

MARKET SIGHT LINES



Finding Some Balance Abroad: U.S. – China Relations and Ukraine War

By Michael O'Keefe, *Chief Investment Officer*



We've been writing about [finding balance](#) in several areas. This includes various domestic [issues](#) like the midterms, inflation, Federal Reserve (Fed) policy, and market volatility. In this week's SightLines, we provide a brief update on some areas of geopolitics that have risked moving in the wrong direction and creating imbalances here and abroad.

THE TAKEAWAY: TENSIONS HAVE BEEN INCREASING, BUT WE'VE SEEN MODEST, POSITIVE MOVES RECENTLY WITH CHINA AND RUSSIA

Russia destabilized world energy and food markets through its tragic invasion of Ukraine. The U.S. has attempted to deter China's technological progress by imposing export bans on the technology, software, and equipment used in producing semiconductors and named China as the "most consequential and systemic challenge" to U.S. national security. China completed its Communist Party congress, from which President Xi Jinping emerged with more power after securing a third term. The G20 Summit provided an opportunity for positive progress:

- The G20 Summit was held in Bali under the theme "Recover Together, Recover Stronger."
- Ukraine President Volodymyr Zelensky detailed a 10-point peace plan to end Russia's invasion, with some signals of international support.
- President Biden met in person with President Xi for the first time since taking office, setting the stage for future negotiations in the near term.

Progress with geopolitical issues lessens the risk that a geopolitical issue or event will risk our ability to find balance on a host of domestic issues.

IN-DEPTH: SOME HOPE FOR U.S.-CHINA NEGOTIATIONS AND UKRAINE PEACE TALKS

The G20 Summit was an opportunity for both formal and informal global discussions:

- Summit meetings formally addressed several important global topics:
 - Food and energy security, with a focus on the Russia-Ukraine war and healing food supply chains;
 - Climate and biodiversity, reaffirming a commitment to implement the Paris Agreement;
 - Health, focusing on pandemic recovery and future pandemic preparedness/prevention; and
 - Digital transformation, encouraging international collaboration to further develop digital skills and digital literacy, especially for women, girls, and people in vulnerable situations.

- Ukraine President Zelensky detailed a 10-point peace plan to end Russia's invasion of Ukraine.
 - The plan addressed nuclear safety, food security, a tribunal for alleged Russian war crimes, and a final peace treaty with Moscow.
 - Notably, Zelensky's plan excluded any territorial concessions by Ukraine, a starkly different stance from March 2022, when Ukraine was willing to establish a 15-year timeline for negotiations on the status of Crimea.
 - In a press conference, Russian Foreign Minister Sergei Lavrov mentioned the “unrealistic and inadequate” terms in Ukraine's proposal.
- Zelensky called on G20 leaders for support, including (1) making Russia “abandon nuclear threats” and (2) establishing a price cap on energy imported from Russia.
 - President Xi reiterated China's support of peace talks to end the war.
 - Reports surfaced that the U.S. is encouraging Ukraine leaders to negotiate with Russia.
 - The stage may be set for further peace talks.
- President Biden and President Xi met to discuss bilateral tensions.
 - Each agreed to reopen communications, setting the stage to negotiate on numerous issues without conflict. U.S. Secretary of State Blinken will visit China as an important step.
- Potential areas of focus include Taiwan, technology, and human rights.
 - Key differences remain, particularly over technological development and competition China human rights practices in Xinjiang, Tibet, and Hong Kong.
 - There remains the opportunity to settle cross-trade issues in Taiwan peacefully.
- Both the U.S. and China expressed openness to a world order including the two countries.
 - Biden said, “We are going to stay fully engaged in the world.”
 - Hua Chunying, a foreign ministry spokesperson with Xi in his Biden meeting, tweeted, "The world is big enough for the two countries to develop themselves and prosper together."

CONCLUSION

We have been discussing [finding balance](#), with a primary focus on [domestic issues](#). But the G20 Summit in Bali allowed world leaders to meet, sometimes informally, to work through some geopolitical issues to lessen the chances that a geopolitical issue or event will risk our ability to find balance with these domestic issues.

Michael P. O’Keeffe, CFA 

Chief Investment Officer

michael.okeeffe@stifel.com

www.stifelinsights.com

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

1122.5197044.1