

# After the Close

## Expectations for U.S. & China trade talks fade

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### It appears the window for a trade agreement is closing quickly

Uncertainty is running high into this week's face-to-face U.S./China trade talks scheduled for Thursday and Friday. Particularly after the U.S. Commerce Department placed several Chinese tech firms on its entity list after U.S. markets closed on Monday. Although the Trump administration set the ball in motion months ago on this action, the timing of the move, which bans these Chinese firms from buying high-tech parts and components from U.S. companies, is certainly raising eyebrows. The Commerce Department cited human rights abuses, including the use of high-tech surveillance against China's Muslim minority as reasons for the action. Beijing urged Washington to "stop interfering" in its internal affairs and said the U.S. should "stay tuned" for its next actions, according to *Bloomberg*.

Chinese officials continue to downplay expectations for a meaningful trade deal this week in Washington, as Vice-Premier Liu He will not carry the 'special envoy' title. Carrying such a title generally suggests the Vice-Premier represents China President Xi Jinping and can negotiate or propose a deal on Xi's behalf. According to *FactSet*, the delegation cut short its visit to Washington by one night, also suggesting any meaningful deal appears unlikely. Considering the narrow scope of this week's trade discussions (which will not address structural reforms or intellectual property issues) as well as background noise showing both sides seem prepared for a prolonged fight, we believe the odds the U.S. imposes previously announced tariffs on Chinese imports on October 15<sup>th</sup> as increasing. Also, depending on developments later this week, the U.S. could increase tariffs on a host of consumer goods imported from China on December 15<sup>th</sup>. In our view, stock prices may have a much harder time digesting this next level in tensions if this week's meeting does not at least produce a pause in the tariff war. Today's declines across U.S. stocks appear to reflect this growing concern.

### On the Day

In addition to the rising unease over this week's trade talks, U.S. producer price inflation during September fell for the eighth consecutive month. German industrial production unexpectedly beat expectations, while services data out of China fell to a seven-month low. The main take away? Considering the rapidly deteriorating odds for a trade deal this year against a slowing-to-mixed economic backdrop, risk aversion presented the path of least resistance for investors today. Separately, in a speech this afternoon, Fed Chair Jerome Powell said the central bank would soon start growing its balance sheet, partly in response to disruptions in overnight lending markets.

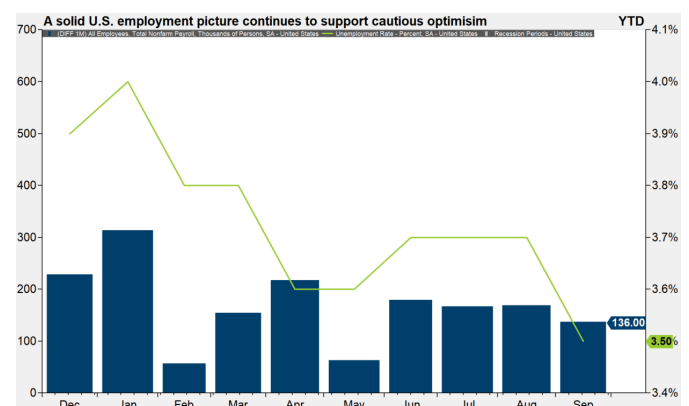
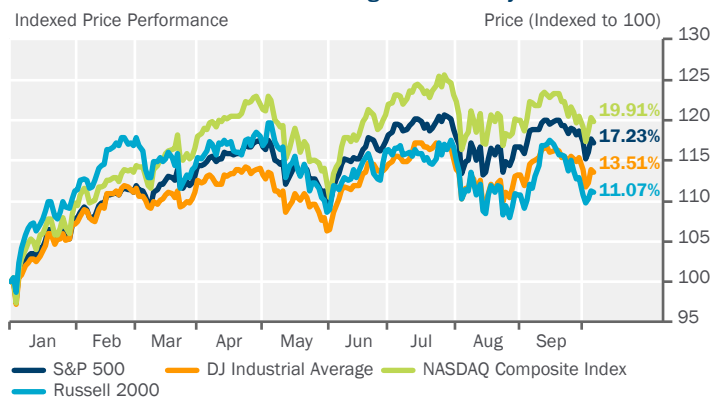
### Committee View

Although odds for an 'interim deal' between the U.S. and China took a hit today (which was expected to postpone future tariffs through year-end), a more expansive deal was never really in the cards, in our view. This point could temper the markets' negative reaction as discussions get underway later this week. In sum, trade talks continue to travel a winding road and could create near-term headwinds for stocks if discussions appear headed for a standstill. Particularly, if increased trade tensions prompt the U.S. and China to take additional actions that stall growth and damage confidence levels.

Today's Market Action at a Glance			
Benchmark	Index Level	Net Change	% Change
S&P 500 Index	2,893	-45.7	-1.6%
Dow Jones Industrial Average	26,164	-314.0	-1.2%
Russell 2000 Index	1,473	-24.6	-1.6%
NASDAQ Composite	7,823	-132.5	-1.7%
Best Performing S&P Sector: Real Estate			-0.5%
Worst Performing S&P Sector: Financials			-2.0%
10-year U.S. Treasury Yield: 1.54%		-1.0 basis points	
West Texas Intermediate (WTI) Oil: \$52.32		-0.8% per barrel	
Spot Gold: \$1,511.40		+0.5% per troy oz	

All data via FactSet as approximately 4 PM ET. All charts via FactSet

### Year-to-Date Price Performance Through the Prior Day



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