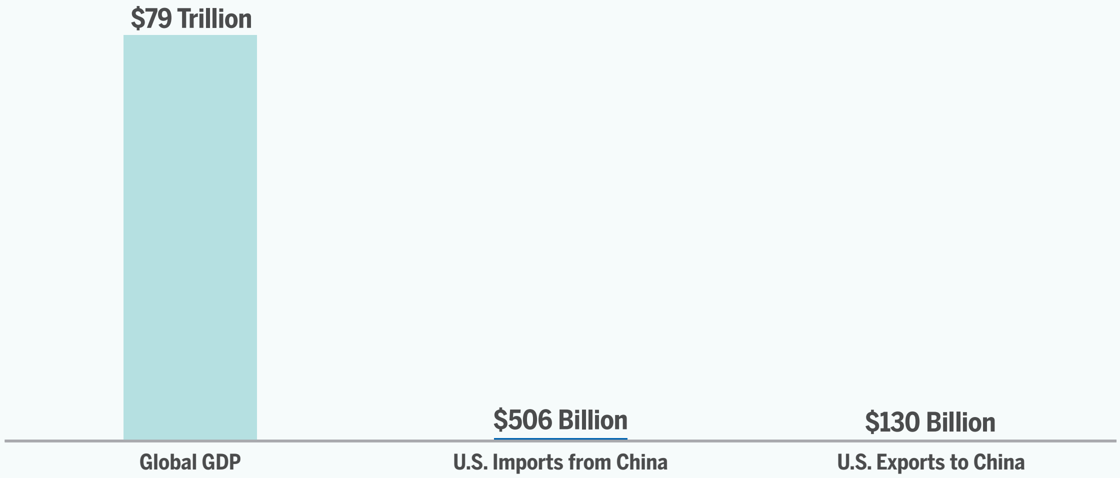
ALGER

Alger On the Money

Not So Taxing

Economic growth can flourish in a free trade environment; however, ongoing international trade issues and specifically those related to China are unlikely to derail the global economic expansion underway. A potential consequence of increased tariffs is that some companies may find themselves at an advantage while their competitors face challenges.

China – U.S. Trade Is 0.8% of Global Economy



Source: IMF World Economic Outlook, U.S. Census Bureau, FactSet. Data is for 2017.

- The U.S. currently engages in very moderate trade with China when compared to the size of the global economy. While market sentiment is likely to be affected by proposed tariffs, history suggests the long-term outcome might not support the current negative rhetoric. We believe global economic growth and public company earnings in aggregate should not be meaningfully impacted.
- In the past, tariffs and trade restrictions have tended to exert limited influence on the economy. For instance, U.S. GDP growth accelerated as the economy emerged from recession during President Bush's 2002-2003 steel tariffs. Companies were able to exercise supply chain flexibility and identify new sources of materials.
- Tariffs, however, often create change that results in winners and losers. The Chicken Tax of 1963, primarily a tax on light trucks imported into the U.S., hurt the business of international auto manufacturers while it helped drive American companies to dominate in the pickup trucks category.[1]
- Portfolio managers and analysts who undertake rigorous research can potentially identify the companies that benefit from developments in international trade.

[1] The Chicken Tax was President Lyndon B. Johnson's 1963 response to tariffs France and West Germany passed on U.S. chicken sold to Europe. Originally it was a 25% tariff on potato starch, dextrin, brandy and light trucks. Over time the tariffs on potato starch, dextrin and brandy were lifted but the light truck tax remained.

Inspired by Change, Driven by Growth.