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ECONOMY

TRADE WAR IMPACT MAY BE 'MILDER THAN FEARED'

Drag on global GDP growth insignificant and there is no imminent risk of a worldwide recession next year, asset manager Fidelity International says

Chad Bray and Holly Chik

The US-China trade war that has raged for more than a year has weighed on market and business sentiment, but its actual effect on global growth could be milder than expected, Fidelity International said in its latest investment outlook.

In the report, Wen-Wen Lindroth, Fidelity's lead cross-asset strategist, said that the company did not see an imminent risk of a global recession next year as US growth, while slower, remained positive and there appeared to be resilience in the global economy up until the end of next year.

"The US-China trade war continues to attract the headlines and buffet markets, but the actual impact on global growth could prove milder than feared. Standard economic models show that even in the case of a full trade escalation, the direct drag on global GDP growth should be less than 0.3 per cent annualised over 2019/2020," Fidelity said. "We are monitoring the drag from uncertainty on corporate and consumer confidence as a key signal to watch."

The updated outlook comes as a delegation of Chinese negotiators, led by Vice-Premier Liu He, is set to travel to Washington later this week to resume talks.

The trade war between the world's two biggest economies has raged for more than a year as US President Donald Trump tries to force Beijing to change decades of trade and industrial policy. The US has put tariffs on about US$380 billion of Chinese goods and China has responded with its own tariffs. Hope has built in recent weeks that the two countries might be moving closer to a deal, with Trump delaying an increase in tariffs on hundreds of billions of dollars of products that were set to go into effect on October 1. That increase has been delayed until October 15.

Liu He (centre) is due to hold talks with US Trade Representative Robert Lighthizer (left) and Treasury Secretary Steven Mnuchin. Photo: Reuters

Despite the sense of some improvement in the tone of US-China tensions and central banks shifting to a more dovish stance, the economic outlook remained uncertain, Fidelity said.

"Such an environment favours more defensive, growth companies. However, if the macro outlook does become more supportive, and if we see a shift from monetary to fiscal stimulus, we could see the momentum trade evolve from defensive growth to more cyclical areas," Fidelity said in its report.

"Such a shift could pose risks as the defensive growth trade has become crowded."

Fidelity said that its long-term outlook for the Asia-Pacific, excluding Japan, was positive, but there was likely to be some volatility in the short term.

"The trade dispute between the US and China could escalate further and is widely expected to last well into next year," it said.

"Concerns of a slowing global economy centre around weak Chinese data and will dampen investor sentiment. Ongoing political unrest in Hong Kong doesn't seem to be fading despite a withdrawal of the extradition bill, which triggered these protests.

"However, prudent macroeconomic and fiscal policies will help economies across the region to respond to the headwinds, ensuring growth remains robust."

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FIDELITY INTERNATIONAL

Separately, Bob Michele, global chief investment officer at JPMorgan Asset Management, said in an interview on Bloomberg television that he did not expect a meaningful resolution to the trade war before the US presidential election next year.

"I'm not optimistic that there's going to be a compromise," Michele said on Monday. "You've got two very strong countries, very strong personalities leading them. Nobody wants to cede ground."

In another fourth-quarter outlook this month, the BlackRock Investment Institute said "persistent and intensifying trade uncertainty" was continuing to hold back business spending.

"The substantial escalation in the US-China conflict and unpredictability of US policy actions have injected additional uncertainty into business planning, threatening to weaken economic activity," the institute said.

"We favour reducing risk, including raising some cash." The institute is a research division of BlackRock, the world's biggest asset manager.

It said a pivot by central banks to lowering interest rates "is buying investors time to add resilience to portfolios", but monetary policy alone is not a cure for the fallout from global trade tensions.

Meanwhile, global bank HSBC was taking a more selective exposure within Asia, where there was strong domestic consumption in countries such as India and China, according to Jonathan Sparks, chief market strategist and head of investment strategy for Britain at HSBC Private Banking.

"Within equities, we're actually managing our exposure to trade because trade has been very weak," Sparks said in the private bank's recent fourth-quarter outlook.