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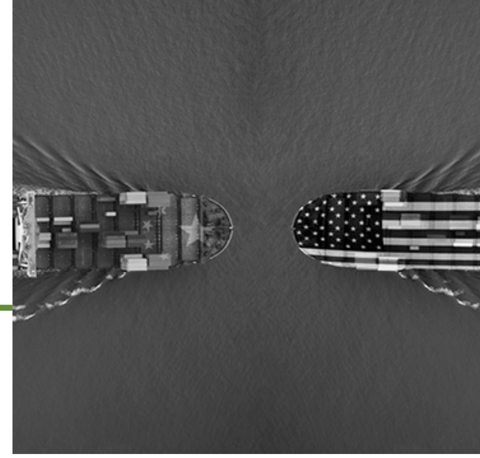
MARKET SIGHT*LINES*



The Tariff Pause Highlights How Trump's Trade War Is Much About U.S.-China Competition

By Michael O'Keeffe, *Chief Investment Officer*

On Wednesday, the Trump administration announced a 90-day pause on some tariffs, and markets experienced a relief rally. That said, we should expect market volatility to continue as we navigate the unknowns of trade negotiations over the next 90 days. And, importantly, the administration left some tariffs in place, including the massive tariffs on China. Since his first administration and before, President Trump has been clear that he believes China is acting unfairly and to the disadvantage of U.S. companies. In this week's Sight|Lines, we review how the tariff pause brings into greater focus how the trade war is very much about U.S.-China competition.

THE TAKEAWAY: A PAUSE PROVIDES SOME RELIEF, BUT U.S.-CHINA COMPETITION WILL BE IN FOCUS

While the Trump administration's tariff efforts are intended to reset global trade, the effort is very much about U.S.-China competition. In summary:

- The 90-day pause to implement the administration's "reciprocal" tariffs didn't include China and several other notable areas.
- Equity markets experienced relief, earning back a decent amount of the losses since "Liberation Day" but remain lower compared to the peak in February.
- The market decline began as the U.S. processed China's DeepSeek AI launch in February and met to discuss trade policy changes with China.
- We highlighted U.S.-China competition and the potential for a trade reset in our Outlook 2025 article [Crossroads: Four Ways Forward](#).
- As the U.S. and China remain locked in a decades-long competition for global leadership, this rivalry will shape not only their bilateral relations, but also the global order.
- As we considered scenarios, we identified four driving forces of change, including global trade.
- China joined the World Trade Organization in 2001 and is now the world's largest exporter.
- The U.S. is focused on supply chain vulnerabilities and China's unfair trade practices and ongoing intellectual property theft, which will influence bilateral negotiations.
- China has worked hard to build relationships globally, which the U.S. will consider in other bilateral negotiations, being tougher on China's friends and allies.

IN-DEPTH: WHILE THE TARIFF PAUSE PROVIDES SOME RELIEF, U.S.-CHINA COMPETITION WILL DRIVE TRADE POLICY GOING FORWARD

The Trump administration seeks to reset global trade through tariffs and negotiation, with a strong focus on how to improve the U.S.'s position in U.S.-China competition. Going deeper:

- The 90-day pause didn't include China and several other notable tariffs:
  - Tariffs on Chinese imports were raised to 125% instead of being paused.
  - Other tariffs not paused include the 10% baseline tariff, those on steel, aluminum, and auto imports, and those in place with Canada and Mexico.
- Equity markets experienced relief from the tariff pause:
  - On Wednesday the S&P 500 gained 9.5%, and the Nasdaq was up 12.2%.
  - For the S&P 500, this represents 69% of the decline since "Liberation Day" and 42% of the decline since the high in February.
  - On Thursday, markets gave back some of these gains.
- The market decline began on February 19, as the U.S. considered China's DeepSeek and other issues:
  - That day, the United States Trade Representative (USTR) held a public hearing as part of a review focused on identifying trade barriers related to intellectual property rights in foreign markets, aiming to address issues that hinder U.S. exports and innovation.
- Our Outlook 2025 article Crossroads: Four Ways Forward discussed U.S.-China Competition:
  - The U.S. and China are competing for leadership, shaping bilateral relations and global order.
  - As we considered scenarios, we identified four driving forces (innovation, global trade, domestic policy, and foreign policy) that will be critical in determining each nation's future.
  - Global trade acts as a bargaining chip, and the U.S. remains the most attractive trading partner to the world due to its vast consumer-based economy. Since joining the World Trade Organization in 2001, China has focused on being increasingly relevant in the world economy and has become the world's largest exporter.
  - The U.S. is focused on supply chain vulnerabilities, China's unfair trade practices, and ongoing intellectual property theft, which will influence bilateral negotiations.
- China has worked hard to build relationships globally with things like its Belt and Road Initiative:
  - All of this will be considered by the U.S. in its negotiations with China.
  - But, importantly, China's relations with other countries will influence U.S. negotiations with these countries in an attempt to influence relations back to favor the U.S.

CONCLUSION

Wednesday's 90-day tariff pause was welcomed by investors, providing some relief and market recovery. While we should expect continued market volatility, the actions have brought further into focus how much U.S.-China competition is playing a role in the Trump administration's efforts to reset trade policy globally. China has been working hard for decades to build relations around the world, and U.S. officials will use its bilateral negotiations with China and others to reverse some of that progress to the advantage of the U.S.

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