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Investors have a price for the China trade deal, and it is high

◆ **S&P 500 futures tanked after Peter Navarro, the White House Trade Adviser, said in a Fox interview that the China-US trade agreement was dead.**

◆ **Mr. Navarro quickly backtracked on the comments and President Donald Trump tweeted that the agreement remained in place, assuaging markets.**

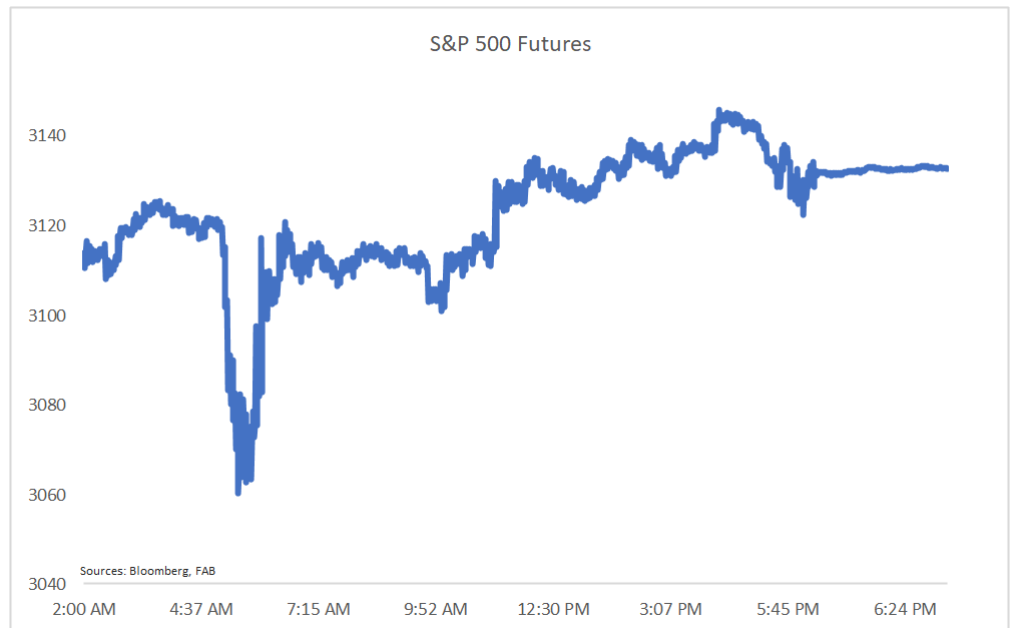
◆ **With US presidential elections looming and President Trump seeing his popularity drop, however, he could return to the issue of tariffs.**

◆ **The trade agreement between the US and China is due to be reviewed in October, just before the polls.**

◆ **FAB AAC remains overweight high quality investment grade bonds.**

If anyone thought that global investors had stopped caring about the US-China trade agreement they were reminded today that this is not the case. The most active S&P mini futures contract plunged overnight after President Donald Trump's US Trade Adviser Peter Navarro said the US-China trade agreement was dead in an interview with Fox News.

The indicator dropped 2% almost immediately after the interview, but then recovered all of its losses and some after Mr. Navarro backtracked the comments and President Donald Trump himself took to Twitter to say that the deal was very much alive. The knee-jerk reaction was a good indicator of what could happen if President Trump gets more aggressive on China, and for that alone could be a deterrent to such behavior. However, it may be wishful thinking to expect the deal to survive unscathed until November.



While President Trump seems to pay close attention to the direction of the market and a sell-off can often make him revisit comments, he has also shown himself impervious to stock investors in the past when it comes to China. In late 2018, even as markets dropped nearly 20% partly because of the raging trade war with China, President Trump continued to attack Beijing's trade policies.

He has also garnered a lot of political support from his tough attitude on China. As his popularity suffers amid the US recession, it would not be surprising to see President Trump become more aggressive in his rhetoric against Beijing. He has already turned up the volume on the issue of immigration, banning work visas to the US until the end of the year, shortly after his first campaign rally in months saw much lower attendance than he expected. As the calculation between stocks and reelection becomes more pressing, he could turn to China again.

S&P 500 futures fell 2% after a US official said the China trade deal was dead

Even if that is not the case, when the preliminary agreement was struck in January, it came with a perilous timeline.

Americans were set to review whether their Chinese counterparts had fulfilled their part of the deal, which included buying nearly US\$200 billion of US goods, by October. As the coronavirus crisis closed China and pushed it into its worst recession of its modern era, those imports have been slow to come. By the end of May, China had only bought US\$30.6 billion in goods from the US. It is unlikely that Beijing will have met American expectations and that could very well translate into the death of the deal. Given today's reaction, it looks like this could also be painful for markets if it happens.

Investment Strategy Update

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