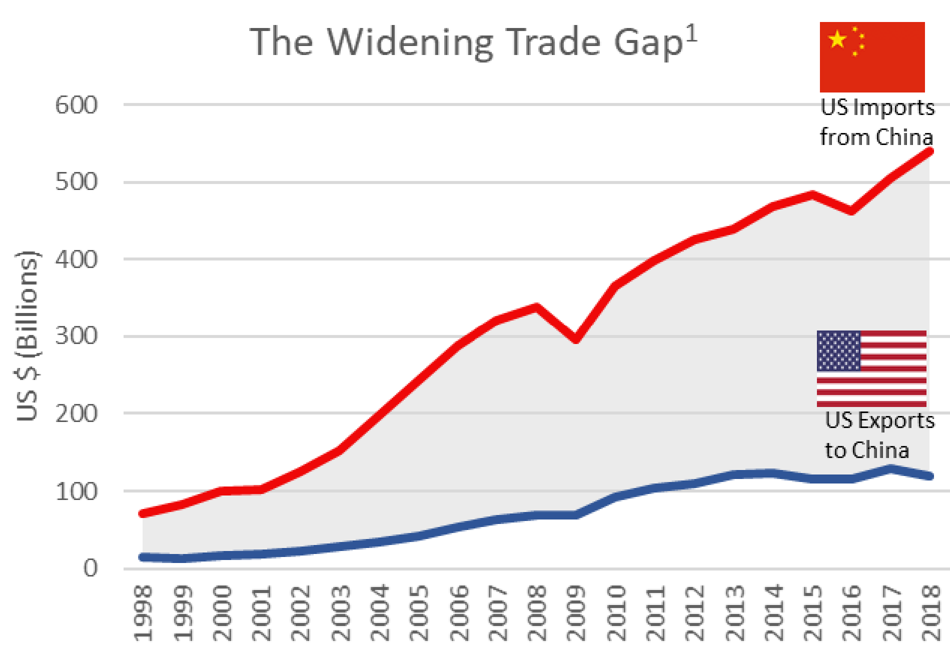
TARIFFS

It's a wait and see game for China and several U.S. trading partners, at least until the G20 summit which will be held June 28 - 29, 2019 in Osaka, Japan. If you're a long-term investor, one who also hopes to benefit from short-term tactical shifts, how do you cope in this ever-changing environment?

It's important to understand the trade imbalances the U.S. has with countries around the world. Very simply, if the U.S. has a trade deficit with a country, that country might be more vulnerable to the impact of increasing U.S. tariffs. As a net exporter to the U.S., there could be lower demand for Chinese products if prices rise due to tariffs which could, in turn, have a significant adverse impact on their Gross Domestic Product (GDP).

As you can see from the chart below, Chinese exports to the U.S. are around U.S.$540 billion, whereas U.S. exports to China are only around U.S.$120 billion, resulting in a trade deficit of U.S.$420 billion, by far the largest in the world. To put this number into context, the next highest deficit is with Mexico at approximately $81 billion. Since China's imports of U.S. products are so low on a relative basis, their ability to retaliate through escalating tariffs is limited.[1]



U.S. President Donald J. Trump has indicated that he wants a "fair" playing field to decrease the U.S.'s trade deficit with China and halt practices that allegedly result in the theft of U.S. intellectual property and the forced transfer of American technology to Chinese companies. Trump also wants to implement agreements on currency manipulation, access to financial services, and technology with enforcement mechanisms. Beyond tariffs, he has blacklisted technology companies such as Huawei and ZTE. He has already expanded the banned entities in the technology sector and may move to ban more in other industries such as pharmaceuticals and defense.

Brompton believes that the earliest date we can expect any breakthroughs for a deal is the G20 Summit at the end of June which is the next time the Presidents of the U.S. and China will meet.

(1) *United States Census Bureau as at Dec 31, 2018.*

Below is a table which outlines some of our views that have been implemented in Brompton Global Dividend Growth ETF (TSX: BDIV), Global Dividend Growth Split Corp. (TSX: GDV), and Brompton European Dividend Growth ETF (TSX: EDGF):

Overweight	Underweight	Why	Example
Service Companies	Good Companies	Service-focused companies are not charged tariffs	Software may outperform semiconductors
U.S. Domestically Focused Companies	Exporters	U.S. domestically focused companies earn the majority of their revenues from the U.S., limiting the direct impact from tariffs	Healthcare may outperform exported goods such as semiconductors, machinery, planes
Defensive Sectors	Cyclical Sectors	Investors tend to prefer defensive sectors during times of uncertainty	Utilities may outperform materials

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