

Cracks Appear in U.S. Trade Leverage

Just days before President Trump's April 2nd "Liberation Day" in which reciprocal tariffs are expected to be announced on all U.S. trading partners, three Asian powers are pushing back. Chinese state media announced yesterday that China, Japan, and South Korea will conduct speedy negotiations toward a trilateral free-trade agreement and will strengthen dialogue on supply-chain cooperation and export controls. According to the post, Japan and South Korea are hoping to import semiconductor raw materials from China, while China is interested in importing chip products from Japan and South Korea. Although a South Korean trade minister told *The Wall Street Journal* that the Chinese social-media post had "some exaggerated aspects" and Japan denied any agreement had been reached, progress has clearly been made over the past few days.

The three countries, representing the third, fourth and sixth largest trading partners of the U.S., began discussions on a trilateral free-trade agreement in 2012, but had made no substantial advancement up to this point. This past weekend's meeting of the Chinese, Japanese and South Korean trade ministers was the first in five years and seemed to be a coordinated response to President Trump's escalating trade threats. Asian auto manufacturers are among the largest exporters to the U.S., with South Korea and Japan behind only Mexico in vehicles exported to the states. Last week's announcement of 25% tariffs on all finished cars, trucks and vehicle parts would have a significant negative impact on the two ally nations.

The ramifications of the talks extend well beyond the three countries as trade ministers will also seek to strengthen the recently created Regional Comprehensive Economic Partnership (RCEP), which includes 15 Asia-Pacific countries aimed at lowering trade barriers. The bottom line is that foreign countries aren't easily bullied and are quickly chipping away at any trade leverage the U.S. believes it has. Although a global trade war is expected to benefit no one, it's increasingly clear that our historical trade partners are rapidly forging new alliances that could prove detrimental to the U.S. economy going forward.

Market Indications as of 10:37 A.M. Central Time

DOW	Up 41 to 42,042 (HIGH: 45,014)
NASDAQ	Up 119 to 17,418 (HIGH: 20,174)
S&P 500	Up 21 to 5,633 (HIGH: 6,144)
1-Yr T-bill	current yield 4.01%; opening yield 4.01%
2-Yr T-note	current yield 3.86%; opening yield 3.89%
3-Yr T-note	current yield 3.84%; opening yield 3.87%
5-Yr T-note	current yield 3.90%; opening yield 3.95%
10-Yr T-note	current yield 4.15%; opening yield 4.21%
30-Yr T-bond	current yield 4.52%; opening yield 4.58%

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Although a global trade war is expected to benefit no one, it's increasingly clear that our historical trade partners are rapidly forging new alliances that could prove detrimental to the U.S. economy going forward.

The paper/commentary was prepared by 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 the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. 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 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 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.