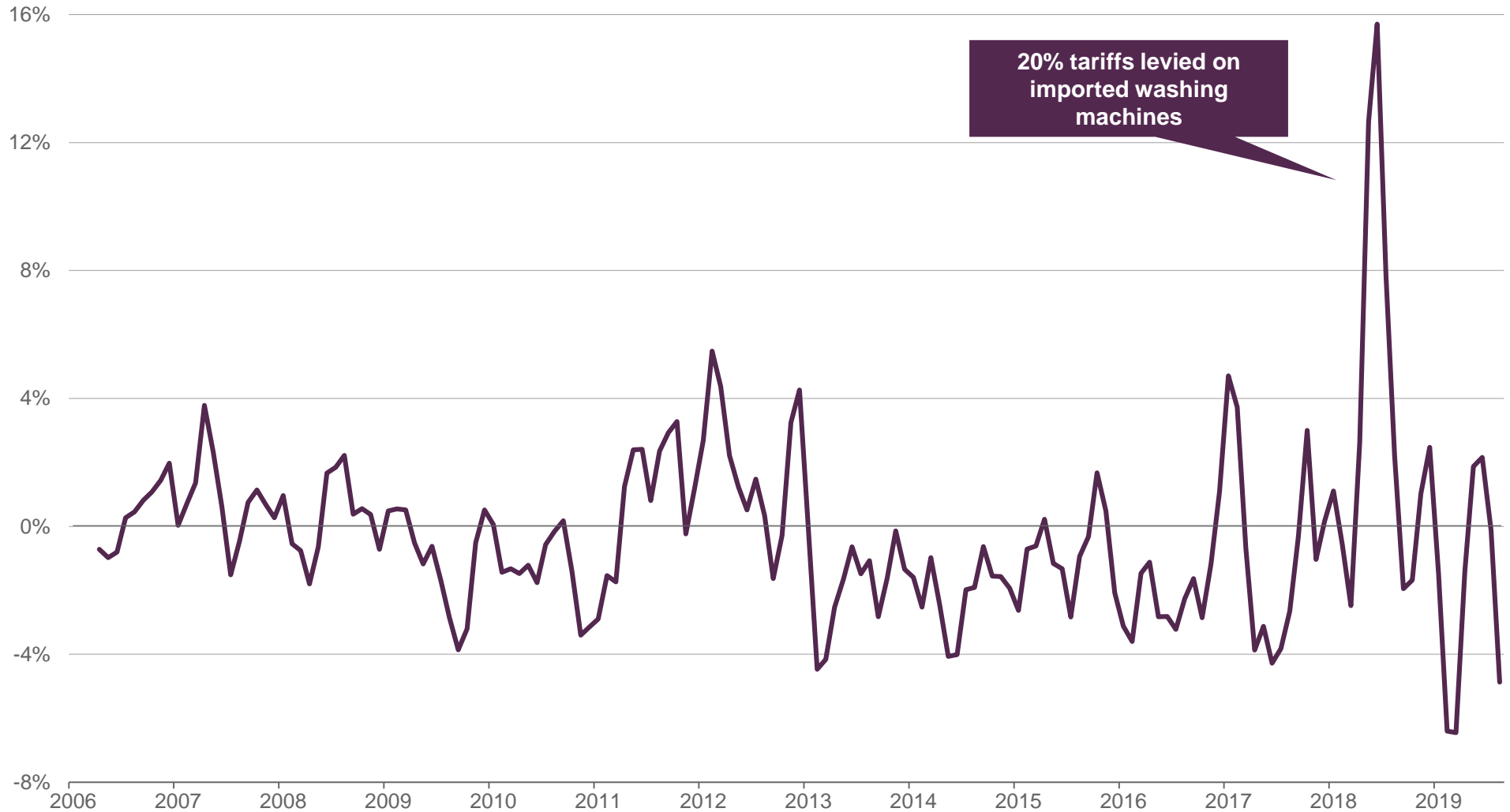
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## History of the U.S.-China Trade War

# Tariffs on Washing Machines Were the First Shot Fired in the Trade War

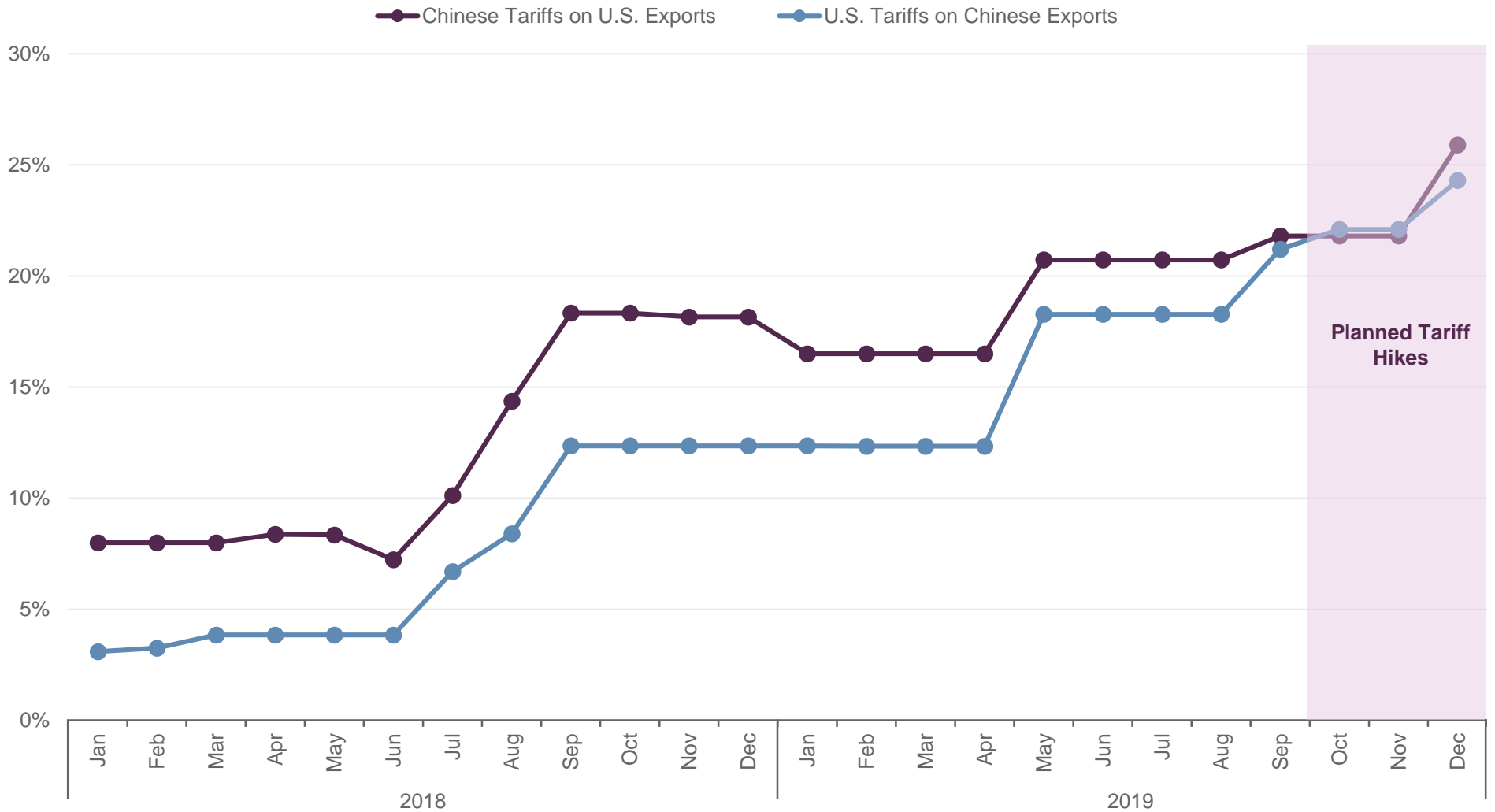
CPI - Laundry Equipment (3-month % change)



Source: Guggenheim Investments, Bureau of Labor Statistics. Data as of August 2019.

# U.S. and Chinese Import Tariffs Have Risen Dramatically

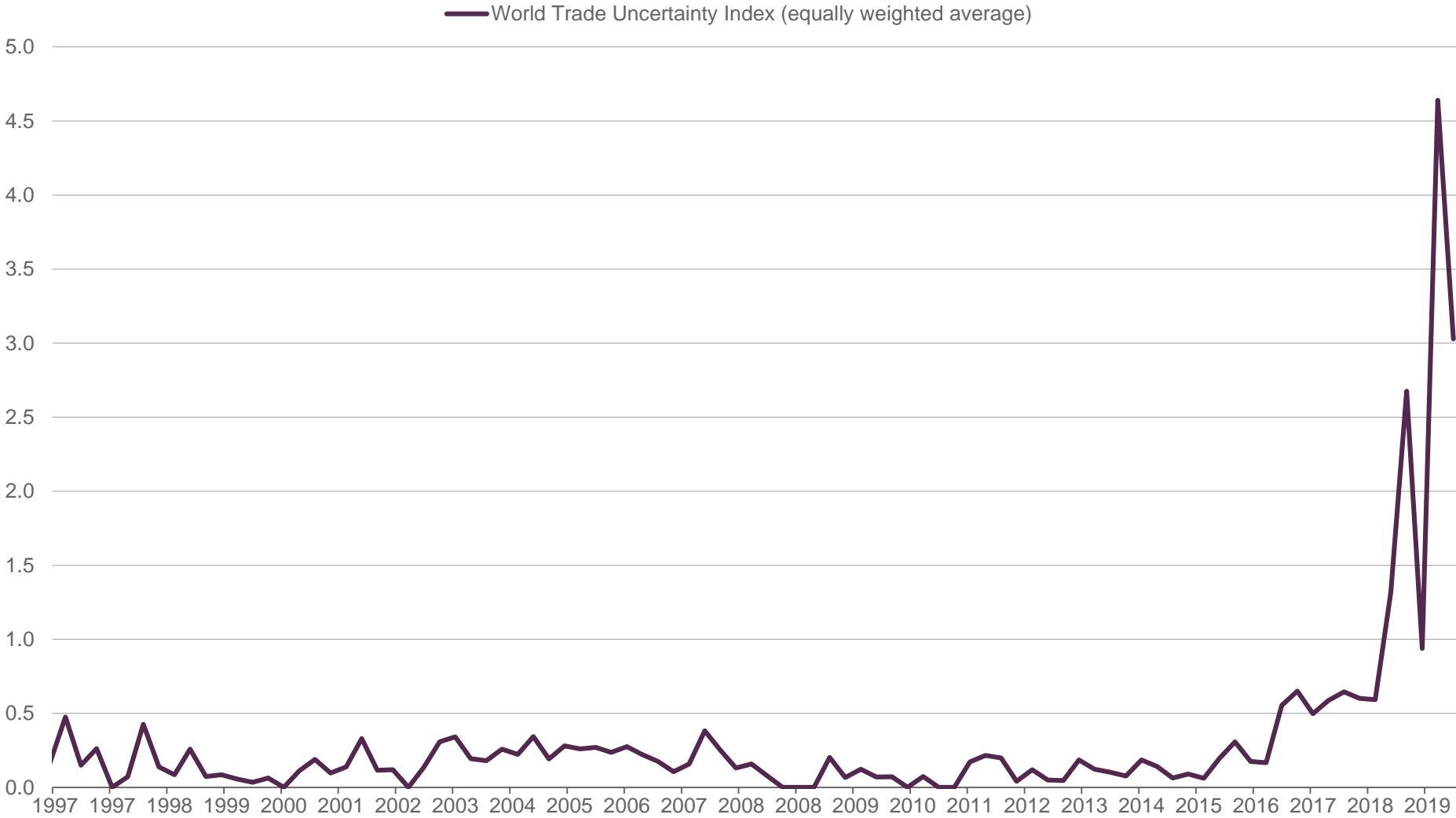
## Average Tariff Rates for the U.S. and China



Source: Guggenheim Investments, Peterson Institute for International Economics. Data as of September 2019.

# Trade Uncertainty Surges After 20 Years of Stability

## World Trade Uncertainty Index



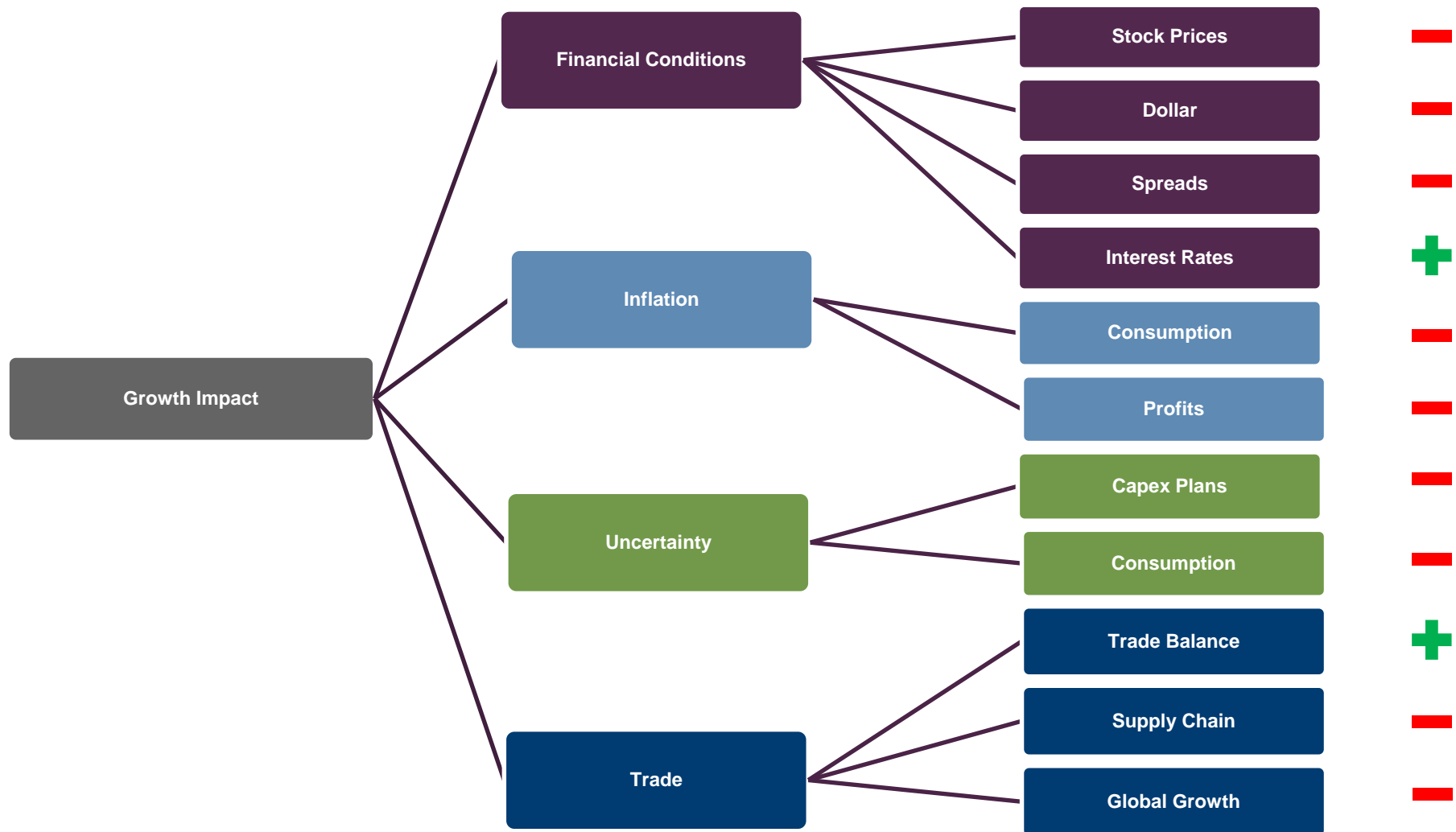
Source: Guggenheim Investments, Ahir, Bloom and Furceri, "The World Uncertainty Index" (based on the number of times "uncertainty" is mentioned in EIU reports in proximity to a word related to trade). Data as of June 2019.

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“Trade Wars Are Good, and Easy to Win.”  
- President Donald Trump

# On Balance, Tariffs Harm U.S. Growth

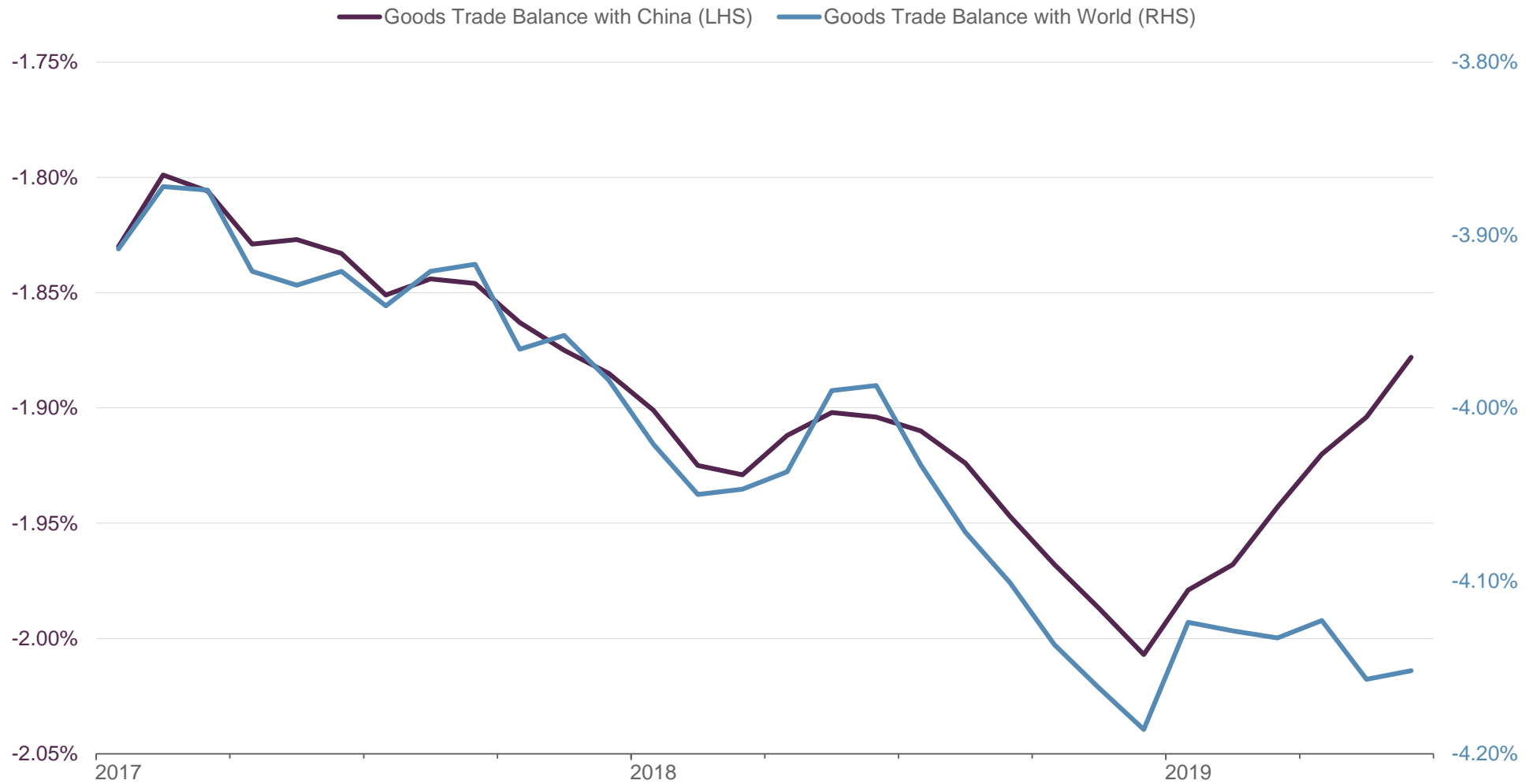
## Tree Diagram of Channels Through Which Trade Tensions Affect the U.S. Economy



Source: Guggenheim Investments.

# U.S.'s Overall Trade Deficit Continues to Widen Despite Tariffs

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



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



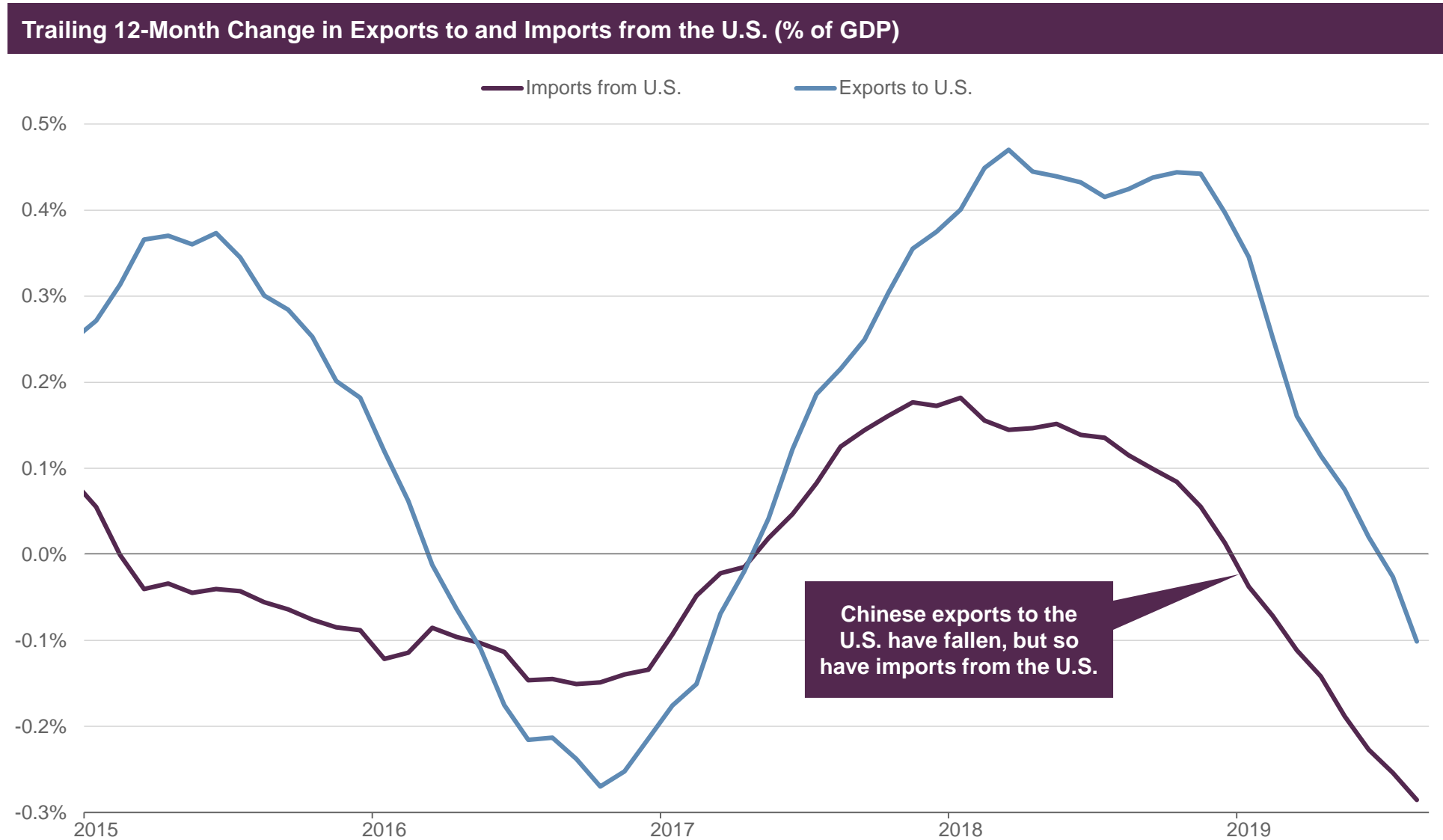
# Tariffs Drive U.S. Price Levels Higher, Hurting Consumption

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



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

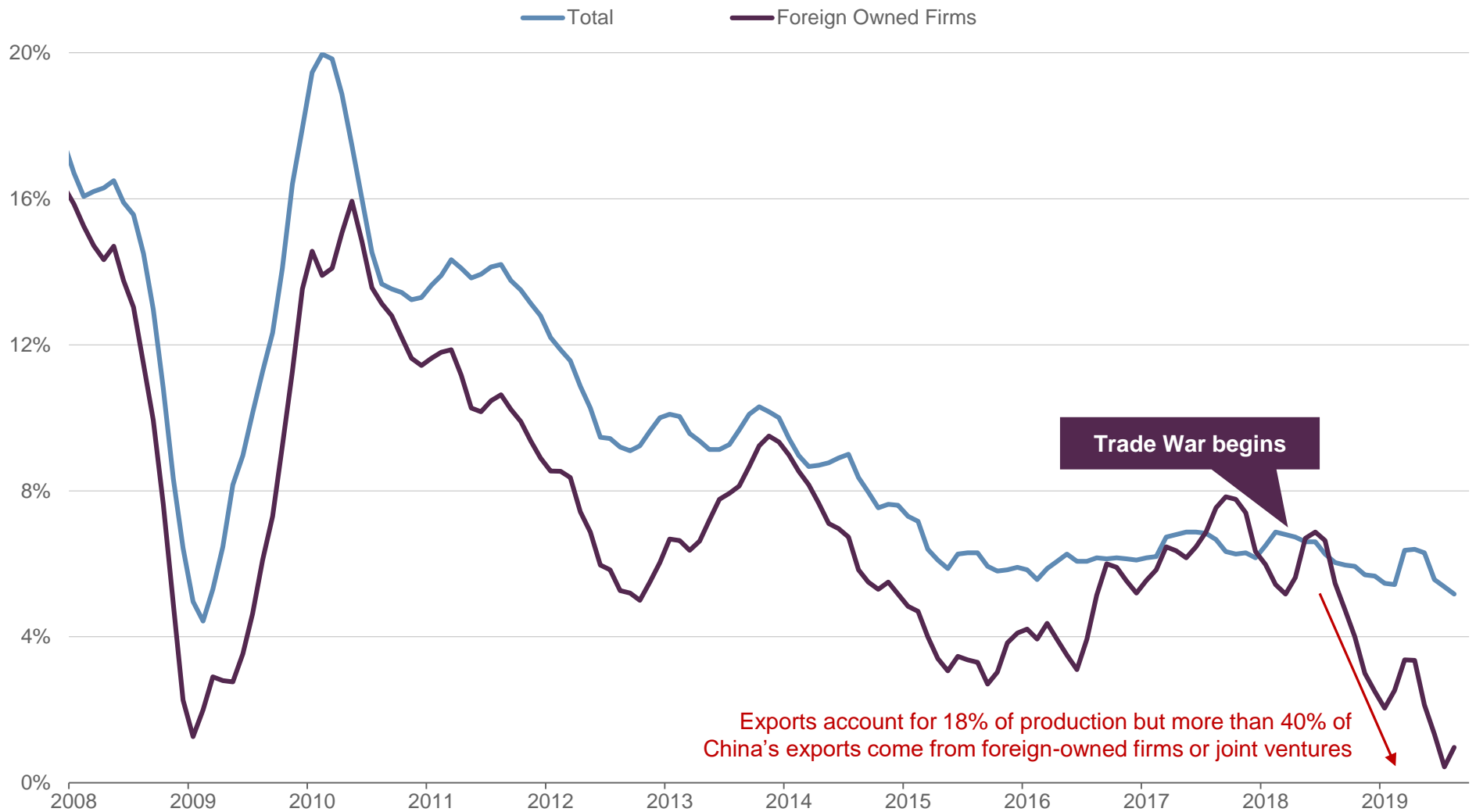
# For China, the Direct Hit of Tariffs May Be Less than Meets the Eye



Source: Guggenheim Investments, Haver Analytics, China National Bureau of Statistics. Data as of August 2019.

# Tariffs Have a Disproportionate Impact on Foreign Firms in China

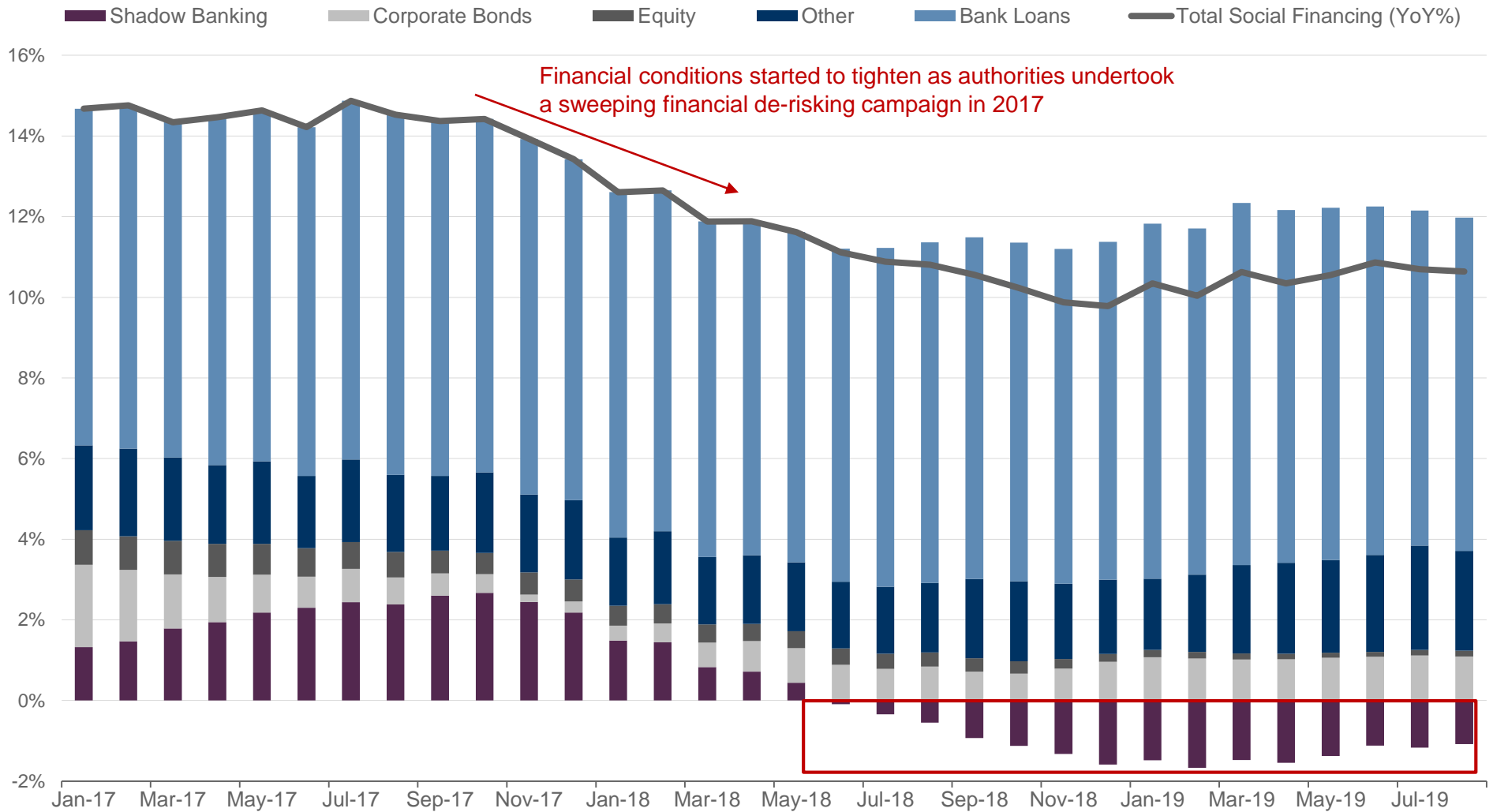
Industrial Production by Type of Ownership (YoY%, 3-month moving average)



Source: Guggenheim Investments, Haver Analytics, China National Bureau of Statistics. Data as of August 2019.

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

## Total Social Financing and Contributions (YoY%)



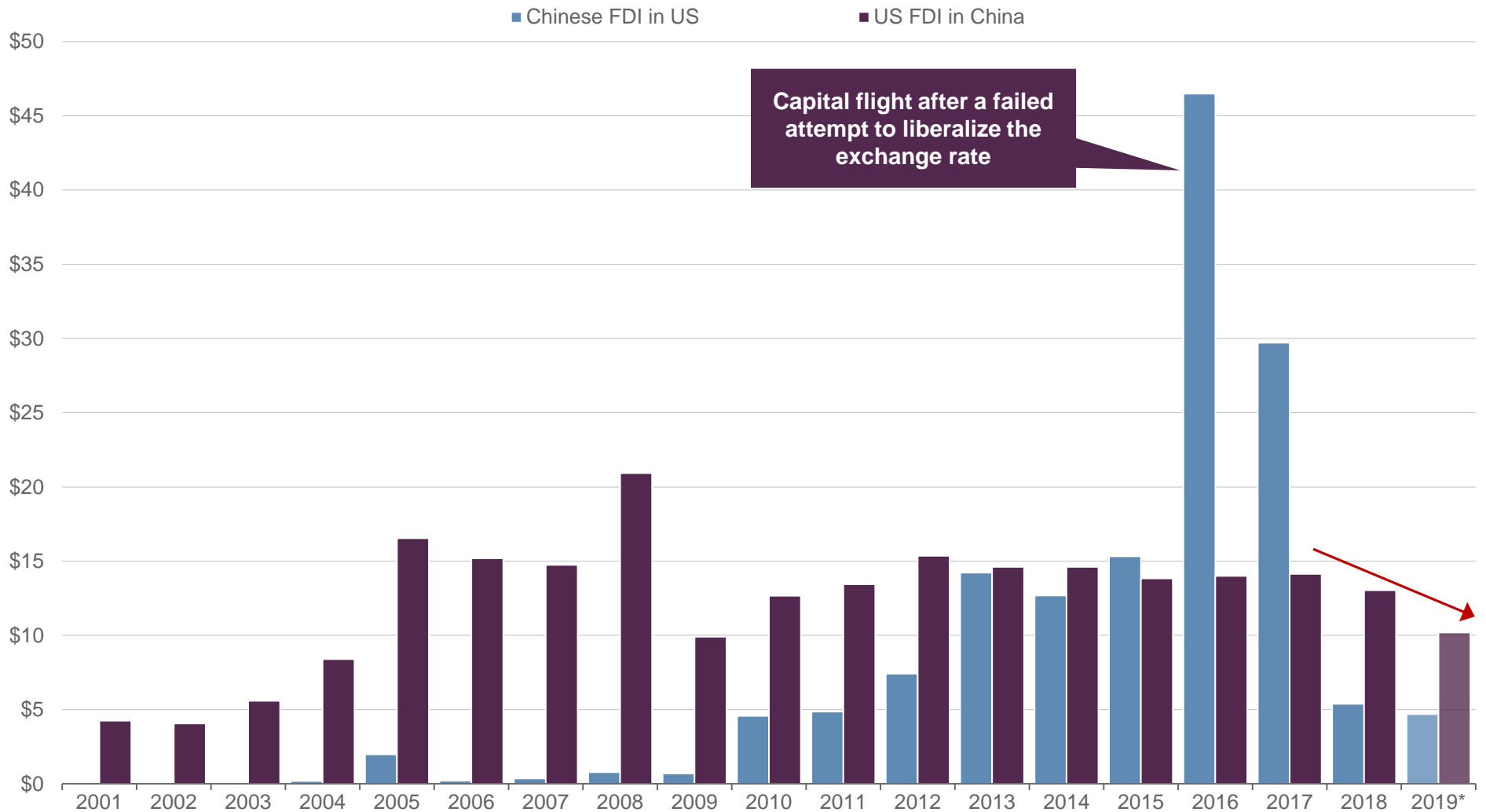
Source: Guggenheim Investments, Haver Analytics. Data as of August 2019.

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## Trade War Disrupts U.S.-China Capital Flows

# Direct Investment Flows Between the U.S. and China Have Fallen

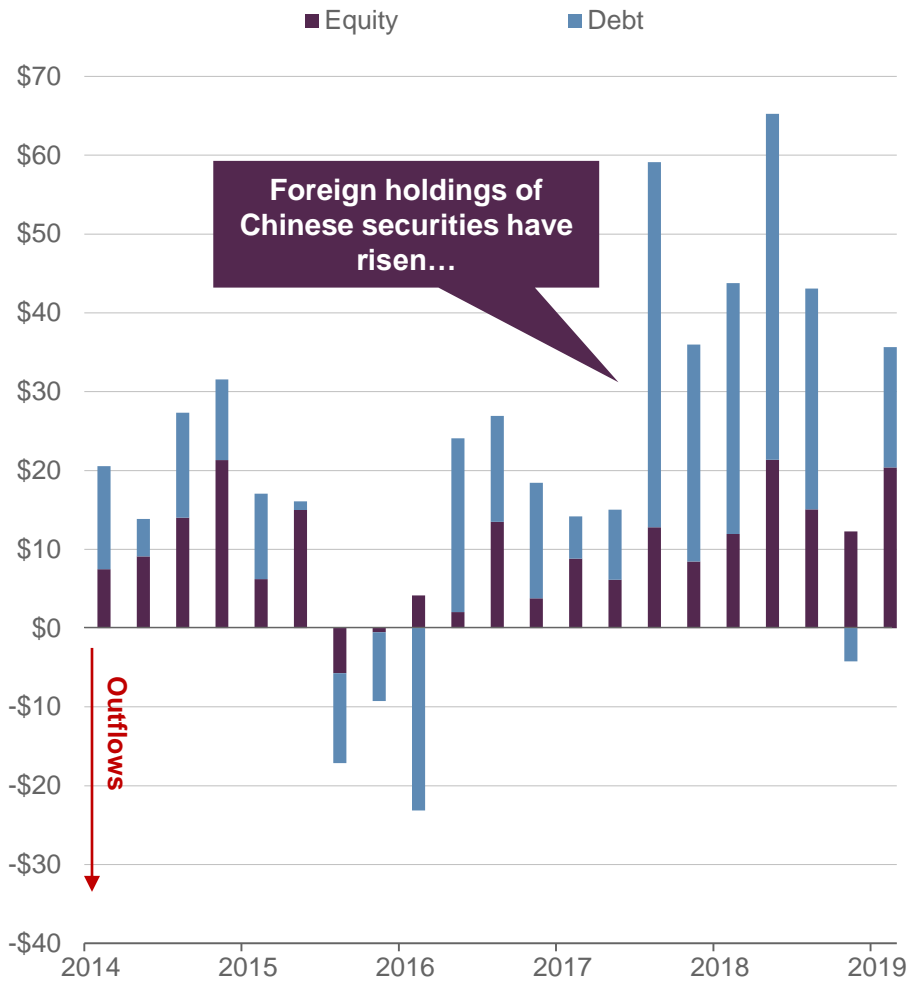
**Annual Value of FDI Transactions Between the U.S. and China (\$bn)**



Source: Guggenheim Investments, Rhodium Group. Data as of August 2019. \*Annualized based on YTD data.

# Will Capital Inflows Taper off as the Trade War Heats Up?

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



**Resident Purchases of Offshore Stocks & Bonds (\$bn)**



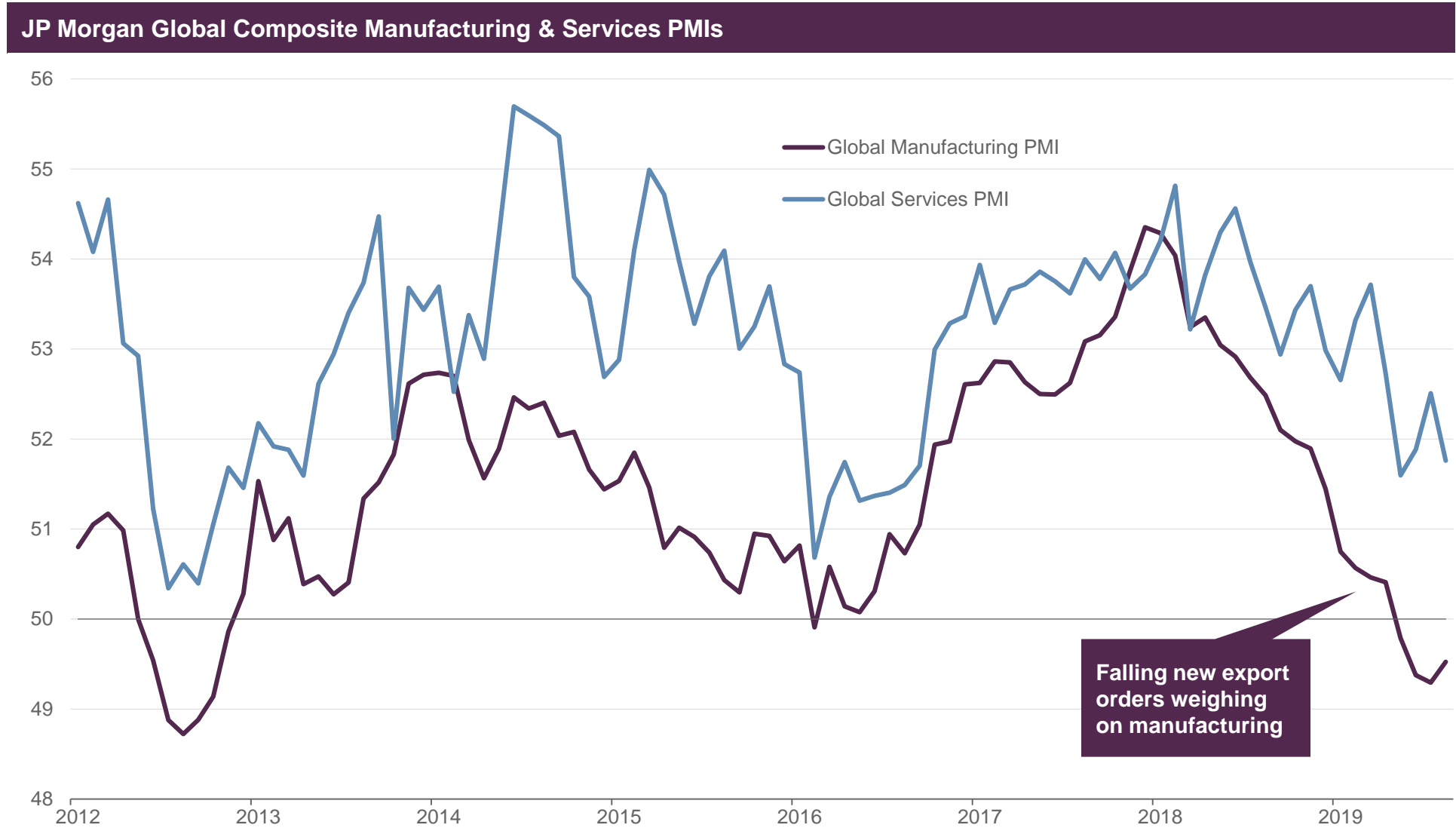
Source: Guggenheim Investments, Haver Analytics, China State Administration of Foreign Exchange. Data as of Q1 2019.

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## Accessing the Collateral Damage



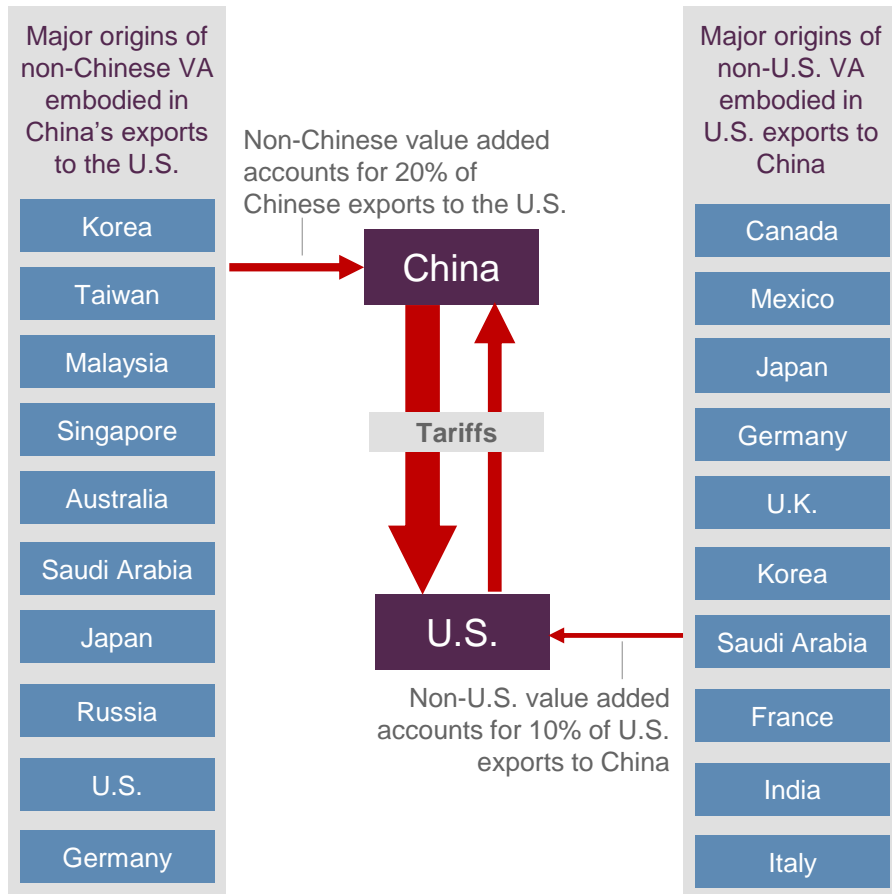
# Global Manufacturing Is Bearing the Brunt of the Downturn in Trade



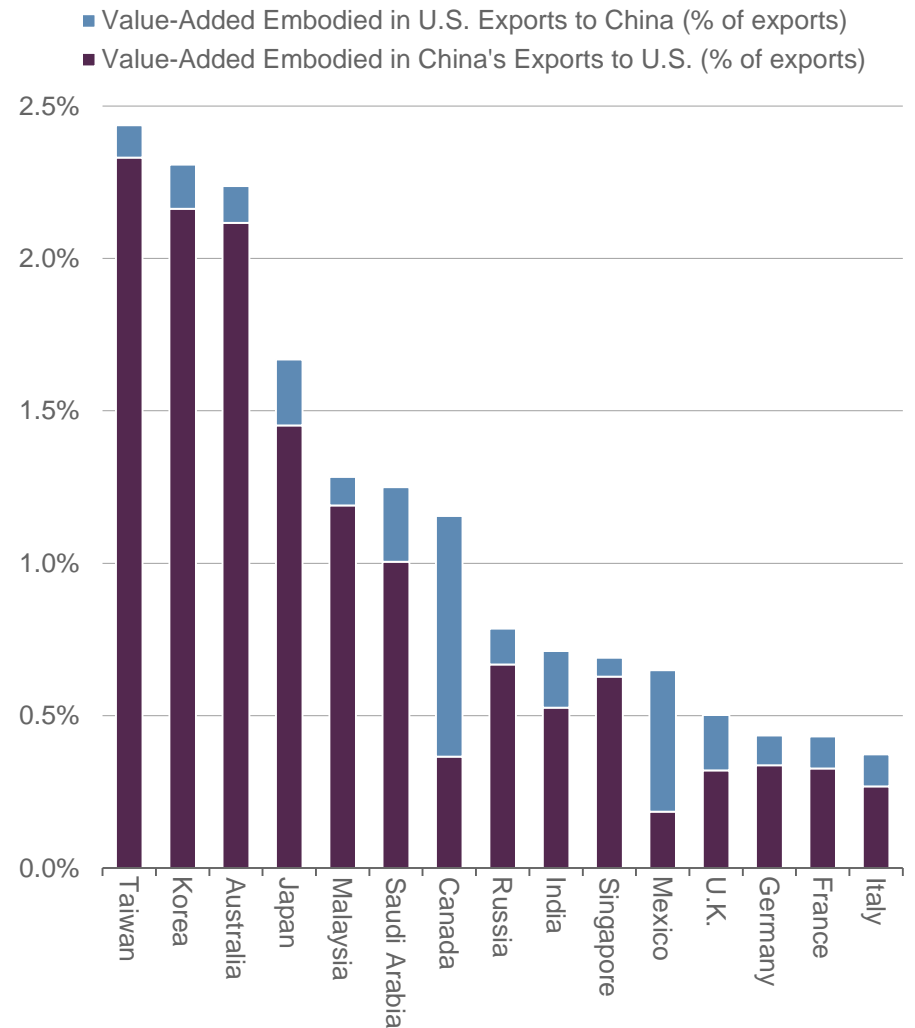
Source: Haver Analytics, Guggenheim Investments. Data as of August 2019.

# Tariffs Disrupt Global Supply Chains

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



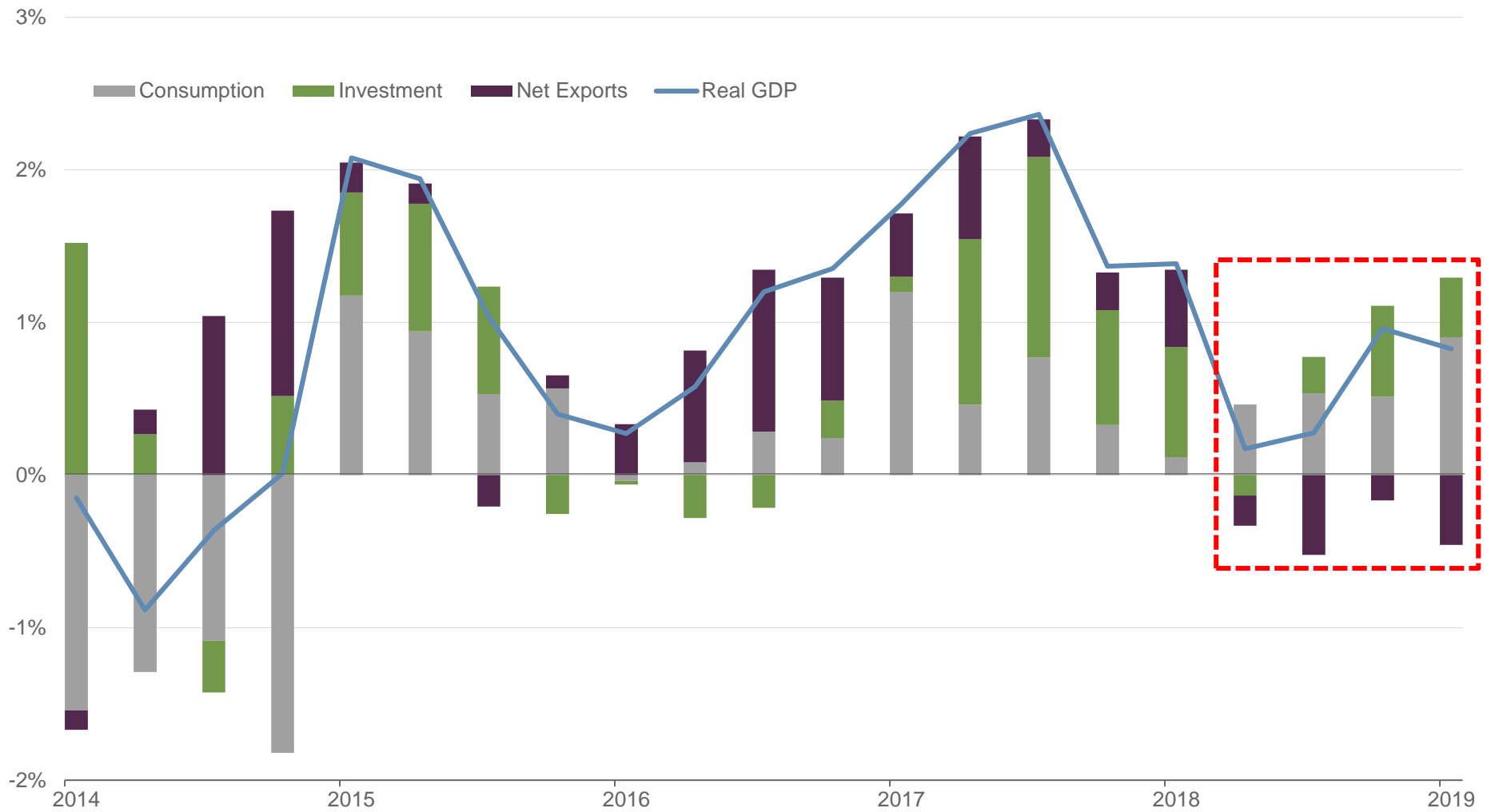
## Taiwan, Korea, Australia, and Japan Are Most Vulnerable



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.

# Japan Has Been Caught in the Crossfire ...

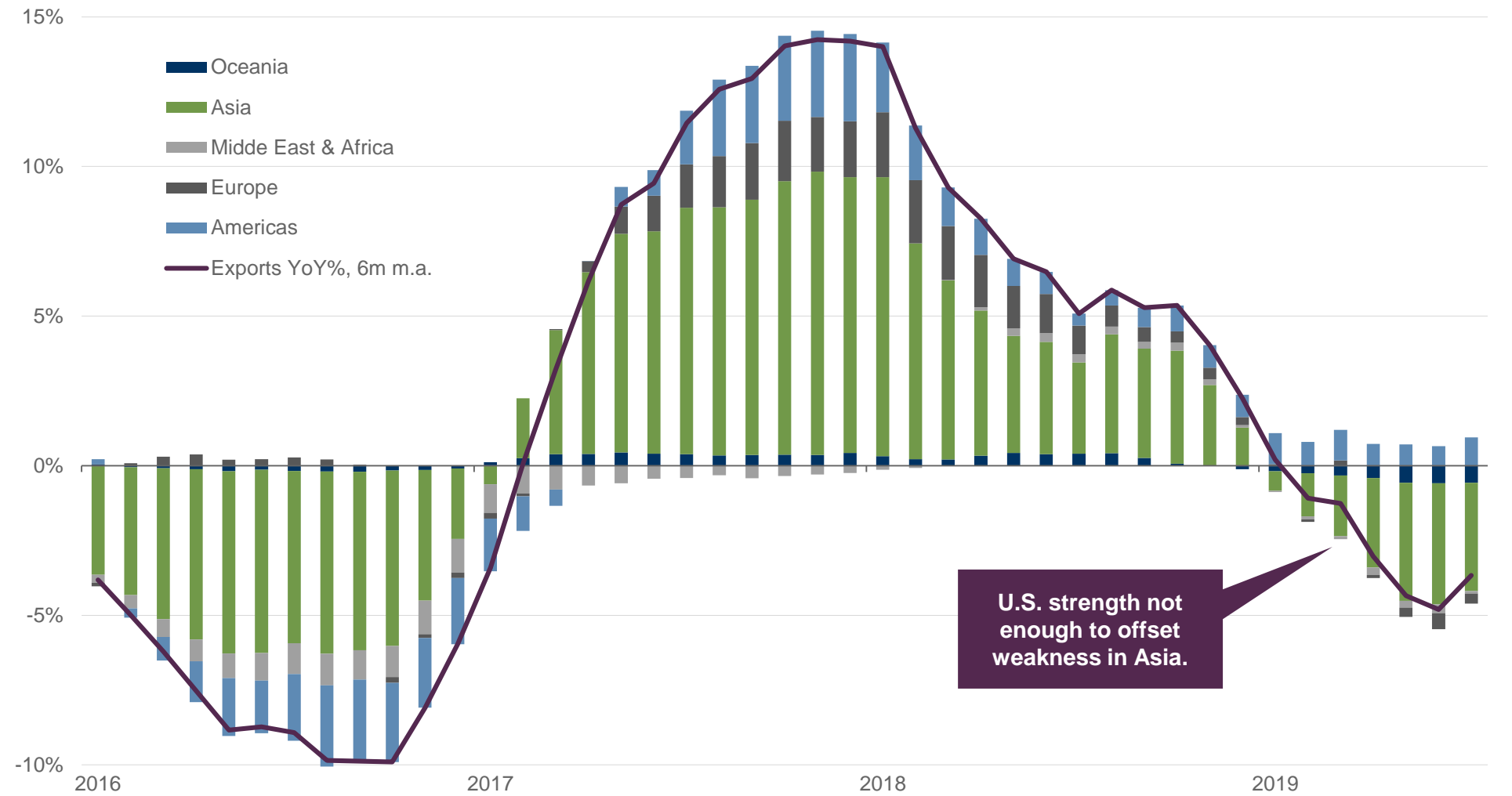
## Japanese Real GDP Growth & Contributions to Real GDP Growth (YoY%)



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

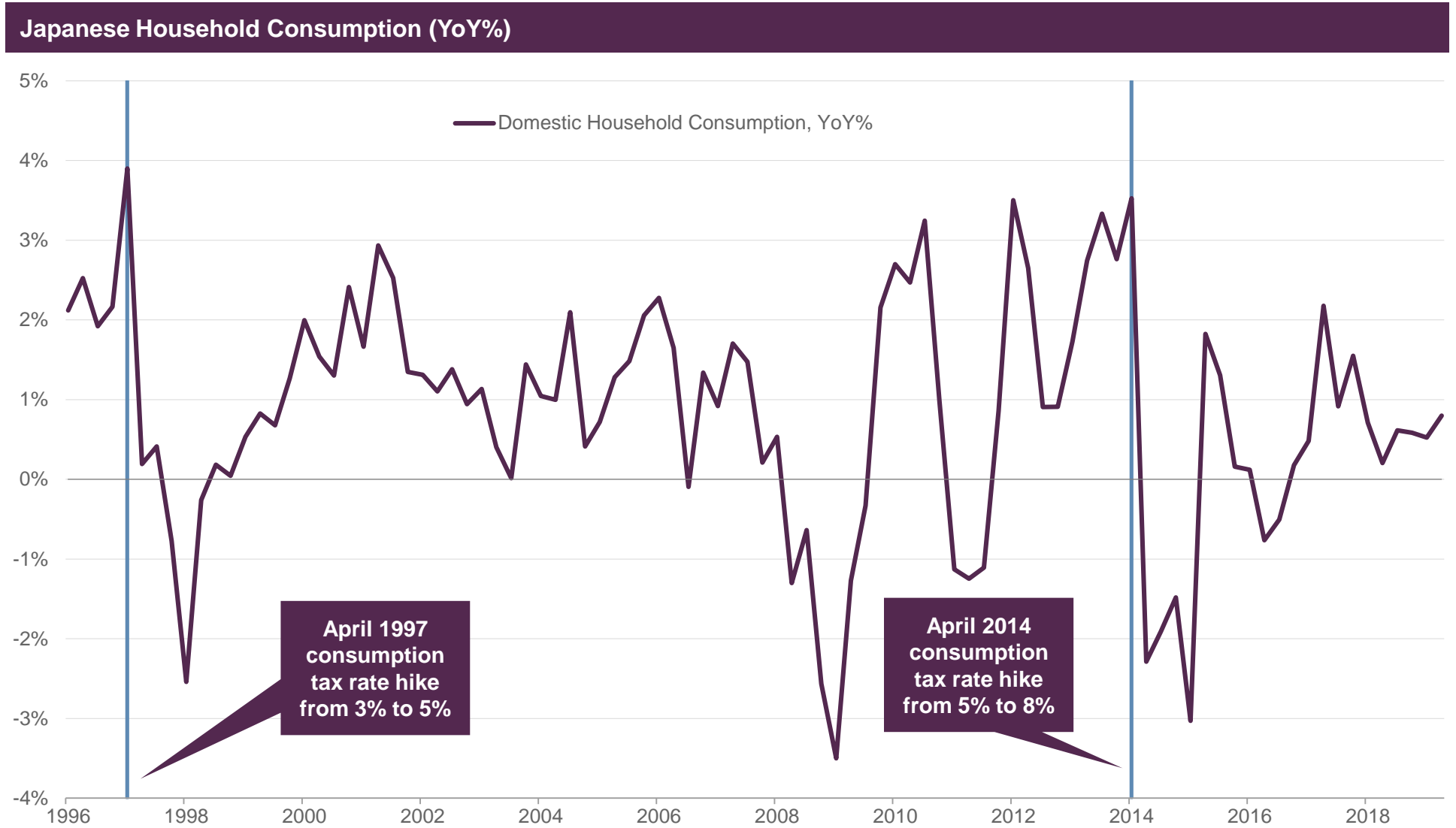
# ... As Exports to Asia Have Fallen ...

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



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

# ... And Consumption Is About To Be Tested by the October Tax Hike



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

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