INDUSTRY INSIGHTS

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China Currency Devaluation:

As many of you may already be aware, in response to the 10% increase in tariffs on China imposed by the U.S. last week, China has let its currency devalue to a level near 7 Yuan's per dollar. This is a level that has not been breached since the financial crisis began in 2008. The People's Bank of China stated the move is due to "unilateralism and trade protectionism measures and the increase in tariffs on China." China also announced it will no longer purchase U.S. agricultural products. This pinch to U.S. farmers comes at a time when they are already under pressure from the ongoing trade war which prompted a $16 billion aid package announced in May.

This escalation in tensions sparked a nearly 3% sell off in U.S. equity markets on Monday and the 10-year bond yield dropped to 1.7%. Today the markets are stabilizing as China set its ratio to the U.S. dollar just a bit above the so-called psychological ratio of 7:1 Yuan per dollar offering a floor to the Yuan's sell off.

A lot can happen between now and September 1st, when the U.S. tariffs are slated to go into effect, and both sides have a vested interest in continuing negotiations. China seemly has growing distrust in the current administration's negotiating terms, but recognizes that a lower currency has the potential to lower export revenues among other risks.

We do not anticipate that recent events will tip the U.S. into a recession. We have written extensively in quarterly commentaries that the current bull market rests, in part, on the shoulders of corporate earnings. Earnings for Q2 of this year so far have eluded the anticipated decline. Consensus estimates are calling for -1.1% in Q3 and 5.7% in Q4. U.S. corporations have been reserved in their guidance as it relates to capex and profits given slowing growth and uncertainties of trade and Fed policy. Rest assured we will be closely monitoring developments across all these measures in the coming weeks. At this time, we view current developments as transitory in nature. Although some volatility is expected in the near term, we feel confident maintaining our current strategy of a fully invested portfolio of diversified value-oriented stocks is appropriate.

ALTMAN INVESTMENT MANAGEMENT, LLC
33 Witherspoon Street, 2nd Floor – Princeton, NJ 08540 – (609) 252-0048 – www.AltmanInvest.com