

Author



**K. Sean Clark, CFA®**  
EVP, Chief Investment Officer

Navigate  
Your Future.  
Enjoy the  
Journey.

## From Fed Rate Cuts to Additional Tariffs

### Fed Cuts Rates and Confuses Markets

In its July meeting, the FOMC reduced the fed funds target by 25 basis points to a new range of 2.00% to 2.25% as expected. The Fed also ended the balance sheet runoff two months earlier than planned and kept its options open about future rate cuts. The Fed's statement justified the rate cut based on "global developments" and "muted inflation." The statement also noted that "uncertainties remain," core and overall inflation are "running below 2%," and that the FOMC was "contemplating" a future rate cut.

However, in the post-meeting press conference, Fed Chairman Powell didn't inspire a lot of confidence and alluded to the fact that the Fed wasn't committed to a series of rate cuts. In his statement, Powell mentioned that the Fed was viewing this cut as a "mid-cycle adjustment to policy." With this comment, Powell confounded the market, which was looking for more rate cuts than it appears the Fed is willing to give.

In our Mid-Year Market Outlook, we mentioned that the Fed's pivot to a more dovish bias was complete and that the market was discounting 100 basis points of rate cuts over the next 12-months. We also expressed our view that the Fed would cut rates, but in our opinion, believed that the market's expectation was too aggressive, and that there was a better than even chance that the market would be disappointed. If the initial reaction to the cut and press conference is any indication, the market is in fact underwhelmed by the Fed's actions.

In a typical rate cut cycle, the Fed normally cuts rates for the second time about one month after the first. Therefore, a second rate cut at the next scheduled FOMC meeting on September 18th would be consistent with historical precedence. With this in mind, the market is currently pricing in a 92% chance of a rate cut at the next FOMC meeting.

### Adding on Tariffs

The day after the Fed cut rates, President Trump momentarily diverted his attention away from feuding with the Fed and turned to China. In a tweet, President Trump announced a new 10% tariff on \$300 billion in Chinese goods that aren't yet subject to levies starting on September 1st.

In the tweet, Trump criticized China for not following through on purchasing additional agricultural products or stopping fentanyl shipments. This new round of tariffs will be in addition to the \$250 billion of Chinese goods that already have a 25% tariff imposed and escalate current tensions following the conclusion of unproductive talks between the U.S. and China. If history is any guide, we believe this escalation may only get more heated.

*Past performance is not indicative of future results.  
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*



Trump tweeted earlier this week that China "does not come through," and was making a mistake in delaying negotiations until after the election, as they are hoping that a newly elected Democratic president would provide more favorable terms. China also believes that prolonged negotiations will increase political pressure on Trump, which would eventually force him to reduce his demands. Trump's decision to threaten additional tariffs suggests he is trying to force China to negotiate and not wait him out.

We do find the timing of the tariff announcement interest-

ing, with President Trump's tweets occurring the day after the Federal Reserve's decision to reduce interest rates. Fed Chairman Powell has cited trade uncertainty as an economic headwind and Trump's latest move could be interpreted as an attempt to ensure that the Federal Reserve reduces interest rates further in September (and possibly by more than a quarter of a point) if they believe these additional tariffs will go into effect. The tariff announcement also comes a day after the 2020 Democratic debates concluded — it seems clear that Trump believes that running against China is a winning political strategy on multiple fronts.

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations,

objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. There is no assurance that any securities, sectors or industries discussed herein will be included in an account's portfolio. Asset allocation will vary and the samples shown may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-500