



The G20 meetings in Osaka have produced a moderate de-escalation of trade tensions between the US and China. While headlines are still filtering in and details are limited, at the time of writing (29 June), it appears as though¹:

- (i) trade talks are restarting between US and China
- (ii) further tariffs on Chinese goods are being postponed “for the time being”
- (iii) existing tariffs on Chinese goods will remain
- (iv) the US will soften current restrictions on US suppliers of a leading Chinese telecommunications equipment company

The headlines appears to represent a slightly, but not dramatically, better-than-expected outcome. From a macro-investor’s standpoint, the G20 US-China trade truce carries seven key takeaways.

G20 Meeting Recap – Seven Macro Takeaways

1) The US consumer should remain mostly insulated from trade tensions

US imports from China currently being tariffed are low in consumer content². Had tariffs been applied on the remaining US\$300 billion of goods, however, consumer prices would likely have been more broadly affected. We had been concerned that this in turn, would’ve weighed heavily on consumer confidence, one of the few bright spots in the US economy. For now, this sector should remain resilient (barring job losses) and our concerns are allayed.

2) De-escalation of trade tensions should support the recently plummeting US, Chinese and global business confidence surveys

However, we note the outlook is still extremely foggy, and exposed companies are still likely to be operating at reduced capacity. This is particularly true given the G20 meetings provided no negotiations timeline and limited details. Hopefully, more positive headlines will contribute to a second

consequent improvement in hiring and business investment. It’s too late to see the impact in June data, and perhaps even July figures, but we’ll be watching for proof that the G20 de-escalation was sufficient to support the real economy, even at the margin. The Federal Reserve (Fed) will likely be watching for exactly the same evidence.

3) US growth will avoid a worst-case scenario outcome

The Macro Strategy Team’s GDP forecasts³ continue to point to below potential and weak growth in 2020, but the postponement of further tariffs removes our worst fears for GDP figures. The US is still in a significant slowdown but, based on current information, the economy isn’t heading toward a technical recession.

4) The Fed is still going to cut rates by a total of 50 basis points (bps) before year-end

While we believe the Fed will still cut rates by a total of 50 bps before year end, we doubt a full 50 bps cut at its 31st July meeting and still don’t believe 25 bps is a sure thing should July present a material improvement in US economic data. In our view, the Fed is responding to the cyclical slowdown in US growth which has been exacerbated by the weight

¹ Source: Bloomberg, as of 29 June 2019. [“REMARKS BY PRESIDENT TRUMP IN PRESS CONFERENCE”](#), the White House Office of the Press Secretary, 29 June 2019. President mentioned letting US companies resume sales to China’s largest telecommunications equipment maker. China and the US will be talking about taking Huawei off the Commerce Department entity list.

² Source: Manulife Investment Management, Cornerstone Macro, as of May 2019.

³ Source: Manulife Investment Management, Cornerstone Macro, as of June 2019.

of uncertainty on business activity, particularly spending and hiring. That damage is done and suggests monetary policy is too tight in this environment. However, we currently forecast only 2 cuts versus the bond market pricing of almost 4 cuts in the next year. The risk to our view is this week's ISM Manufacturing data and the June nonfarm payrolls report.

5) Global trade volumes might be bottoming

The potential global trade volume bottoming⁴ is adding to our conviction on Emerging Markets (EM) and European risk assets. Our team leans conservatively on calling inflection points in general, so we are waiting for an additional month of data before we formally call the bottom in global trade. However, better sentiment with respect to US-China trade will only help this trend and the ease of restrictions on US suppliers to a leading Chinese telecommunication equipment company bodes well for EM tech stocks in particular.

6) We are still expecting near-term easing from China

Somewhat tangentially, we are still expecting near-term easing from China in an effort to stabilise interbank rates, bolster inflation, and support growth which appears wobbly⁵. Like the Fed, the People's Bank of China (PBoC) will need to respond to the damage that uncertainty has already inflicted in the economy.

7) Tariff negotiations are separate from the broader theme of a US-China economic decoupling

Looking at the big picture, we continue to stress that tariff negotiations are separate from the broader theme of a US-China economic decoupling that will likely persist, regardless of political leadership in the United States. Trade tensions have kick-started the trend towards dual supply chains, shifting

production facilities, higher world average tariffs and a general theme of de-globalisation. This is an important paradigm shift relative to the last 90 years of globalisation. It is also a negative productivity shock and suggests lower long-term potential growth (for everyone).

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⁴ Source: Manulife Investment Management, Thomson Reuters Datastream, as of 15 May 2019.

⁵ China's Manufacturing PMI for June 2019 printed below 50 for the second month in a row. National Bureau of Statistics of China, 30 June 2019.

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