After The Close

Trade Tensions Escalate Yet Again

Brian M. Erickson, CFA, Vice President, Fixed Income
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U.S./China Trade Tensions Escalate

Major Domestic Equity Indices - Today			
Benchmark	**Index Level**	**Net Change**	**% Change**
S&P 500 Index	2,847	-75.8	-2.6%
Dow Jones Industrial Average	25,629	-623.3	-2.4%
Russell 2000 Index	1,459	-46.5	-3.1%
NASDAQ Composite	7,752	-239.6	-3.0%

All data via FactSet or Thomson as of approximately 4 PM ET

Well ahead of the open to U.S. equity markets, China announced further tariffs on $75 billion of American soybeans, cars and oil, taking effect on September 1 and December 15; similar timing as the latest round of American tariffs on $300 billion of China imports. The annoucement sent 10-year Treasury yields lower by four basis points and S&P 500 futures down by 0.7% shortly after the announcement.

Text of Federal Reserve Chairman Jerome Powell's keynote speech at the Kansas City Fed's Jackson Hole Symposium hit the wires at 10:00 AM ET highlighting the economy was in a favorable place but still faces significant risks. Powell noted, "we have seen further evidence of a global slowdown, notably in Germany and China. Geopolitical events have been much in the news, including the growing possibility of a hard Brexit, rising tensions in Hong Kong, and the dissolution of the Italian government." While the Fed sees the U.S. economy in good standing, risks to the downside are growing

Though uncertainty around trade remains a focal point for markets, Powell stated that the Fed "cannot provide a settled rule book for international trade," an effort to delineate that monetary policy is not the tool to provide the necessary clarity for business leaders to expand and grow corporate America through a trade war. Minutes of the July 30-31 Fed policy meeting showed a divided Fed around the appropriate path for Fed policy through the challenges facing the economy. From the Fed's vantage point, unemployment is at 3.6%, the lowest level in nearly 50 years; continuing unemployment claims near 45 year lows; and core Personal Consumption Expenditures (PCE) inflation very near the 10-year average yet below the Fed's 2% target. Using the Fed's measures, the economy is largely on track.

Tweets from President Trump blurred the lines of political independence between the Fed and the Executive branch indicating, "My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?" While President Trump continues to put the Fed between a rock and a hard spot, we believe the legacy and professionalism of members of the Fed's Federal Open Market Committee will keep Fed policy grounded in its legislative mandate of independently navigating the economy toward full employment and price stability. We envision the Fed maintaining its data-driven approach to maintain independence and assure markets that the firm hand of the Fed remains in sync with and attentive to the same biorhythms that drive bond markets, rather than a political agenda that might chart a troubled course.

In a separate string, President Trump ratched-up trade tensions by tweeting, "Our great American companies are hereby ordered to immediately start looking for an alternative to China." Since August 1, trade tensions have largely escallated with little easing, counter to the pattern of negotiations in the year leading up to August. A new phase may be emerging where the desire to find some resolution is replaced by a desire to have the other side capitulate. Should negotiations have truly evolved, we recommend investors verify investment risk tolerances still fit. Should volatility prove too much, review investment goals to confirm they have not changed. Next consider adjusting risk tolerances lower, should lower risk be a better fit now that volatility reasserted itself this month.

On the day

Once again, all eleven S&P 500 sectors ended the trading session lower led by Energy, Information Technology, and Consumer Discretionary. Financials, Consumer Discretionary, and Information Technology underperformed the most, while Utilities, Real Estate, and Consumer Staples outperformed. The Dow Jones Transportation Average ended down more than 2.25% while the Nasqaq declined 3.00%. Additionally, the 10-Year U.S. Treasury yield fell to 1.51%; setting a new three year low. Across the curve Treasury yields beyond 2-years fell 10 basis points on the day. The decline in Treasury yields has been remarkable this year with 10-year yields falling 125 basis points since January 18; a quantum reset for inflation, growth, and Fed policy expectations.

Committee View

We believe investors should start to prepare themselves for a market environment that incorporates a prolonged trade war between the U.S. and China, ebbs and flows in tensions, unexpected events that trigger volatility, and an economic/corporate backdrop held hostage by trade dynamics. We believe if fundamentals can hold through these pressures, risk assets could eventually hold their ground. If they can not, unfortunately, downside price pressures may emerge for U.S. and global equities. As always, maintain discipline, lean on diversification, and ensure investments meet standards for holding long-term.

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Director - Equity Research

Jon Kyle Cartwright
Senior Director – Fixed Income Research

Ameriprise Financial
1441 West Long Lake Road, Suite 250, Troy, MI 48098
Investment.research.group@ampf.com
For additional information, or to locate your nearest branch office, visit ameriprise.com

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