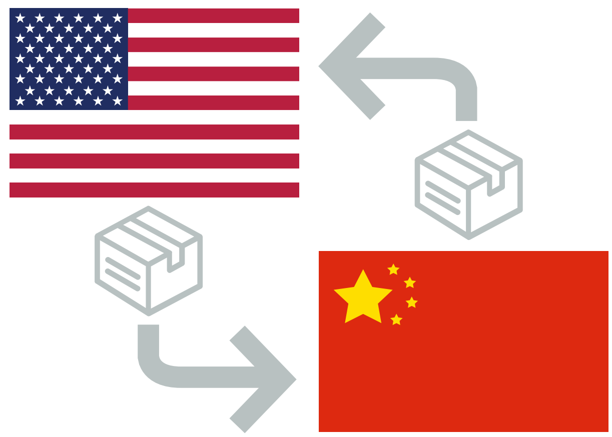
TARIFFS AND TRADE: Don't Panic

CARILLON TOWER ADVISERS

Trade war volatility has markets on edge. Here's what you need to know:

U.S.-China trade war – how we got here

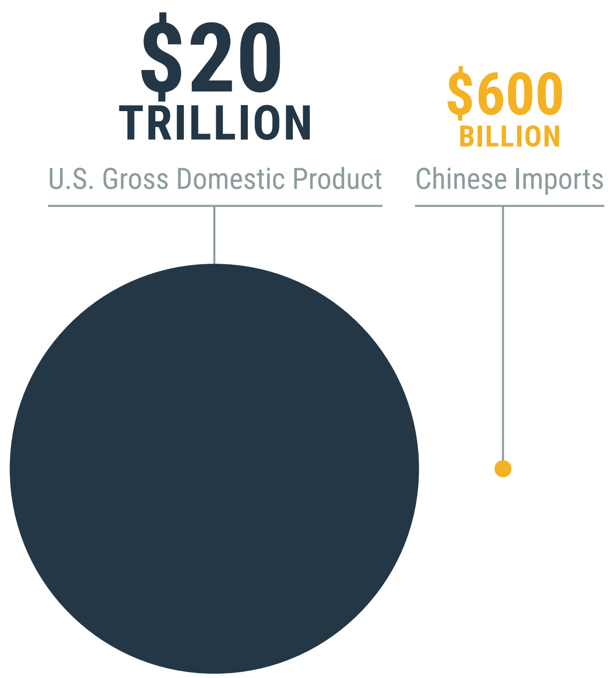
The United States and China – the world's largest economies – are in the midst of a trade war that affects the entire global financial system. In May, the Trump Administration increased tariffs on $200 billion in Chinese goods from 10 percent to 25 percent. Since then, China has reneged on promises to buy U.S. goods and devalued its currency. President Trump threatened more tariffs on Chinese consumer goods, rolled back his threats, then threatened even more tariffs. By the time you read this sentence, the situation may have shifted again. The trade conflict is extremely fluid, and a simple resolution is unlikely. Businesses are concerned about their supply chains and capital investments, investors worry about volatility, and consumers fret about the price of iPhones.



Putting panic in perspective is important

The U.S. economy is enormous with a $20 trillion gross domestic product (GDP). Chinese imports were less than $600 billion of U.S. GDP in 2017 – that's less than 0.03 percent.[1]

"Even if President Trump imposes more tariffs, it won't move the needle as much as many people fear," says Abe Sheikh, Chief Investment Officer and Portfolio Manager at Cougar Global Investments, an affiliate of Carillon Tower Advisers. "We probably won't see goods explode in price, or a spike in inflation, just because of tariffs – a new iPhone might cost more, but a lot of the increased costs are supply-chain-based."



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> —Abe Sheikh, FSA MAAA, Chief Investment Officer, Cougar Global Investments

Consumer confidence is a key component of the U.S. economy

There are still concerns about tariffs affecting that confidence, whether they technically move the needle or not. "New tariffs on consumer goods would effectively be a tax on the consumer," says Matt Orton, Vice President and Portfolio Specialist at Carillon Tower Advisers. "The consumer has been incredibly resilient over the past 18 months and critical in keeping the economy afloat. However, the uncertainty around the potential tariff impact and noise around future economic data points has the potential to weigh on markets near-term."

Who might pay more?

Technology is one of the sectors with the most exposure to China, meaning an iPhone or another fancy piece of tech may cost more if tariffs on consumer goods go into effect.

Manufacturers that use Chinese steel are having to rethink their supply chains, and some are delaying capital investment.

America's farmers worry that China has stopped buying their products, notably corn, soybeans and pork.

Businesses across sectors could see disruption to their supply chains as they try to find another way to get Chinese-made components for their products. It is likely, but not certain, that they may pass higher costs to consumers.

When will markets stabilize?

Markets have reacted sharply to the trade war. Businesses and investors are on edge. Those feelings matter because market reaction often comes from **sentiment rather than data**. If business and consumer confidence are down, that can affect the markets just as much as corporate earnings.

"Fundamental tailwinds remain intact," Orton says. "Earnings growth again came in above expectations in the second quarter of 2019, and accommodative Fed policy continues to make equities look attractive."

The U.S. Federal Reserve cited trade tensions, which have greatly affected corporate and consumer confidence, as one of the reasons it cut interest rates by 25 basis points at the end of July. The market is pricing in at least one more rate cut in 2019 as the Fed continues to buttress economic growth.

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What investors can do

In the midst of uncertainty, it is important for investors to do a few simple things:

- ☑ **Make a long-term plan** with your advisor. Don't let the Dow's daily drops scare you.
- ☑ **Communicate** with your advisor.
- ☑ **Seek out an active manager** who can be nimble in changing circumstances
- ☑ **Focus on the fundamentals:** High-quality companies are better equipped to survive volatile markets.

The world is not ending – yet

Despite many hysterical headlines, including one containing the actual phrase "the end of the world as we know it,"[2] the world is (probably) not coming to an end. The interconnectedness of the global economy means any friction between its two largest players will affect basically everyone; however, it is not clear exactly how or to what extent.

It is important for investors to focus on a long-term investment strategy and not make snap judgments out of fear.

About Carillon Tower Advisers

Carillon Tower Advisers is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates – ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. Carillon Tower Advisers believes providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

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Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, technology, retail, entertainment and consumer goods. The index represents approximately 23.8% of the US market, and is price weighted (component weightings are affected by changes in the stocks' prices).

Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Indexes are unmanaged. It is not possible to invest directly in an index.

Stock markets, especially non-U.S. markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

The securities of smaller, less well-known companies can be more volatile than those of larger companies.

[1]Source: World Bank

[2]Source: CNBC.com, "Latest US-China tensions could be the trade version of 'the end of the world as we know it'" by Jeff Cox. Published August 6, 2019.

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880 Carillon Parkway | St. Petersburg, FL 33716 | CTA19-0388 Exp. 9/1/2020

Carillon Tower Advisers, Inc. is the investment advisor.