

## FEATURE

### Opinion - US-China trade war

US-China trade war and Trump impeachment inquiry are weighing on the global economy, but fears of a recession are unfounded

- Wherever one looks, it seems like all the market news is downbeat, but a recession in the US remains less likely than many believe
- Moreover, with the 2020 presidential election looming, Donald Trump may have good reason to de-escalate his trade conflict with China



[Nicholas Spiro](https://www.scmp.com/comment/opinion/article/3030420/us-china-trade-war-and-trump-impeachment-inquiry-are-weighing)

<https://www.scmp.com/comment/opinion/article/3030420/us-china-trade-war-and-trump-impeachment-inquiry-are-weighing>

Published: 11:00pm, 26 Sep, 2019



*US President Donald Trump addresses the 74th session of the United Nations General Assembly at the UN headquarters in New York on September 24. Photo: Reuters*

Investors would have been hard-pressed to find something positive to latch onto in the Organisation for Economic Cooperation and Development’s latest economic outlook, published last week.

Titled “Warning: low growth ahead”, the report noted that the “global outlook has become increasingly fragile and uncertain” due to

“escalating trade policy tensions”, with growth in 2019 and 2020 “revised down in almost all G20 economies” and set to slow to its weakest pace since the 2008 financial crisis.

On Monday, preliminary survey data compiled by IHS Markit showed that the euro-zone economy almost stalled this month, with a recession in the manufacturing industry starting

to take its toll on the once-resilient services sector.

Germany, Europe's largest economy, experienced the sharpest contraction in manufacturing output since 2009. IHS described the figures as "simply awful".

What is more, China's economy, which is far and away the biggest contributor to global growth, continued to weaken as the government eschewed heavy-handed stimulus.

In Bank of America Merrill Lynch's latest fund manager survey, published last week, the net percentage of respondents who expected a global recession to materialise in the next 12 months rose to the highest level since 2009.

More tellingly, nearly 40 per cent of those surveyed believed the US-China trade war had become the "new normal" and would never be resolved.

The economic pessimism is being driven partly by the dramatic shift in global monetary policy, with the US Federal Reserve and the European Central Bank jettisoning plans to tighten monetary policy in favour of added easing measures.

The economic pessimism is being driven partly by the dramatic shift in global monetary policy since the start of this year, with the US Federal Reserve and the European Central Bank jettisoning plans to tighten monetary policy in favour of additional easing measures.

This has led to an outbreak of dovishness in developed and developing economies as central banks fall over themselves to cut interest rates in an effort to shore up growth.

Government bond markets have repriced dramatically.

Not only has the yield on benchmark 10-year US Treasury bonds plunged to within 40 basis points of its all-time low reached in July 2016, the global stock of negative-yielding sovereign and corporate debt surged to a record high of more than US\$17 trillion at the end of August, amounting to a staggering 30 per cent of the world's investment-grade bonds, according to data from Bloomberg.

[As instability threatens Hong Kong's free market, can wise heads prevail?](#)



*China's Vice-Finance Minister Liao Min leaves after deputy-level US-China trade talks in Washington on September 19. Despite the often heated rhetoric, talks between the two countries continue and a truce is not unthinkable. Photo: AFP*

However, the gloom surrounding the global economy, and the fierce rally in debt markets, look increasingly overdone, so much so that it would not take much for sentiment to improve significantly.

By pricing in a full-blown recession – which is by no means a foregone conclusion – bond investors are betting that the worst possible outcome is practically assured. This smacks of overconfidence.

While the sharpness of the slowdown in the global economy over the past year is not in dispute, the biggest headwind comes from the fallout from the trade war.

Although the intensification of the conflict in recent months caught many investors off guard, the fact is that tensions are politically driven – the main reason why markets have been so volatile since the dispute escalated – and could abate very quickly if some sort of truce is agreed in the run-up to next year's US presidential election.

More importantly, while the gloom surrounding Europe's economy is warranted, fears of an imminent recession in America are, as I argued previously, unfounded.

The US labour market is in fine fettle, while household spending, which accounts for roughly 70 per cent of the economy, remains buoyant.

Although a gauge of consumer confidence just suffered its sharpest decline since the start of this year, the measure remains at elevated levels.

The Fed's decision last week to opt for a "hawkish cut" in interest rates – while it lowered its main rate, it signalled that it may refrain from reducing borrowing costs further – was the strongest indication that bond investors have been too downbeat about US growth.

To be sure, this week's dramatic announcement by the Democratic Party that it will launch impeachment proceedings against President Donald Trump injects yet more uncertainty into asset prices.

Yet, not only is it unclear what effect, if any, the inquiry will have on sentiment, the impeachment drama may change Trump's political calculus on tariffs, increasing the likelihood of a truce before the election.

[Trump knows ending the trade war will help him win in 2020](#)

**On the other hand, it is possible that the pessimism in bond markets will be validated, especially if America's economy, which has slowed markedly this year, succumbs to the fallout from the trade war.**

However, the fact that bond investors are positioned for a calamity shows they have become far too bearish.

The OECD is right to warn that a period of low growth lies ahead. But that does not mean the global economy is bound to tip into recession in the coming year.

*Nicholas Spiro is a partner at Laressa Advisory*

#### Editor's Note:

Laressa Advisory is a specialist Europe-focused real estate advisory firm which identifies exceptional opportunities for equity and debt investment - mainly in commercial property but also in residential real estate.

Laressa Advisory was established by Richard Petersen and Dr Nicholas Spiro. Mr Petersen, a chartered surveyor, was the former managing partner of Cushman & Wakefield in Central Europe, while Dr Spiro, an economist, was the founder and managing director of Spiro Sovereign Strategy, a niche London-based consultancy specialising in sovereign risk.