ZIONS
PREMIER WEALTH MANAGEMENT

MARKET SNAPSHOT

APRIL 2018

A TRADE DISPUTE

The Story

Equity markets have been on a roller coaster since the president's announcement of wide-ranging tariffs on imported steel and aluminum. The tariffs, which amount to a 25 percent tax on imported steel and a 10 percent tax on imported aluminum, brought swift rebuke from world leaders and has resulted in tit-for-tat negotiations and political posturing. Since then, several nations have received exemptions from the tariffs; however, China, the president announced, could face additional penalties on roughly $60 billion worth of imports to the U.S. While many economists have decried the president's actions as protectionist and harmful to the economy, the situation may be more nuanced.

Background

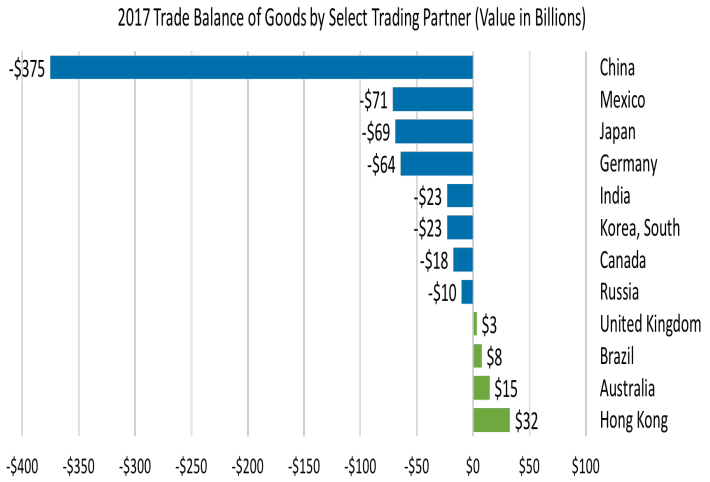
The U.S. has been running a global trade deficit for more than four decades; and China, in recent years, has been a primary driver of that deficit. Many politicians and economists have accused China of engaging in unfair trade practices and sheltering its industries, while the U.S. has allowed greater access to its market. This has created an uneasy relationship between the world's two largest economies, especially as numerous goods producing industries have declined in the U.S. Over the last 30 years, the U.S. steel industry has faced immense pressure from globalization and has struggled to compete on the world stage. Currently, only about 5 percent of the world's steel is produced in the U.S., while China produces nearly 50 percent[1]; a change that has been acutely experienced in the "rust belt" communities. By levying import tariffs on steel and aluminum, the president makes good on his campaign promises to revitalize these communities and level the playing field with China.

Winners and Losers

Trade disputes are generally harmful to everyone involved, but if they are used to spur meaningful change to unfair practices they could potentially be beneficial. There is no doubt that China has been stealing the intellectual property of U.S. companies for years, and if these trade talks could end or cut-back on those practices, U.S. companies would benefit. Also, U.S. steel and aluminum producers may benefit in the short-run, due to less foreign steel being imported to the U.S.

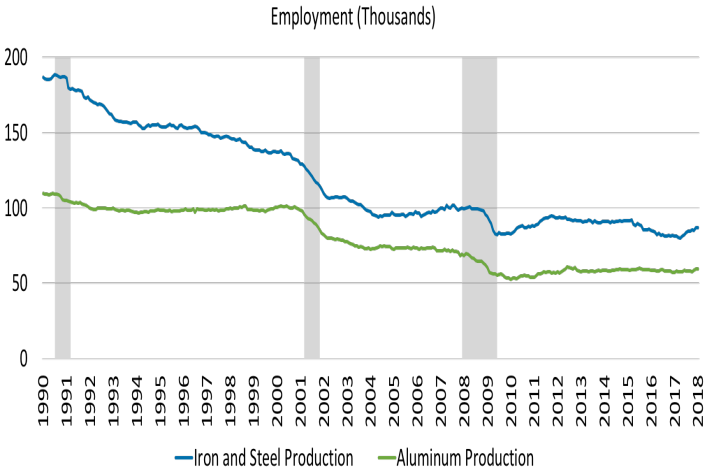
However, there will likely be more losers than winners, especially if the current talks lead to a wider trade war. Supply chains are highly globalized and interconnected, and any additional tariff (tax) that is levied along the way is typically passed down-the-line to consumers. In the present case, those industries which rely on foreign steel and aluminum, such as auto- and aerospace manufacturing, construction, and food processing, will be adversely affected. This could be a net negative for the economy, especially since those industries are much larger than the steel and aluminum producing industries. In 2002, President Bush enacted tariffs on imported steel, but was forced to end them early. One study estimated those tariffs cost 200,000 jobs and resulted in $4 billion in lost wages[2].

In 2017, the U.S. had a $375 billion Goods trade deficit with China.



Source: Census Bureau, International Trade Data

Employment in U.S. steel and aluminum production has been in long-term decline over the past three decades.



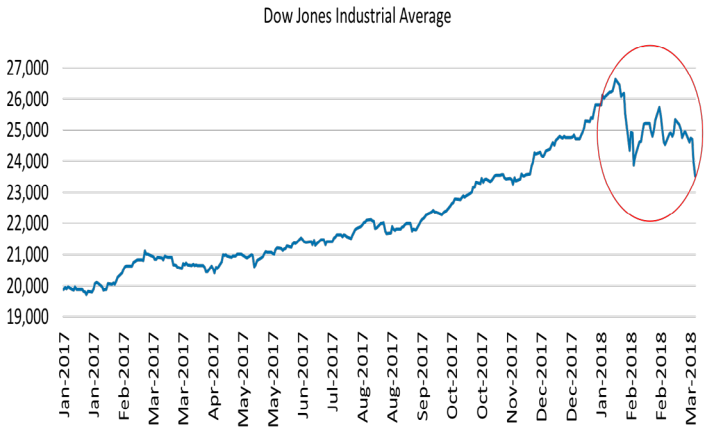
Source: Bureau of Labor Statistics, Not Seasonally Adjusted
Note: Gray areas designate recession as defined by NBER

Sources: [1] World Steel Association, "World Steel in Figures 2017"
[2] Trade Partnership Worldwide, "The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002". Dr. Joseph Francois and Laura Baughman. 2003.

Additional Market Overview

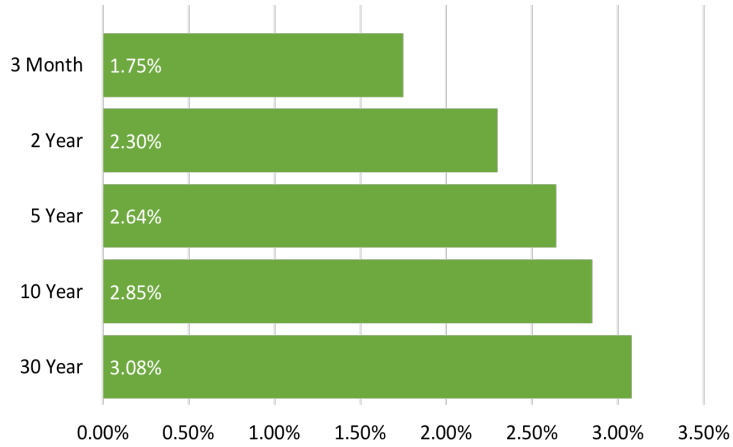
STOCKS AND BONDS

Volatility Returns to the Stock Market



Source: Federal Reserve Bank of St. Louis

U.S. Government Bond Yields: As of March 26, 2018



Source: Wall Street Journal

COMMODITIES AND FUTURES

	As of March 26, 2018	Yearly Change
Crude Oil	65.47	+30.94%
Natural Gas	2.66	-6.49%
Gasoline (RBOB)	2.03	+25.56%
Live Cattle	105.03	+7.50%

Source: Wall Street Journal

	As of March 26, 2018	Yearly Change
Gold	1360.90	+6.06%
Silver	16.72	-8.86%
Corn	374.50	-5.13%
Wheat	457.75	-6.96%

Source: Wall Street Journal

INTEREST RATES

As of March 26, 2018	Target Federal Funds Rate	Prime Rate	New Car Loan 48-Month	5-Year Adj Mortgage (ARM)	15-Year Mortgage Fixed	30-Year Mortgage Fixed	Jumbo Mortgages $417K+
Rate %	1.50 - 1.75	4.75	3.64	4.20	3.92	4.45	4.73
Yearly Change	+0.75	+0.75	+0.34	+0.65	+0.65	+0.36	+0.13

Source: Wall Street Journal

Top 5* Cryptocurrencies: As of March 26, 2018

	Price	Yearly Change
Bitcoin (BTC)	$8,116.73	+712.50%
Ethereum (ETH)	$485.13	+865.43%
Ripple (XRP)	$0.60	+6566.67%
Bitcoin Cash (BCH)*	$910.15	+63.73%*
Litecoin (LTC)	$145.05	+3,437.80%

Source: coinmarketcap.com
*Ranking determined by market capitalization
*Bitcoin Cash, percent change since 07/23/2017

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