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Wealth managers take wait-and-see approach to tariffs

By Tom Henderson

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Wealth managers always have issues of the day to ponder when making investment decisions for their clients.

Seven or eight years ago, the big concern was: Will there be a double-dip recession? Then it was how troubled were the once-favored economies of the so-called BRIC countries of Brazil, Russia, India and China? Then, would Great Britain vote to leave the European Union? Followed by: What will happen now that the vote for Brexit passed?

Wealth managers offer likes, dislikes, insights

Sixteen wealth managers talk about what investments they currently like and don't like, and offer up their insights. Here's what they had to say.

Last year, the question on everyone's mind was the near-term impact of the Donald Trump presidency. How big would infrastructure spending be, and what industries would benefit? How would corporate tax cuts and the anticipated reduction in capital gains affect corporate spending and investment decisions on behalf of business owners and executives?

This year, area wealth managers are having one overarching conversation: Tariffs. For wealth managers, there is a range of possible impact, from almost negligible to catastrophic, and what the impact will be depends on decisions that will primarily be made by a single person, Trump, whom Congress has allowed so far to impose whatever tariffs he wants.

Of the 16 wealth managers interviewed by *Crain's*, a few said they supported modest tariffs, or at least the threat of them as a negotiating tactic, to get China to end its long practice of unfairly appropriating intellectual property from U.S. firms as a form of blackmail for allowing them access to a huge market.

But most were opposed to tariffs on principle.

There was unanimous agreement that a full-blown trade war likely will be avoided; that even modest tariffs will slow down what had been a robust global economy; a recession likely will be avoided for now; and that it is too early to make major investment decisions on behalf of clients because of the saber-rattling in Washington and Beijing.

Helping calm fears of an all-out war was the surprise appearance in the White House Rose Garden on July 25 by Trump and European Commission President Jean-Claude Juncker, who announced that they had agreed to hold off on proposed auto tariffs and work to settle tariff disputes on steel and aluminum while pursuing a bilateral trade deal.

Peter Sorrentino, chief investment officer at Comerica Bank, supports Trump's efforts to get Europe to reduce its trade barriers and to get China to stop taking advantage of companies that want to enter its market.

"The administration takes the view that if you're going to have fair and open trade, let's have it, although things may have got a little ham-handed. There are going to be some beneficiaries and some victims," he said.

"I think that if tariffs are going to be considered, now is a good time," said Scott Bork, senior vice president and director of investments at Chemical Bank in Midland. "The economy is going well. If the issue is going to be addressed, now is the time."

Melissa Spickler, managing director of Merrill Lynch's Spickler Wealth Management Group in Bloomfield Hills, is sharply critical of Trump's early tariffs. "The tax cuts were good for corporations, but as good as they were, tariffs are bad, rebalancing those gains. Tariffs took the steam out of these companies' engines. But it doesn't change how I invest. Every year there's something. You have to learn how to mitigate the risk."

"GDP just came out and it was at 4.1 percent, the strongest growth in four years. It reinforces what we've been saying: The economy is strong. The U.S. has a lot to lose in a tit-for-tat trade war," said Aubrey Lee Jr., sales manager of Merrill Lynch's Aubrey Lee Jr. and Julius Readus Group in Farmington Hills. "At best, it would be a terrible drag on growth. At worse, it would lead the economy into recession. We aren't doing anything to react to tariffs, yet, but stay tuned."

Leon LaBrecque, CEO of Troy-based LJPR LLC, says tariffs come "at a time of great headwinds. A survey in June by the Michigan Association of CPAs showed that capital expenditures were up and hiring was up, and then the tweeter-in-chief gives us all this talk on tariffs. Tariffs are a regressive tax. They hit poor people the hardest. I don't think anyone can explain the policy."

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LaBrecque says everyone knows a recession is coming after this long bull market. He said the corporate tax cuts are basically dueling with tariffs to see what happens with the economy. "We have three or four quarters left of the bull market if the tax cuts win. If tariffs win, we can get a recession sooner."

One added problem, he says, is the Federal Reserve wants to get interest rates high enough over the next year so that when a recession hits, they'll be able to start reducing rates to spur economic activity. But if tariffs lead to a slowdown, the Fed won't be able to raise rates high enough to later use rate cuts as a tool.

"Tariffs are front and center these days, but at the end of the day I don't think they will have a major impact," said Mike Dzialo, president and chief investment officer of Managed Asset Portfolios LLC in Rochester. He said that tariffs on steel and aluminum are particularly misguided. "Tariffs aren't going to bring steel jobs back to Pittsburgh. The industry is automated. There is a steel plant in Austria that makes 500,000 tons of steel a year, and it employs 14 people in manufacturing."

Dzialo is an exception to his local peers in that he said he has already made one investment decision based at least in part on tariffs and the likely response by China.

"We've bought Grain Corp. in Australia. Poor growing conditions are finally improving in Australia, and we like it because Australia is close to China and farmers there will benefit as China reduces farm imports from the U.S.," he said.

John Augustine, chief investment officer for the Columbus, Ohio-based Huntington Private Bank, said the implementation of tariffs to help American trade and eventually boost the U.S. economy comes at a time of particularly good economic data. "Exports rose 9 percent in the second quarter, and cap-ex spending by American companies has been pretty robust," he said, referring to capital expenditures by companies investing part of their tax breaks into their own businesses.

He said one reason for optimism regarding U.S.-China talks is that while the U.S. markets have so far shrugged off tariff threats, with the S&P 500 continuing to rise modestly, the Chinese stock market is down 16 percent this year, with investors there seemingly more worried about the effects of a trade war. "But our equity team is cautious about the auto sector and the impact of tariffs there."

"At first, I thought all this about tariffs was just going to be a shoving match. It was like the old Soviet days, where mutually assured destruction kept things from going too far. But it's got more intense and to the point where it's affecting profit margins," said David Sowerby, managing director and portfolio manager in the

Bloomfield Hills office of Cleveland-based Ancora Advisers LLC, who thinks the tariffs are misguided. "They're nothing more than a tax on consumers."

"It's certainly going to influence investment decisions, but it's too early to try to trade on tariff news, now," said Jim Robinson, CEO of Grosse Pointe-based Robinson Capital LLC. "My concern is there doesn't seem to be a plan for how it will all play out. I think talk will continue to the midterms. It's red meat for the base. But if you're farming soybeans, you're screwed now."

"I wouldn't be surprised if September comes and tariff talk calms down. I don't think Trump wants a trade war," said Peter Schwartz, a principal in Bloomfield Hills-based Gregory J. Schwartz & Co.

"We don't feel it's the strategic policy of the U.S. to go to full-blown tariffs," said Howard Margolis, senior vice president and Midwest market leader in Southfield for Citizens Bank Private Wealth Management. "We always focus on outcome and not noise, and the issue of tariffs is more noise."

Anne McIntyre, president and CEO of Annie Mac Financial LLC in Sterling Heights, takes a sanguine view. "Keeping things in perspective, it's legitimate to see tariffs as a concern, but we've had tax cuts and increased federal spending that should offset any costs of tariffs and the Chinese reaction," she said. "The fundamentals of the economy are strong, it's not the time to panic. But tariffs are a bit of a gamble."

"Our view is obviously there is a lot of verbal jousting going on. How far will it be taken? There are certain parts of global trade that have been unfair, and we'd like to see that corrected, but if it goes too far, it could cause a global trade war," said Lyle Wolberg, a partner in Southfield-based Telemus Capital LLC.

Reuben Rashty, the head of private banking in Michigan for Fifth Third Bank, thinks the larger tariff threats between the U.S. and China likely won't amount to much. "Tariffs won't derail any economies. We believe both countries will come to a solution. And while tariffs are hard to implement, they are very easy to remove. It's just a flick of a button."

"There hasn't been much impact on GDP, yet, but if it grows to a full-blown trade war, there will be a significant impact. It that likely? I don't think anyone can tell," said Nancy Meconi, a partner in Auburn Hills-based Plante Moran Financial Advisors LLC.

"We hesitate to call it a trade war. We might get there, but I think they'll resolve it in some amicable way," said Kevin Granger, a senior vice president and senior investment adviser for PNC Bank in Troy. But even if tariffs remain relatively small, "there is going to be a slowdown in the global economy, and that isn't good."