Appian
Asset Management

Monthly Monitor

December 2018

The Trade War and its impact on Markets

Uncharacteristically, the most recent G20 meeting held in Argentina partially lived up to the much hyped expectations. A truce in the trade war between China and the US was agreed, however, the ceasefire is temporary and is scheduled to last 90 days. Trade is a small component of both economies but it is the secondary impacts of a trade war on consumer, corporate and investor confidence that are more damaging. Throughout 2018 this issue has had a negative impact for asset markets and we expect this issue to be at the forefront of investor anxieties in 2019.

One of the few tenets of Donald Trump's limited economic knowledge is that the US has been taken advantage of by its trading partners over many decades as reflected by the US's long standing trade deficit. Most economists argue that this trade deficit is a reflection of the $ being the world's reserve currency and the propensity of the US population to over-consume and under save. However, Trump has surrounded himself with acolytes of a similar economic view and the application of tariffs has become an official tool of trade policy. In essence, Trump dreams of a return of the US economy to the 1950s. Globalisation has made this dream impossible.

Supply chains have become increasingly complex in recent decades. The components associated with the ubiquitous iPhone, provides an ideal example of these specialised supply chains. The display module is made in Japan, the processor in South Korea, the camera in Germany, the Bluetooth in the US and it's then assembled by a Taiwanese company based in southern China. Trump believes the iPhone should be completely manufactured in the US – the downside to this aspiration is that the phone would cost many multiples of the existing price for the US consumer.

The likely consequences of increased tariffs would be higher inflation and lower growth i.e. stagflation. In recent decades, under the George W Bush and Barack Obama administrations, tariffs were introduced for political purposes to protect “swing” steel producing states. Most studies on the economic impact of these tariffs are overwhelmingly negative. Typically, for every one job saved in the US Steel industry, five were lost in ancillary sectors.

Any attempt to reverse globalisation will make the US and Global economy poorer. As the negative economic connotations associated with a trade war become more evident for the US economy, we expect the Trump administration to hail a new trade agreement with China, which will have few material changes of substance. This process will probably follow a similar pattern to the re branding exercise that was NAFTA 2.0.
The risk is that a resolution comes too late and economies slip into a recession, driven by the uncertainty that this trade dispute has caused. The opportunity is that certain parts of the equity market today are pricing in a recession and a proper trade resolution that puts these issues to bed for a few years could propel equity markets higher.

Appian Unit Fund Prices

4 December 2018

Appian Value Fund	**143.99**
Appian Equity Fund	**184.54**
Appian SCOF	**174.97**
Appian Liquidity Fund	**104.98**
Appian Ethical Value Fund	**101.07**
Appian Burlington Property Fund	**117.38**

For more detailed information on each of our funds click **here**

Investment Team

Niall Dineen
Chief Investment Officer

John Mattimoe
Senior Fund Manager

Pat Kilduff
Senior Fund Manager

Click here for more information about our Investment Team

Contact our **Client Relationship** Team

Kevin Menton
Director
Tel: (01) 662 3989 *direct*
Click here to email Kevin

John Flavin
Senior Relationship Manager
Tel: (01) 662 4053 *direct*
Click here to email John

Ian Naughton
Client Relationship Manager
Tel: (01) 662 3986
Click here to email Ian

Follow Appian on Twitter   Connect with Appian on LinkedIn

Appian
Asset Management