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The struggle between China and the US takes another dimension

The US Secretary of State Mike Pompeo warned Switzerland about its close ties with China. "if you operate with Chinese technology, you supply your information to the Chinese Communist Party". Swiss President Ueli Maurer said in Washington that "Switzerland had chosen a different path in dealing with China, preferring to advocate for its values directly with Beijing".

Meanwhile, Trump, who is in the UK these days, is expected to demand that Prime Minister Theresa May's successor to ban Huawei from UK 5G networks. Security minister Ben Wallace said "Britain has not made a final decision on whether to use Huawei Technology".

Outlook:

- Equity markets rallied today as the Fed is expected to cut rates, due to the evident deterioration in economic conditions, but we see things in a somewhat different way.
- After Trump's recent threat to Mexico , India or Vietnam (who has been able to avoid being labelled as a currency manipulator in a US official report this month) it seems as if no trading partner is safe. There is a widespread perception that Trump's goal is to shake up the old rules-based global trade system, causing nations not to play the "Trade game" unless they agree to rules set by the US. Ironic, right? During the last 70 years the US has been the nation that has been relied on to defend and promote free trade, setting up organizations to manage a rules-based trading system, leading by example by lowering its own import tariffs).
- The point is that Global companies are now involuntarily dealing with political risks, without knowing how to manage these risks. The alternative of moving production is not a guarantee either, given Trump's goal to pursue a multi-front trade war (that aims to return production to home territory).

- **Clearly, this is a new environment that does not fit well with corporations that have organized themselves to maximize global resources and customs base.**
- In the margin, this tariff's war and bans to export will mean less goods sold (and delivered at a higher cost). Some of the cost will be absorbed by reduced margins, which means lower profits.
- In a nutshell. If this issue does not turn 180 degrees, we will find ourselves in a scenario of lower growth and tougher profits (which is exactly what the debt market seems to be pricing in).

Best regards