

Market Watch

Tariff hike and counter hike

Summary

- Global equities fell -1.6%, led by the S&P500 which dropped -2.6%. This followed China's decision to raise tariffs on US imports and comments by Fed Chair Powell.
- The US and China's tit-for-tat tariff hikes are unsettling markets, which fear the economic fallout from an escalating Sino-US trade war.
- We prefer maintaining a diversified investment allocation given the current environment.

Background

- The catalyst for the initial sell-off in US equities, and flight to the safety of bonds, was China's announcement that it will impose additional tariffs of 5-10% on USD 75bn of US imports from September, in retaliation for the US' earlier tariff imposition.
- An additional catalyst was comments by Fed Chair Powell that the trade war was difficult to "incorporate into traditional models of monetary policy".
- After US markets closed, President Trump responded by raising tariffs on USD 550bn of Chinese imports to between 15-30%. He also referred to Fed Chair Powell as an "enemy".

Market Reaction

- Global equities fell -1.6%, led by the US (S&P500 down -2.6%). The dollar weakened against the euro and the yen, closing at EUR/USD 1.114 and USD/JPY 105.5 respectively.
- Bonds rallied as yields fell. The 10-year Treasury yield fell to 1.53%. Global high yield bonds fell as their yield premium over Treasuries rose 10 bps. Gold rallied 1.9% to USD 1,527.

What does this mean for investors?

Investors are becoming increasingly nervous about the implications of the escalating Sino-US trade war. The war of words between Fed Chair Powell and President Trump has also been a source of concern. The 2.6% decline in the S&P500 was the third biggest daily decline this year and last week's weekly decline was the fourth consecutive weekly loss.

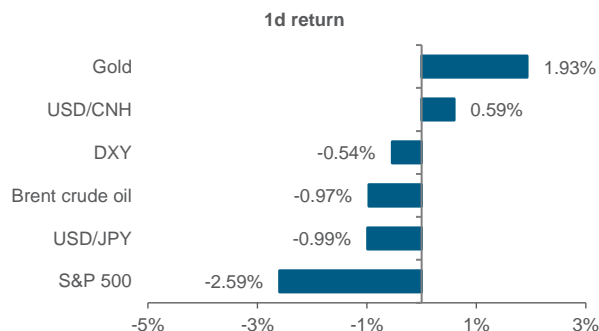
The risks of unintended consequences from the Sino-US trade war and tensions between Trump and the Fed may be rising, as signalled by the rally in gold and bond prices. While we still see scope for a trade truce, the risk of a no-trade-deal outcome in the medium term may be rising. We reiterate our view that maintaining a diversified investment allocation remains key given the current environment and stage of the economic cycle.

What are key technical levels and events to watch?

- Support levels: S&P 500 (2729, -4% lower), Stoxx 600 (350, -6% lower); MSCI Asia ex-Japan (569, -6% lower).
- US PMI data on 31 January, Brexit developments.

Equities fall on growth worries

Selected market performance, 23-Aug-2019, local currency



Source: Bloomberg, Standard Chartered

New wave of retaliatory tariffs threatened

US and China announced new tariffs levels on of 23 Aug

Latest measures	Amount (USD Bn)	Previous tariff	New tariff	Amendment begins
US tariffs on China imports	250	25.0%	30.0%	1 Oct
	300	10.0%	15.0%	1 Sep & 15 Dec
China tariffs on US imports	75	na	5-10%*	1 Sep & 15 Dec
	110	5-25%	na	Already in place

* China additionally raised tariffs on US autos to 25% and added 5% tariff on auto parts starting 15-Dec-2019

Source: Bloomberg, Standard Chartered

US equities nearing key support

S&P500 and technicals



Source: Bloomberg, Standard Chartered

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A	Excellent	C	Fair
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