

POLICY SPOTLIGHT

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Steel Tariffs & US Steel(X)

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POLICY SPOTLIGHT

EventShares was built on the investment philosophy that policy is an untapped asset class. In Policy Spotlight, we breakdown current policies and their potential impact on company fundamentals and investment returns.

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Steel Tariffs & US Steel

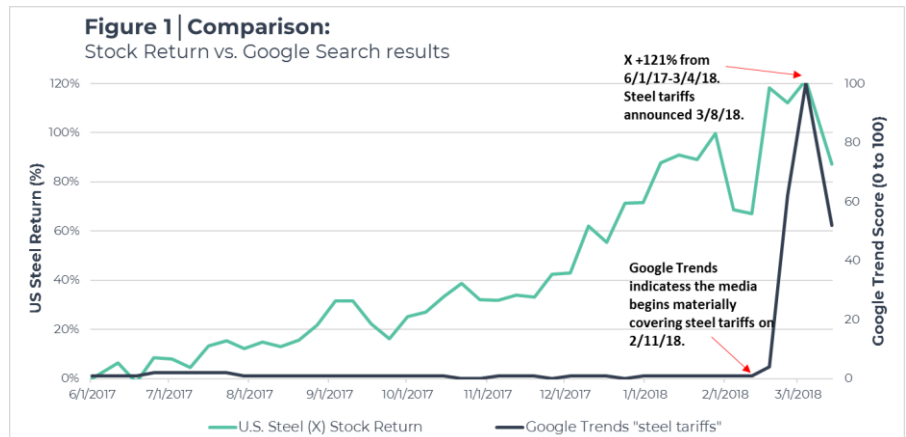
This week we highlight the timeline leading up to the Trump administration's decision to levy steel tariffs.

Company: US Steel

Ticker: X

Policy: Section 232 tariffs ordered by the Trump administration after US Department of Commerce makes tariff recommendations due to national security reasons

Period: April 20, 2017 (Trump administration requests Section 232 steel study) – March 8, 2018 (Steel tariffs announced)



Executive Summary:

On March 8, the Trump administration imposed a 25% tariff on steel imports. **The tariff resulted from a Section 232 study performed by the US Department of Commerce.** Section 232 of the Trade Expansion Act grants the President broad powers to adjust imports, including the use of tariffs, if excessive imports are found to be a threat to US national security.

President Trump initiated the Section 232 study of steel on April 20, 2017, alleging steel imports threaten American economic security and military preparedness.

Company Implications:

U.S. Steel (Ticker: X) is a US integrated steel producer headquartered in Pittsburgh, PA, with production operations in the United States, Canada, and Central Europe. As of 2016, X was the 24th largest steel producer globally and second largest US producer. As the second largest domestic producer, tariffs offer the potential for X to garner market share due to its relatively lower priced product.

As shown in the chart in Figure 1, the majority of the tariff related return occurred after the announcement of the steel study but before the tariffs were imposed. We believe investors can outperform the broader market and identify investment opportunities if they follow policy developments. This may allow them to buy mispriced securities, such as X, before the market understands the policy impact.

Policy Investing Implications:

The Trump administration approach to trade was well-telegraphed during the 2016 election and throughout the first year of Trump's presidency.

How could an investor spot the pending tariff? Like most actions taken in Washington DC, the entire process was made available to the public through reports and government hearings. Trump initiated the study on April 20, 2017, and a public hearing on the matter was held on May 24, 2017. But that wasn't the first indication of Trump's protectionist tilt. Candidate Trump campaigned heavily on a platform of protecting and supporting US manufacturing activity. Peter Navarro and Steve Bannon, both considered protectionists, were associated with the Trump campaign and influenced its platform. The Trump administration also initiated a study on solar panels in April 2017 and imposed tariffs in January 2018. We believe all these signs confirmed the investment opportunity.

We often compare the policy investing mindset to value investing. While policy investors buy more than just value stocks, both investing styles require investors to understand company fundamentals and practice patience while a trading opportunity ripens. In the case of steel tariffs, the Google Trends chart in Figure 1 shows how the **media only began to highlight steel tariffs a month before they were imposed. By then, most of the performance was realized** as investors were gradually purchasing X. We encourage investors to use overlooked policy information, such as the potential for steel tariffs, to gain an informational advantage.



About EventShares

EventShares is a boutique asset manager located in New York City that is focused on the impacts created by legislation, regulation, and fiscal policy. The firm is founded on the belief that policy is a powerful leading indicator and catalyst for companies.

EventShares offers numerous educational resources to help investors connect the worlds of Washington, D.C., and the stock market.

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