

Alex Duffy: So this is clearly a very topical issue and rightly so because there's a huge amount of trade. You're dealing with China and the U.S. who each have around four point one trillion dollars of gross trade at an individual country level. So it's obviously a big driver and we, I do believe that we operate in a very globalised world with global supply chains and so the implications of any trade war and, are important, not just within China and the US, but also more broadly across EM if not globally. I think this rhetoric is going to remain with us. I don't have any particularly clear view as to when it's going to end or what the end game may look like. The key question is really what is the impact of tariffs on certain markets and therefore what does it mean for emerging market equities in terms of the fund that I manage.

And to answer that directly, specifically, when I look at China, I'm far less worried about the impact of a tariff on four or five hundred billion dollars worth of goods. I mean, ultimately, you've got a four point one trillion trade economy. Tariffs on 15 to 20 percent on four hundred billion isn't a huge delta in terms of the overall trade balance. Where it is far more relevant, however, is in terms of what it means for the currency, for the Chinese RMB.

And what has happened in China over the last few years has been that the current account is moved from a very strong surplus to a smaller surplus. And it's a country which historically has seen capital outflow. So it hasn't seen that in the last couple of years. But historically there has been a tendency for onshore capital to move offshore. And I think that if the trade wars start to reduce that current account surplus further and the economy continues to see a moderating growth rate, the tail risk is that that creates a risk of capital flight within China. Which will put pressure on the RMB. So if you then start to see devaluations of the Chinese RMB, that could filter through because obviously China is a big customer for the majority of the rest of emerging markets. And so that's one of the risk factors that I am focused on. I think that the Chinese policy makers have many tools at their disposal in order to enable them to mitigate some of those risks. But, that is the rickety risk factor I focus on with respect to US trade and China.

I mean, we mustn't forget that China is one of the world's, if not the world's largest holder of US dollars. Okay, so they've got significant foreign reserves. Chinese companies are incredibly innovative and they've sought to improve their competitive position. And so I think that, you combine the reserve position, the ability to use interest rates to help defend the currency, and the fact that you've got innovative companies with very strong return profiles in many industries, taken together those factors conceit to mitigate the impact of this volatility and some of the currency challenges that they're faced with. It's not to say that they can completely stop the tide of economics. And so if this becomes much more challenging, in terms of the rhetoric and the actual meaningful impact, than you will see some depreciation. And we have seen some depreciation of the RMB. The question of how far it goes remains open.