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Thoughts on Potential China Trade War and Its Impact to Tech; Trump's First Shot Across the Bow; What is the Response?

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This afternoon the Trump administration will announce tariffs on $50 billion of Chinese imports including technology and telecom products and a myriad of other consumer items. With these tariffs aimed at the long standing intellectual property thefts that China is cited for under Section 301, the US and Trump will now launch its first "shot across the bow" today in a potential trade war with China now on the horizon. While this could be another chess move to eventually get China to the bargaining table over the next 6 to 12 months around IP theft, trade deficit, and other areas of fixing bilateral relations, in the near-term this launches a "worrywart" period for the Street around what the retaliation and actions from China will look like and ultimately how this could negatively impact US tech names in particular. To this point, we strongly believe this ultimately will have minimal financial impact to Apple, FANG, and other tech names (Intel) despite retaliation worries in our opinion. For Cook & Co given the tightly woven integration between Apple and Foxconn in China, we believe there is minimal risk to this relationship, cost increases, and backlash to Apple selling its iPhone devices within China (domestic competition remains a lingering worry), which is a key market opportunity for Apple over the coming years. We continue to strongly believe that given the primarily services nature of traditional FANG names and very internationally distributed from a revenue perspective, that Facebook, Amazon, Netflix, and Google/Alphabet are "primarily insulated" from tariff worries and a potential retaliatory trade war with China. While in a draconian scenario depending on how far the potential China/US trade war goes there could be some crosshairs that negatively impact Amazon on the e-commerce front (input prices on sale thru items), although these would be negligible with a 1%-2% maximum increase in costs on some items and not a concern at all in our opinion.

Fort Sumter moment. Today's move, coupled by the recent Broadcom situation does elevate the IP battle between the two countries and adds risks to tech names given the lingering uncertainty, however we continue to believe these confluences of events will not significantly fundamentally impact the broader tech universe and the future M&A landscape, albeit becoming a bit more complex moving ahead. The Broadcom/Qualcomm deal getting shut down by the Trump administration could be a “Fort Sumter” event around the game changing 5G technology battle royale between the US and China over the coming years, although we view this as an isolated 5G driven national security situation rather than the start of a broader China/US IP battle despite tough talk. While this will be a “hand holding period” for tech investors as the China tariff details become better known and gauging China’s reaction/actions, which could weigh on tech stocks in the near-term given the uncertainty, ultimately we see minimal impact on these tech names despite growing worries on the Street. The China tariff situation and the Facebook Cambridge fiasco has been the “1-2 punch of bad news” for tech investors this week with these lingering clouds likely hovering over the tech space in the near-term. That said, we would be buyers of Apple/FANG brethren on these China trade war worries/weakness, as we believe the underlying fundamentals, healthy consumer and IT spending environment, and repatriation tailwinds should be the trifecta to drive further multiple/earnings expansion over the next 6 to 12 months despite many bears yelling fire in a crowded theater today on the impending Trump China tariff announcement.

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