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A Trade War on Equities

Equity investors & traders on red alert

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When Trump started a trade war with China, he put all equity investors and traders on red alert. Equity markets are affected dramatically by global trade. The initial knee jerk reaction was to sell China stocks as they face the initial brunt of the trade war, but after that the negative effect seeps out into China's biggest trading partners and Asia in particular.

There was a number of points that Mr Trump's train of thought misses; as mentioned, the trade is global and therefore any downturn in the east is keenly felt in the west and particularly, in the USA. Every time he tweets threats of further tax measures or sanctions, china stocks sell off and so does most of the major global stocks.

Trade wars mean less trade and less economic activity and less wealth. Every time, the president looks to be softening his stance, the stocks rally (which happened recently). When he applies new tariffs or makes negative grunts, the world equity indexes catch a cold. The incident on August 29, when after seemingly pulling back, he confirmed his extra 5% tariff on \$300 billion in Chinese imports prompting U.S. companies to warn of price hikes. Stocks tumble and the Dow fell 600 points.

The US is affected at a corporate level, one of the key single stocks affected in the trade war is China's Huawei. The supply chain of currently over 130 US suppliers are awaiting the answer on exemptions, which highly doubt will come.

UBS Global Wealth Management, overseeing more than \$2.48 trillion in invested assets, has gone underweight on equities for the first time since the Eurozone crisis. The main concern is over the impact of the trade war on global trade and growth

Nearly lost among the geopolitical turmoil were eyebrow-raising results from Cisco Systems that could mark an ugly turning point for tech stocks in the trade war. Cisco stock plunged 9%, after it reported very poor financial results. CISCO is seen as a bellwether for tech stocks and investment.



There are some beneficiaries; some countries such as Vietnam seem to gain from trade tensions. If trade wars escalate, new trade partners for China and US will need to be found but this is small comfort globally. Other beneficiaries include gold and even cryptocurrencies.

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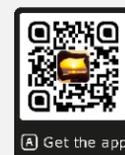
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