

# POLICY INSIGHTS

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This Week: Trade Wars? 3 Sectors to Watch

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A weekly summary of EventShares' conversations with policy experts. The newsletter analyzes policy developments and future Wall Street impacts.

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**Trade is a tool** that helps grow the world economy by allowing countries and individuals to specialize. The goal is the efficient use of resources, such as capital and labor. For example, a country with abundant natural resources can harvest and export them, while a country with an educated and technical workforce can export its services and knowledge. Countries have many trading partners with diverse products, which means a country could have a large trade deficit with one trading partner and large trade surplus with another. In the end, all countries should be better off.

**President Trump believes all trade deficits are bad.** Last week's actions confirmed his view, as he promoted protectionist Peter Navarro within his administration and announced intentions to impose tariffs on steel and aluminum imports. What's on Trump's trade radar? Below are the top three trade issues we're monitoring right now:

## Steel & Aluminum Tariffs

Trump is not the first to impose tariffs on steel. George W. Bush imposed the last tariffs on US steel imports in 2002. The international community reacted swiftly and strongly by filing a case with the World Trade Organization (WTO), which regulates international trade. Bush withdrew the

tariffs 18 months later after facing pressure from the international community and WTO, which ruled the US was safeguarding the steel industry.

**If the steel supply tightens or tariffs are passed on to customers, companies such as brewers, automakers, and oil pipeline manufacturers could see their profit margins decrease, putting pressure on the stocks.**

## NAFTA

The Trump administration continues to renegotiate NAFTA. What's the top issue? A concept called 'rule of origin'. Under NAFTA today, at least 62.5% of the net cost of a vehicle must originate in the US, Canada, or Mexico to avoid tariffs. The Trump administration wants to increase this number to 85%. The implications of such an increase are staggering as auto parts currently originate in all three countries and cross borders multiple times. Adding a tariff or tax to an auto part each time it crosses the border? That could have a material impact on your next car or truck purchase.

**We're cautious on companies involved in the North American auto supply chain, such as Delphi, Cummins, BorgWarner, and Kansas City Southern.**

## China & IP Protection (Section 301)

We believe this is the next evolution of Trump's trade policy. And it may be the biggest. The Trump administration has long accused China of stealing US intellectual property. Chinese law currently requires foreign companies to form joint ventures with local firms to enter the Chinese market. This means the Chinese partners obtain both the technology and knowledge of the foreign firms, with the risk that they could walk away from the joint venture.

US companies appear willing to accept the risk in exchange for access to the growing Chinese economy, with companies like IBM, Starbucks, and UBS forming joint ventures. Actions by Trump could cause China to end or modify the program, effectively taking away US businesses' access to the Chinese economy.

**Any combination of actions taken by Trump regarding the three above policies could set off a round of global trade wars.**



## About EventShares

EventShares is a boutique asset manager located in New York City that is focused on the impacts created by legislation, regulation, and fiscal policy. The firm is founded on the belief that policy is a powerful leading indicator and catalyst for companies.

EventShares offers numerous educational resources to help investors connect the worlds of Washington, D.C., and stock markets.

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