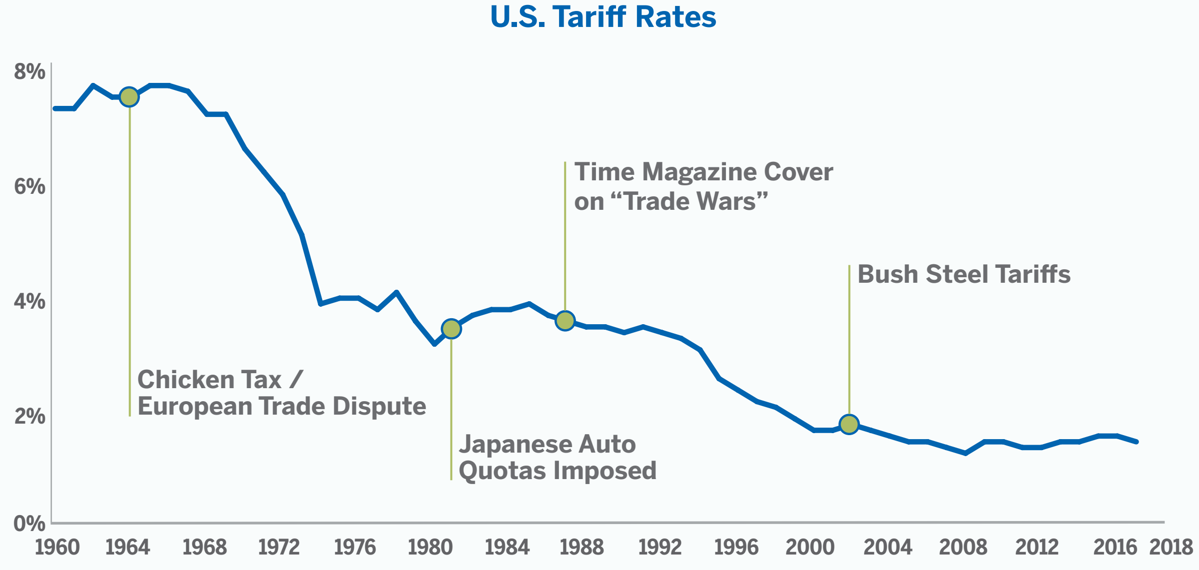
ALGER

Alger On the Money

A Trend Too Strong to Ignore?

Various periods in history have been marked by fears of trade wars. Indeed, the cover of Time magazine on October 7, 1985, depicts Uncle Sam with arms outstretched as if to stop free trade dead in its tracks, amidst the caption, "Trade Wars." However, before and since that period, and for much of history, tariffs have declined as the world becomes more interconnected.



Source: U.S. International Trade Commission and Alger. Tariffs are calculated as duties collected divided by total imports.

- As the chart above shows, duties collected as a percentage of imports declined from 4% in 1987 to under 2% in 2017, which indicates that global governments tend to favor free trade.
- Yet there is likely to be more pain before mutually agreeable settlements can be made. As the fear of rising tariffs increases, investors may want to look to areas of the stock market that may be more insulated. Small cap stocks, for example, have outperformed large cap stocks by several hundred basis points this year, likely due to their more domestic focus (the Russell 2000 derives only 21% of its revenue from outside of the U.S. while the S&P 500's proportion is nearly double at 39%).
- In addition, certain industries may be less susceptible to trade issues than others. U.S. internet stocks have already been largely shut out of markets such as China and may thus be less affected by trade issues, while foreign governments may be more likely to target agriculture companies. This may create an attractive opportunity for active managers who can carefully select investments among the winners and losers.

Inspired by Change, Driven by Growth.

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