

Trade Wars Escalate!

U.S. President Donald Trump announced on Thursday that he would impose a 10% tariff on an additional \$300 billion worth of Chinese imports, beginning on September 1st. These tariffs were announced, in part, due to China's failure to follow through on a promise to buy a large amount of crops from American farmers. President Trump targeted goods that up until now had not seen any tariffs. These new tariffs will hit a wide array of consumer goods, from cell phones and computers to toys and clothes. This is in addition to approximately \$250 billion of imports from China that are already subject to a 25% tariff.

China responded Monday by announcing that they would halt new agricultural purchases from the United States, and they may slap tariffs on farm goods recently purchased. Their other response has been to allow their currency, the yuan, to devalue to the dollar. While the People's Republic Bank of China is denying this charge, the yuan has dropped in value more than 5% since the escalation of the trade war back in early May and is at its lowest rate to the dollar (7.09 as I write this) since 2008. A lower currency value means that Chinese products become cheaper when exported. This has offset some of the tariffs imposed by the United States to protect U.S. companies, and it has also made Chinese products more attractive to other trading partners of China, like Japan, South Korea, Vietnam, Germany, and India.



Where Do Things Go from Here?

As we have discussed in prior pieces, we believe that the United States and China will come to a deal. The question is, "when?" China has always been "playing the long game," meaning that they may try to wait out President Trump to see if he is reelected. The problem for the Chinese is that this trade war is definitely having an impact on their economy. On July 15th, China reported its weakest growth in 27 years, with a 6.2% increase of year-on-year growth for the 2nd quarter. This is down from 6.4% in the first quarter, and 6.7% a year ago. It is estimated that these new tariffs could cut into China's already weakening economy by approximately 0.5%. President Trump will want a trade deal prior to the election and could continue to tighten the screws economically. It is in China's best interest, and it is in President Trump's best interest, for a trade deal to be consummated this year.



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What is Polaris Greystone Doing?

The PGFG investment management team was already proactive about selling some positions last week, underweighting our 100% equity strategies by 15% to 20% of what their normal holdings would typically be if the markets were cooperating. We also have taken additional action today to lighten our equity exposure in all strategies. As we've discussed at great length, a tactical investment manager increases exposure to the markets when risk is low. As risk increases, we lower our exposure to risk. We do so in incremental movements to ensure that we have the proper read on what's going on in the market. While we have begun to de-risk our portfolios, we will continue to take defensive action if necessary. Right now, the United States is threatening to place tariffs on \$300 billion in goods. We haven't actually done it yet. Who knows if or when the Chinese will agree to a trade deal? It looked like we were heading towards a deal in May, and that unraveled. We want to be acting on what is actually going on, versus what might happen. We need to keep a close eye on the fundamentals of the markets (which are very healthy right now) but not keep a blind eye to the sentiment.

These are very tricky times to manage portfolios. We will be very active and very diligent about managing the risk in your portfolio. Your PGFG team will also be very active in our communication with you about what is actually happening during these very challenging times. Please note that once this is behind us that PGFG believes that the stock market will continue to climb to new highs for several years to come. We just need to get through these trying times in order to reap future benefits.

As always, I welcome all questions and comments. Please feel to reach out to me.



Sincerely,

Jeffrey J. Powell

Managing Partner & Chief Investment Officer