Dueling Views on U.S. Trade Effect

Tucked away on page 18 of yesterday's Wall Street Journal were two contrasting letters to the editor on the topic of trade. Normally, opinion pieces have limited value, but in this case, the two authors were U.S. trade representative Peter Navarro and the President and CEO of Insteel Industries, the nation's largest manufacturer of steel reinforcing products for concrete construction applications.

Navarro argues that “China, not the American consumer is bearing the burden of the tariffs by slashing its prices and devaluing its currency, while the U.S. steel industry is thriving behind the Trump tariff shield.”

However, in the trenches, Insteel CEO H.O. Woltz is experiencing a very different scenario. The steel products CEO indicated that as a result of tariffs on hot-rolled steel, offshore producers have simply shifted their production to downstream (more finished) products, thereby avoiding the raw material tariff altogether. In contrast, domestic producers are reducing hours and watching revenues tumble along with the price of steel (down 35% since July 2018). According to Woltz, U.S. steel mills have experienced the weakest demand in recent memory, and “U.S. steel purchasers and manufacturers are redefining survival-mode tactics as they determine whether they can wait out the surge of imports.” He goes on to say that “the ultimately uncertainty is being unsure whether your industry will exist in 2020 or 2021.” This hardly sounds like a company that’s thriving.

Industrial giant U.S. Steel has also felt the pinch of the ongoing trade war and slowing global demand. Recent layoff announcements at the Great Lakes Works and East Chicago Tin facilities have raised concerns about industry health and the company's future. The 118-year old company had ramped up production last spring after tariffs were announced in anticipation of stronger demand, but that demand never materialized. Net earnings for the quarter ending June 30, 2019 were $68 million, down from $214 million a year ago. The stock price of U.S. Steel has plunged from a recent high of $46 in early March of 2018 to a low of $10.34 two weeks ago. The latest round of encouraging trade chatter has boosted the stock price to around $13.

The reason why it’s important to understand the impact tariffs are actually having on domestic producers is that presumably there will be increasing pressure (on both sides) to get a deal done. The equity markets are currently riding a wave of optimism. A trade announcement would validate the hopeful outlook.
Market Indications as of 1:00 P.M. Central Time

DOW Up 131 to 27,268 (HIGH: 27,359)
NASDAQ Up 48 to 8,217 (HIGH 8,330)
S&P 500 Up 18 to 3,019 (HIGH 3,026)
1-Yr T-bill current yield 1.82%; opening yield 1.79%
2-Yr T-note current yield 1.72%; opening yield 1.68%
5-Yr T-note current yield 1.64%; opening yield 1.60%
10-Yr T-note current yield 1.78%; opening yield 1.74%
30-Yr T-bond current yield 2.26%; opening yield 2.22%

This paper/commentary was prepared by Hilltop Securities (HTS) and Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of this document and may differ from the views of other divisions/Departments of HTS or HSAM. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management, LLC is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800.