The Detroit News
May 14, 2019 | Front Page

Trade tit for tat punishes markets

By Joe Mcdonald and Paul Wiseman
(excerpt)

Sending Wall Street into a slide, China announced higher tariffs Monday on $60 billion worth of American goods in retaliation for President Donald Trump's latest penalties on Chinese products. …

… With investors worried about the potential economic damages on all sides from the escalating trade war, the Dow Jones Industrial Average fell 617 points, or 2.4%, and the technology-heavy Nasdaq plunged 270 points, or 3.4%, its biggest drop of the year. Earlier, stocks fell in Europe and Asia. …

… David Kudla, CEO of Grand Blanc-based Mainstay Capital Management LLC, said it's not clear how long the slump could go on — or how long Trump would use tariffs as a negotiating tactic. Meantime, the Detroit Three and other companies might suffer on Wall Street because tariffs against China don't have an isolated effect.

Ford, GM and FCA all do business in China as part of a global operation. Tariffs there impact the U.S.-based companies, too.

"They say nobody wins in a trade war," Kudla said. "When it comes to the auto industry, it really does throw a monkey wrench into the works."

Kudla added that Trump's tweets make the situation more volatile. His pronouncements on Twitter could impact the markets negatively or positively —and they're unpredictable. That said, Kudla expects the governments to reach a trade agreement.

"I still think they get to a deal," he said. "Is this the point where there is a breakdown in the strategic direction, or is there a fatal breakdown in the talks, or is it just tactics? Is this more hardball tactics, or is this a fatal moment? We really don't know."

Still, the two countries have given themselves something of an escape hatch: The higher Chinese tariffs don't kick in for 2 ½ weeks: The U.S. increases apply to Chinese goods shipped since Friday, and those shipments will take about three weeks to arrive at U.S. seaports and become subject to the higher charges. …

… The deteriorating trade negotiations follow what has been a mostly calm period of trading where solid economic data and corporate earnings helped push the market steadily higher. The S&P 500 is still up 12.5% of the year with technology stocks blowing away rest of the market with 19% gains.