



May 15, 2019

Trade tensions escalate; markets decline

Dear: Client

Escalations in trade tensions between the U.S. and China continued to startle the markets. A trade deal was not reached Friday, and as a result, higher tariffs on \$200 billion worth of Chinese goods went into effect. As expected, China announced that it will retaliate by raising tariffs on \$60 billion of U.S. goods effective June 1. Washington Policy Analyst Ed Mills sees the extended time frame as a positive signal, as it leaves room for some progress in negotiations throughout the rest of May. However, the longer-term path to compromise becomes increasingly more clouded as these negotiations drag on, according to Raymond James Chief Investment Officer, Private Client Group, Larry Adam.

The markets reacted to the continuing uncertainty, and the major indices tumbled Monday on fears that higher tariffs will limit economic and corporate growth. Not only was there disappointment of no deal, but the growing size of potential tariffs appears to have changed the direction of the discussion. The risk that this could be a harbinger of more challenging discussions with Japan and Europe over auto imports increases uncertainty, Adam said.

The next move is likely the official initiation of a 25% tariff on an additional \$325 billion of Chinese imports by the U.S., which will likely invite an additional Chinese response and more negative headlines. As a result, the equity markets may see more volatility in the foreseeable future, according to Adam. However, it's important to keep in mind that the equity markets historically incur two pullbacks of 5% or more, on average, in any given year, and the Raymond James Investment Strategy team sees upside potential in the underlying strength of the economy and positive future earnings growth. While we understand that volatility can be disconcerting, we do believe that short-term weakness should be seen as a buying opportunity for investors poised to deploy idle cash.

As always, please reach out to us with any questions you may have. We will continue to keep an eye on the markets and share any new developments with you.

To offer even more insight on the recent market movement, we're sharing with you the Investment Strategy team's *Thoughts on the Market*, a timely look at the recent market volatility with explanations from the Investment Strategy Committee. We find the information insightful and helpful and hope you will as well.

Thank you for your continued trust in us.

Sincerely,

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