After The Close

China retaliates and U.S. stocks sink, as the Dow drops more than 600 points

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Tariffs and threatening tweets don't sit well with investors

After stocks suffered their worst week of the year last week, equity shares today suffered their worst trading day since January. On Monday, China announced it would retaliate with additional duties on U.S. imports after the White House raised tariffs to 25% from 10% on $200 billion in Chinese imports on Friday.

Major Domestic Equity Indices - Today

Benchmark	Index Level	Net Change	% Change
S&P 500 Index	2,812	-69.5	-2.4%
Dow Jones Industrial Average	25,325	-617.4	-2.4%
Russell 2000 Index	1,523	-50.4	-3.2%
NASDAQ Composite	7,647	-269.9	-3.4%

All data via FactSet as of approximately 4 PM ET

The S&P 500 broke through its 50-day moving average but held the psychologically important 2800 level today. We believe the 200-day moving average of 2775 may represent an essential line in the sand if trade tensions continue to pressure stocks. Caterpillar, Apple, and Boeing also experienced significant selling pressure on the day, principally due to their China sensitivity. As a result, the Technology, Industrials, and Consumer Discretionary sectors were all lower by roughly 3.0% or more on Monday, with Utilities the sole gainer on the day. In a flight to safety, the 10-year U.S. Treasury yield briefly dipped below 2.40%, while the CBOE Volatility Index (VIX) moved to above 20. A blustery series of trade tweets from President Trump over recent days and a colder response from China trade officials now have investors more concerned that a trade fight could soon turn into a prolonged trade war.

Trade sentiment weakens and so too could stock prices

In our view, recent trade developments could lead to an all-out trade war between both countries or represent a messy next step that finally inches negotiations closer to an endgame. **Here's what you need to know from a market perspective:**

The trade fight could get worse before it gets better. China is expected to retaliate with unspecified countermeasures, which could include making it more difficult for U.S. businesses to operate within the country as well as devaluing its currency to mitigate the effects from U.S. tariffs. China has already announced it will raise tariffs on $60 billion in U.S. goods (or more than 5,000 products) starting on June 1st. Consequently, the White House is preparing another round of tariffs on roughly $300 billion in China imports, and if implemented, would essentially place a tariff on all goods entering the United States from the shores of China.

Expect markets to react in unpredictable and potentially volatile ways. At this point, it is impossible to predict how trade talks will develop with any degree of confidence. Therefore, investors should expect risk assets to be more sensitive to trade headlines and see downside pressure if discussions devolve or stall.

A further escalation in tariffs puts global growth at risk. If worldwide GDP growth slows more than expected this year due to tariffs, it most likely means global corporate profits will slow more than expected as well. If global earnings are slowing, investors usually pay less for those future earnings streams — hence stock prices are likely pressured in such a scenario.

Committee View

In our view, it's essential for investors to avoid becoming reactionary when uncertainty is high. While trade prospects have taken a hit and geopolitical tensions are on the rise, prospects can change quickly on both fronts. We believe underlying fundamentals are strong across U.S. corporations and the economy is well supported. Markets do not go straight up forever, we should all expect more volatility moving forward, and quick changes in the macro are why smart investors employ a well-rounded, diversified investment approach. For now, investors should stick to the script.

The current bull market has proven remarkably resilient and has weathered many uncertainties over the last ten + years. And though trade frictions will eventually pass, their weight on growth and unpredictability in shaping market direction have investors rightfully concerned. In our opinion, trade tensions are the most direct geopolitical threat to growth and profits this market has faced since the financial crisis. Yet, we still believe the U.S. and China could eventually work out a trade deal. Simply put, it's in the best interest of each country to find common ground, which makes a deal the most rational option. For the bull's sake, let's hope both countries find agreement sooner rather than later.

If you would like additional information on our perspectives regarding the escalating trade fight between the U.S. and China, please ask your financial advisor for a copy of *Committee Perspectives: U.S./China Trade Tensions Rise – Implications for the Market & Economy.* We also believe it is appropriate for investors to have adequate exposure to high-quality investments today, which can include shifting one's focus from 'price' return toward 'total' return. A dividend income strategy is one way to help employ a higher quality strategy. Please ask your financial advisor for the latest *Sector Insight: The Dividend Dynamic* for more detail.

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