What should investors do as USA-China tensions build over trade war, Hong Kong and COVID-19

The US-China trade war of 2018-20 followed by the COVID-19 global lockdowns in February-April 2020 have left many investors feeling jaded, as stockmarkets gyrated up and down. President Trump and Xi Jinping continue to battle with not much really being resolved. This time they are fighting over an investigation into COVID-19 and what will happen in Hong Kong. Hong Kong is the perfect example of the two super powers pulling in opposite directions.

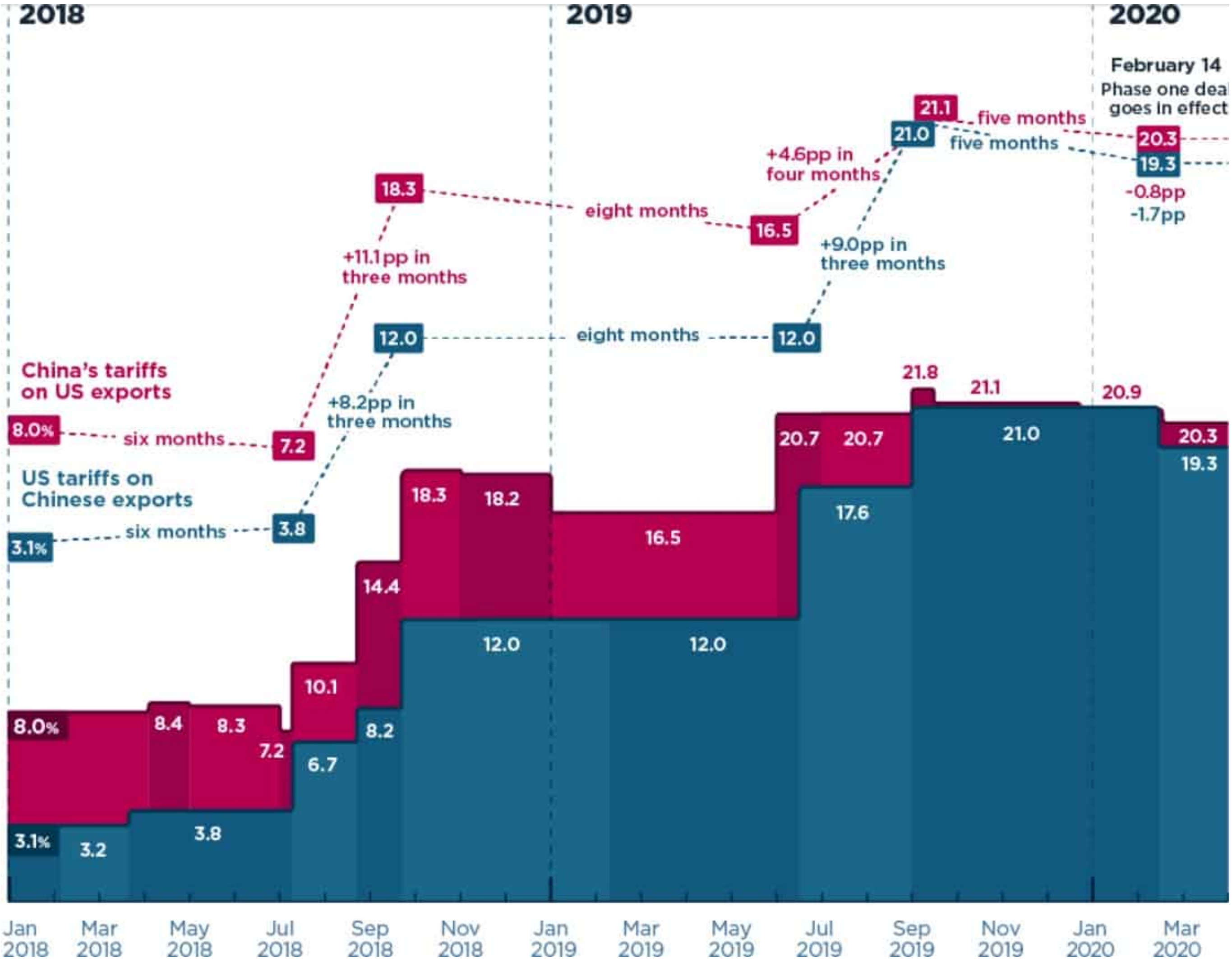
Today I look at some events that are likely to soon happen and how investors can navigate these tricky times.

Protests in Hong Kong as US-China tensions rise again

From 2018 to 2020 both the US and China businesses suffered a steady increase in tariffs due to the US-China trade war. The biggest losers from the trade war were manufacturers of global goods, especially those traded between the US and China such as US agriculture. Globally the auto industry was hit hard, as was the electronics industry, as poor sentiment caused consumers to reduce their purchases. The main winners in the trade war period were cash, bonds, gold, rhodium, and palladium. In the US the best performing sectors were utilities, healthcare, and tech.

Then in 2020 we finally got a US-China trade ‘deal’. Unfortunately many tariffs remain and the COVID-19 crisis has meant China has not been able to stay on track with its side of the deal, notably US agricultural purchases.

A history of US-China tariffs from 2018 to Feb. 2020



Source

Fast forward to today and given the US and China appear unable to settle their differences the following events are possible to occur next:

- The US may add additional tariffs on China if China goes ahead with "any decision impinging on Hong Kong's autonomy and freedoms".
- The US may raise existing tariffs on China if China fails to meet its current obligations.
- The US may look to boycott more Chinese companies, as they did with Huawei technologies.
- The US may force Chinese listing companies to delist from US exchanges. Last week the US Senate passed a new Bill (Holding Foreign Companies Accountable Act), effectively stating that Chinese companies must play by

American rules or be banned from U.S. exchanges. This requires Chinese companies being fully accountable both for their financials and their share registry (cannot be CCP controlled). Luckin Coffee (NASDAQ: LK) and Baidu (NASDAQ: BIDU) already have indicated they plan to delist.
- The US will work to secure critical materials and safer supply chains with their allies. This has already started with uranium, and is proposed with rare earths and other key battery materials (Onshoring Rare Earths Act – the “ORE Act”) .
- China may retaliate with tariffs on more US goods, or boycott US companies and their products.

Reference for ideas: United States Strategic Approach to The People’s Republic of China

The playbook for investors

Reduce exposure

- Reducing or selling completely exposure to US listed Chinese companies. It would also be wise to do the same for any Hong Kong listed stocks. The same could be said for any Chinese or Hong Kong foreign exchange exposure, property, infrastructure or bonds etc.
- Reduce or sell US companies with considerable exposure to China earnings. Some examples would include Foxconn, Apple, Qualcomm, and Starbucks.

Increase exposure

- US stocks in sectors with minimal China exposure – US utilities, US healthcare & aged care, US food and consumables, some US tech (Alphabet Google, Facebook, Amazon, and Netflix).
- Countries which will benefit from increased US trade or US supply chain shifts away from China – USA, Canada, Mexico, Australia, Vietnam, and maybe India.

- Critical materials companies including uranium. The recent US ‘ORE Act’ lists 6 key critical materials – rare earths, scandium, cobalt, graphite, lithium and manganese. Investors should look for quality sources of these materials in the US or in US allied countries.
- Gold stocks and physical gold ETFs (SPDR Gold Trust ETF (GLD) or iShares Gold Trust ETF (IAU)).
- Other valuable metals related stocks – Silver, rhodium, platinum, and palladium.

Closing remarks

The trade war and now COVID-19 has finally served a purpose to wake up the US to get their manufacturing and supply chains back under control, and away from China’s control. This will mean we can expect to see further moves to secure critical materials by the US. Already we have seen the US uranium reserve announcements, and now the ‘Ore Act’ to secure the US for rare earths and critical battery metals supply.

In these rapidly changing times investors need to stay nimble and look forward to what will likely unfold next. The next battlegrounds between the US and China will involve the biggest trends of the 2020’s – Securing critical material supply chains, 5G, electric vehicles, solar & wind energy, energy storage, and of course the top tech trends (AI, cloud, streaming, eSports, social media, and mobile payments).

Finally a worst case scenario is we may be in for a full blown US-China cold war. In that case investors will do well to add some cash and gold stocks to their portfolio. But don’t forget some exposure to the key critical materials (and companies that produce them) as they will be the foundation for the 2020’s as we move into a cleaner and more automated/connected world.