

Some possible winners from a US-China trade war deal

A brief trade war background

Even before taking office in 2016, US President Donald Trump had been complaining about China's trading practices. An investigation into Chinese trade policies was launched in 2017, which led to billions of dollars of imposed tariffs being placed on Chinese products in 2018. So far the US has imposed three rounds of tariffs on Chinese goods, totaling more than \$250 billion, with US threats of more to come. Beijing has hit back with tariffs on \$110 billion of US goods, accusing the US of starting "the largest trade war in economic history".

After months of hostilities, a breakthrough of sorts came in December 2018, when both countries agreed to halt new trade tariffs for 90 days to allow for talks. The deadline for a deal is March 1, 2019.

Investments that stand to do well if the US and China can make a good deal and end the trade war

As a general guide most stocks and funds that went down the worst in H2 2018 due to the trade war have the best potential to rebound. Some examples include:

China stocks and funds

iShares MSCI China ETF (MCHI) – The fund was down 19.18% in 2018, and trades on a PE of 11.9. China's internet giants, the BAT stocks (Baidu, Alibaba, and Tencent) are all now much better value and also worth a look.

Mining

Given China is by far the largest global consumer of

commodities such as steel, copper, aluminium, energy materials, and electric vehicle metals, then the resources sector stands to make a sharp recovery. Investors can choose a broad based fund such as the iShares Global Materials ETF (MXI) which was down 15.8% in 2018, and trades on a PE of 15.82. Or investors can buy into discounted miners of their favourite sector. Copper and nickel look very oversold.

The electric vehicle (EV) metal miners were heavily sold down in H2 2018 and they are now much better valued. For a general lithium play investors can consider the Global X Lithium & Battery Tech ETF (LIT) fund which was down 28.6% in 2018, and is on a PE of 19.3, For a general cobalt play consider Cobalt27 (TSXV: KBLT) a broader Cobalt (and nickel) play which was down 66.7% in 2018, with a 2020 PE of 13.7. For nickel I still like Norilsk Nickel (LN: MNOD). And for lithium producers Ganfeng Lithium (HK: 1772), Galaxy Resources Limited (ASX: GXY), and Neometals Ltd. (ASX: NMT) all look very attractive.

Semiconductors

The iShares PHLX Semiconductor (SOXX) fund was down 6.47% in 2018, and trades on a PE of 15.01. For individual semiconductor stocks there are countless oversold names with appeal – Micron Technology (MU) on a 2019 PE of 5, Samsung Electronics (LN:SMSN) on a 2019 PE of 9.3, Skyworks Solutions (SWKS) on a 2019 PE of 11.9, Qualcomm on a 2019 PE of 18.1, and Nvidia (NVDA) on a 2019 PE of 20.8. All of these names should do well on a trade war deal and recovery in smartphone sales hopefully in 2019. They should also be boosted by consumers upgrading to 5G enabled smartphones in 2019 and 2020.

US agriculture (soybeans)

The Teucrium Soybean ETF (SOYB) was down 9.62% in 2018, with no available PE. Soybeans are expected to be a key winner from

a US-China trade deal, as well as other US agricultural exports to China.

US aerospace

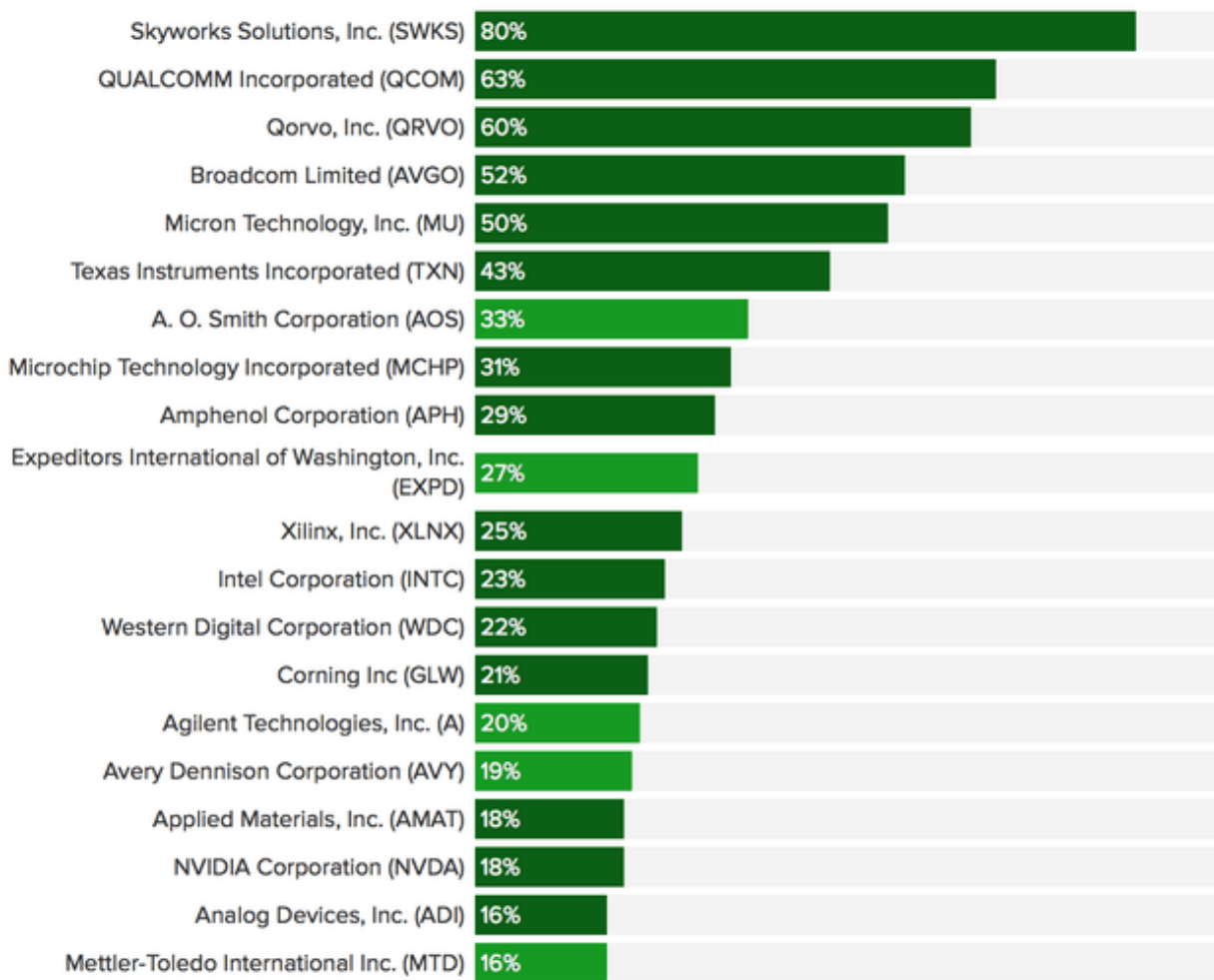
US aerospace companies such as Boeing also stand to benefit. Valuation is reasonable on a 2019 PE of 18.10; however increased competition from China's new plane manufacturer Comac may be an issue in the mid-term.

Other companies heavily reliant on a China supply chain such as Apple (AAPL) and Broadcom Limited (AVGO) can rebound well.

Companies with the most China exposure – Courtesy UBS

Companies with the most China exposure

By portion of their revenue coming from China



Source: UBS

Companies with the most China exposure – UBS

We live in interesting times and the next month may play out to be a significant month in trade history. If we get a significant trade war deal next month by March 1 (or shortly thereafter) and a strong relief rally, then the current prices for many of the oversold stocks and funds discussed will look like a bargain.