Economic Chart of the Week

May 8, 2019

With this week's renewed U.S. tariff threats against China, investors are rightly focused on the direct economic risks to the United States, China, and Asia. But what about the risks to the Eurozone? As shown in this week's chart, a combined 21.5% of the Eurozone's merchandise exports were sent to the United States and China last year. That means that if either President Trump or President Xi miscalculates and an all-out trade war ensues, weaker U.S. and Chinese demand could put a large share of the Eurozone's exports at risk.

Another notable aspect of the chart is that the United Kingdom is the Eurozone's second-largest export destination, which means the region also faces a significant risk from continued uncertainty about Brexit or a messy UK withdrawal from the EU. In sum, at least one-third of the Eurozone's goods exports are currently under a cloud. In our view, that goes far toward explaining why the region's economic growth slowed so much in the second half of 2018. We're now watching closely to see if the apparent rebound in the Eurozone's growth in early 2019 might be short-circuited by the renewed threats. More broadly, we think the new trade tensions and market volatility this week have validated our recent investment strategy, in which we haven't tried to "chase" the first-quarter rebound in stocks and other riskier assets but have instead maintained the modest under-exposure to risk that we started to implement last summer.

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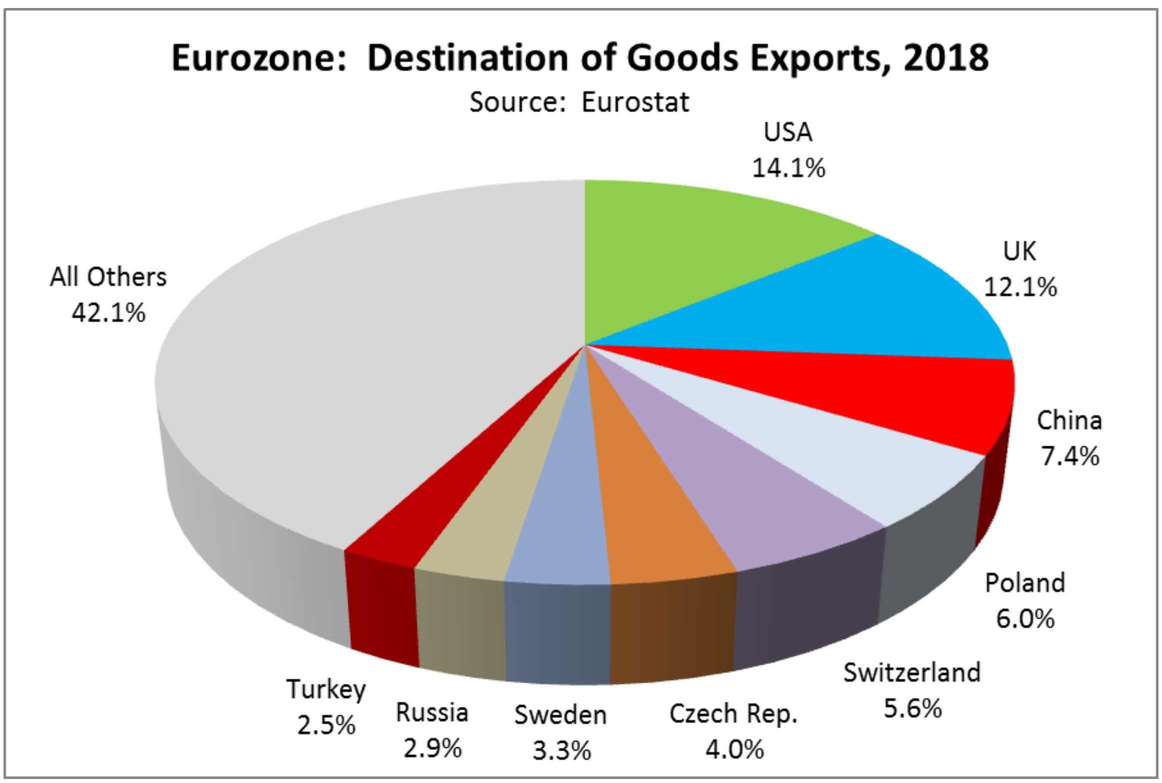

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