

## **Q: How likely is a trade deal between the U.S. and China before the end of the year?**

**Brian Lockhart, CFP®:** As I wrote about in Analyst Corner, I believe the initial outline for a trade agreement with China is imminent and will occur before the end of the year. Just this week China finally took some action to strengthen the legal protection of IP (intellectual property) and is expected to announce a modest change to laws requiring a technology transfer for companies selling into China. China's willingness to move on these items has been at the heart of the trade war, and should pave the way for the first phase of what should be a long-term mutually beneficial trade agreement between the countries.

Making an announcement on how many new jobs will be created or protected by the trade agreement will be a win the Trump administration will be seeking to change the narrative away from impeachment and Ukraine. Looking at the political map for the 2020 election also plays a critical role in the negotiations. As we enter 2020, Trump knows he must be popular across the Midwest and the Rust Belt to win states he narrowly won 4 years earlier. There will likely be aspects of the trade deal that will be economically beneficial to those economies.

Both the U.S. and China have compelling reasons to announce a deal before the end of the year, which suggests a deal gets done. It is possible that the deal will be light on details and not market moving but both leaders will be able to declare victory.

**Clint Pekrul, CFA:** I'm not sure there will be a final resolution to the trade tensions between the US and China, at least while Trump is in office. The president will continue to use tariffs as a political weapon, despite any compelling economic theory that they actually work. Likewise, president Xi isn't just going to acquiesce to Trump's demands. How many times have we heard from either Trump, or Treasury Secretary Mnuchin, or economic advisor Kudlow, that we are close to a deal, only to backtrack? I hope something of substance materializes by year end, but I'm not holding my breath. Furthermore, the tariffs with China can't just be "canceled" if nothing materializes, not even for the next president or the next three presidents. A narrative has been created for the American public that China has been sticking it to the US. To backtrack on that narrative would be political suicide. Bottom line is that the trade policy Trump has created might be with us long after he leaves office, let alone be solved by the end of the year.