

RISK, VOLATILITY— AND OPPORTUNITY WITH THE SECOND SUPERPOWER

Ask the PORTFOLIO
MANAGER

What's your perspective on U.S.-China trade relations?

Transcript of a video recorded on May 17, 2018.

So, our team's view is that we are at the early stages of what will likely be a long and at times volatile transition in power from an environment where we had one dominant superpower, the U.S., to an environment where we have two dominant superpowers, potentially both the U.S. and China.

And over even the longer term, we could be in a situation where there's that transition of power from the U.S. to China as the leading economy in the world. During this transition period, there will be many points of tension as we are seeing today with U.S.–China trade relations.

So, it's an area that concerns us, it's something that we're monitoring and discussing very often and very frequently, but ultimately, this is an opportunity for us, and we see it as such. Our base case is that we do see a resolution to the current trade negotiations. That the U.S. administration finds some wins in the negotiation and can bring those back and see some progress there. And that China, too, is willing to provide those wins, because we were already seeing signs of a Chinese economy that was looking to open itself further with their capital markets opening up, some industries opening themselves further to foreign ownership, and some supply side reforms that were being initiated to help ease the oversupply and overcapacity that was created within China.

So, our base case is that we do see some resolution over the near term and that ultimately there remains significant opportunity in China. That being said, we are paid to worry, and we're paid to be concerned, and we're focused on preserving and growing our clients' capital.

So, I think the biggest risk that we see and our biggest concern near term is that the two negotiating parties are dealing with much different timelines. If you look at the U.S. negotiating party, it's a political system that's very dynamic. We have mid-term elections coming up, we have the presidential campaign not far off in 2020 and as a result, the timeline for these negotiators is very short term. They're looking to secure their votes and secure their power for the next round of the administration.

We're negotiating, though, with the counterparty in China, that has recently extended term limits and it definitely has a much longer-term view. The communist party has always been about long-term investments and longer-term view. So, anytime you have two negotiating parties with much different timelines, there is a risk there and that's something that we're monitoring closely, but with risk, and with volatility, there is opportunity and we continue to see significant opportunity in both the U.S. and Chinese equity markets today.



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