



Washington Policy Research

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We are increasingly moving into an era of de-globalization, with the US decoupling from China and encouraging its allies to do the same. We believe this is setting up a new type of Cold War, one that we expect to play out particularly in the Technology sector over the coming years.

Strategas Washington Research

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COLD WAR 2.0 IS A TECH WAR

Decoupling from China. At the Beijing Winter Olympics in February, Vladimir Putin and Xi Jinping vowed to change the world order. We believe that this was their way of saying that Russia and China will challenge Western governments. China has been looking to gain dominance over the US in terms of global influence, economic might, and technological know-how. As a result, the US is increasingly of the view that it needs to counter China's influence around the world and take active steps to prevent US-made technology from contributing to China's technological advancements. In addition, the US is concerned that China will move to reunify Taiwan with the mainland, which could set in motion a much larger global struggle and threaten the West's access to semiconductors (Taiwan produces 65% of the world's supply). As such, the US is changing its long-standing policies of globalization and supply chain efficiency to de-globalization and supply chain resiliency. We are seeing signs of this process accelerating as firms increasingly move their supply chains out of China.

US actions to limit China's tech access. During both the Trump and Biden Administrations, the US has begun to take actions to limit China's access to US technology to address intellectual property theft and national security concerns.

2018: Congress/Trump enact Committee on Foreign Investment in the United States (CFIUS) reform

2019: Trump puts Huawei on a restricted trade blacklist

2020: Huawei export ban expanded to foreign companies using US technology

Aug. 2022: Congress/Biden enact CHIPS & Science Act to support domestic R&D, manufacturing of semiconductors

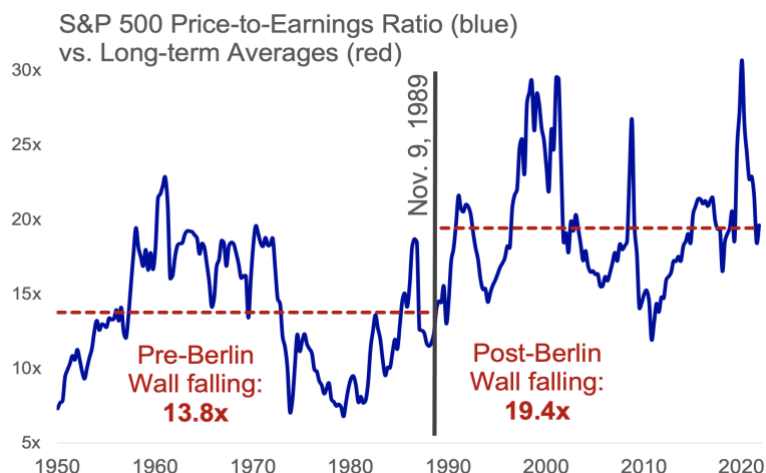
Aug. 2022: Biden bars Nvidia and AMD from exporting certain AI chips to China

Sept. 2022: Biden issues exec. order for CFIUS to consider additional national security factors in its review process

Sept. 2022: Biden bans export of KLA, Lam Research, and Applied Materials' chipmaking equipment to China

Ongoing: Outbound CFIUS screening tool under consideration in Congress

Implications for US investors. The fall of the Berlin Wall accelerated the pace of globalization, which lowered inflation and interest rates. Price-to-earnings ratios on stocks subsequently increased. US policy is now moving in the opposite direction, albeit slowly, which, over time, is likely to result in slightly higher inflation (3% or so), slightly higher interest rates, and lower price-to-earnings ratios on stocks. In this environment, we expect Value to outperform Growth. We also expect US policy to focus on domestic manufacturing and "friend-shoring" to protect the supply chains of the US and its allies. This trajectory has been accelerating over the past two presidential administrations, and, therefore, we find it unlikely that a future president (regardless of party) will reverse it.



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