Are Donald Trump's policies driving the economy and markets into crisis?

In March this year we wrote:

"We believe that we are going through a period of economic slowdown, particularly in Europe. The measures being taken in China, such as tax cuts and accelerated credit growth, the gradual loosening of fiscal reins in the euro area and the turnaround in US interest rate policy are suggesting a possible acceleration in global growth in the latter half of the year. Given this backdrop, stock markets are not really at risk of collapse. This, however, all depends on the US and China reaching an agreement capable of easing trade tensions in the long term."

Following weak trading in May, the question inevitably arises as to whether the actual and verbal escalation in the trade dispute calls for a different assessment. The likelihood of no agreement being reached and the dispute escalating has increased, while the chances of a comprehensive settlement of trade and technology issues are close to zero. Political observers believe that an agreement could be reached at the G20 summit in Japan at the end of June. An agreement on trade issues with a (staggered) withdrawal of punitive import duties is conceivable. At the very least, a window of opportunity for further negotiations might be opened again and the threat of further punitive tariffs suspended.

Can the two sides afford to continue escalating the situation? The resulting growth slowdowns are likely to be felt less in the USA than in China. The latter has already taken steps to avoid an economic downturn and is likely to increase the dose if necessary. In the USA, meanwhile, Trump has broad political support for his approach to the challenger from Asia. Moreover, the US Federal Reserve has just declared that it is prepared to cut interest rates as a precautionary measure against economic uncertainties. In addition, there remains a US government project to renew the infrastructure: the Democrats are also

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showing a great deal of interest in this, even though talks have stalled for now. That said, with the 2020 elections hoving into view, de-escalating the conflict is in the interests of the US President: his popularity ratings are low both in absolute terms and compared to his predecessors. The "historically great" success, however, must be achieved equally by both parties to the contract.

The decision tree is almost as open as Brexit, but the consequences are felt far more globally. In the best case scenario, the stock markets will be able to shed their politically induced malaise in the summer: the effect would be to boost the Asian markets, which have lagged behind this year. Paradoxically, similar behaviour can be expected if the trade conflict escalates. If this happens, the effect would be to boost domestic demand. There is also a good chance that the negotiations will drag on and cause uncertainty to persist. Taking the various factors into account, we still believe in a partial solution to the conflict and are therefore appropriately invested in risk stock.

Over a longer time horizon, the struggle for economic and military power will come to characterise the Sino-American relationship. A key role here is played by technological innovative capability, which will ultimately decide who comes out on top. Accordingly, competition in the industries of the future will be fierce and driven particularly strongly by the respective governments. The Huawei case is unlikely to remain a one-off. However, it is doubtful whether this will set in motion a complete separation of China from Western technology. It would therefore be wrong to believe that the signing of a trade agreement would lead to the political risk premium disappearing completely.

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