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WEEK IN REVIEW
TRADE CONFLICT INTENSIFIES FOR US AND CHINA

Review of the week ended June 22, 2018

- **Tariffs on Chinese imports threatened by Trump**
- **Fed chairman: Strong case for more rate hikes**
- **German automakers push for an end EU-US auto tariffs**
- **May wins Brexit parliamentary battle**
- **US banks pass Fed's stress tests**

The S&P 500 SPX added 0.2%, or 5.12 points, to close at 2,754,88. Eight of 11 sectors finished higher, led by a 2.2% rise in the energy sector, a move that tracked a sharp rally in crude-oil prices.

The Nasdaq Composite Index COMP closed down 20.13, or 0.3%, at 7,692.82.

All three benchmarks finished off their best levels of the day in the final minutes of trade. Friday's trading also marked the annual reconstitution of the Russell Indexes, where the index provider makes rule-based changes to composition of its indexes.

For the week, the Dow closed off 2%, marking its largest weekly decline since March 23, and its second straight weekly fall. The S&P 500 lost 0.9% over that frame and the Nasdaq booked a weekly drop of 0.3%, ending its streak of weekly gains at four straight.

US threaten additional $200 billion in tariffs against China

The Trump administration threatened to implement an additional $200 billion in tariffs on Chinese imports if China retaliates as a result of the $250 billion in tariffs it has already proposed. The first group of tariffs on China are scheduled to come into effect on 6 July, leaving the two countries only two weeks to negotiate a deal. If all the $450 billion in proposed US tariffs come into force, China will not be able to retaliate directly since it imported only $130 billion of US goods in 2017 – they would have to charge other non-tariff remedies, such as increased regulation of US multinational companies operating in China or allowing its currency to depreciate. Late in the week, it was reported that Chinese officials had reached out to their US partners in an attempt to calm the brewing trading war.

Meanwhile, the European Union announced retaliatory tariffs on $3.2 billion in US exports, including such items as bourbon, motorcycles and cranberries.

Fed chairman says more rate hikes needed

US Federal Reserve chairman Jerome Powell told an annual gathering of central bankers in Sintra, Portugal, that the case for a continued gradual rise in interest rates is strong, pointing to a low unemployment rate and inflation that is approaching the Fed's target. Powell also said that while asset prices are high by historical standards, he does not see broad signs of excessive borrowing. Banks, he observed, have greater levels of capital and liquidity today than they did before the financial crisis. Powell's host in Sintra, Mario Draghi, said that the European Central Bank is progressively concerned about trade wars. The ECB president, who reiterated last week's dovish guidance on interest rates, noted that factors that have been holding back wage growth are slowly fading, setting the stage for healthier levels of inflation going forward.

German automakers push for level playing field

German automakers have projected that the US and the European Union scrap all tariffs on auto imports. The EU now levies a 10% tariff on auto imports from the US, while the US charges a 2.5% duty on autos imported from the EU. European automakers are trying to avoid a 25% tariff on European auto imports proposed by the Trump administration.

May wins Brexit legislative battle

British prime minister Theresa May won a narrow victory to pass the EU Withdrawal Bill, giving members of the House of Commons a meaningful vote on the terms of any agreement between the United Kingdom and the EU over the UK's departure. With only nine months remaining before Britain is scheduled to leave the EU, no agreement has been reached on how to deal with the border between the Republic of Ireland and Northern Ireland, the EU's only land perimeter with the UK.

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US banks pass first leg of Fed stress tests

All 35 large banks subject to the Fed's stress test passed the first, quantitative, phase of the yearly examination. The Fed is expected to disclose the results of the qualitative percentage of the exam next week. Banks must pass the stress tests in order to be able to return capital to shareholders through dividends and share buybacks.

MAJOR STOCK MOVES

Shares of Exxon Mobil Corp. XOM closed 2.1% higher, while shares of Chevron Corp. CVX gained 2.1%. Both were among the biggest gainers on the Dow. Occidental Petroleum Corp. OXY rose 1.5%, Halliburton Co. HAL added 2.9% and Marathon Oil Corp. MRO surged 7.8%.

Shares in Red Hat Inc. RHT fell more than 14% a day after the software company gave a softer-than-anticipated quarterly outlook.

BlackBerry Ltd. BB reported adjusted first-quarter earnings that topped expectations, though revenue fell short of analyst forecasts. U.S.-listed shares sank 8.7%.

Shares in used-car seller CarMax Inc. KMX gained 13% after it reported first-quarter earnings that topped expectations.

All of the banks tested by the Federal Reserve met the regulatory minimums for capital after being checked for the impact of a severe recession, the central bank announced Thursday. The Financial Select Sector SPDR Fund XLF lost 0.5%.

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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Jun 25	United States	New home sales
Wed, Jun 27	United States	Durable goods orders
Thu, Jun 28	Eurozone	European Council summit
Thu, Jun 28	Eurozone	Economic sentiment index
Thu, Jun 28	United States	Gross domestic product
Fri, Jun 29	Japan	Industrial production, CPI, unemployment
Fri, Jun 29	United Kingdom	GDP
Fri, Jun 29	Eurozone	CPI
Fri, Jun 29	United States	Personal income/spending, core PCE price index

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