APPENDIX

Table 1: Summary of Trade War Impact Across Global Credit Sectors

Sector Category	Degree of Trade Vulnerability	Key Observations
Aerospace & Defense	Medium	In the US, the increased cost of individual parts could have a significant negative impact on the industry's global competitiveness. In Europe, Brexit is a bigger uncertainty given strong links between the UK's and Europe's defense industries; companies like Airbus could benefit from US-China tensions by capturing more orders and more market share in China versus Boeing.
Agriculture	High	Grains, specifically soybeans, have been specifically targeted which will negatively impact the demand and price for these goods. China has been the largest importer of US soybeans, with $3.1 billion worth bought in 2018. Other agricultural products exported to China in high amounts include cotton ($924 million), hides and skins ($607 million), pork and pork products ($571 million) and coarse grains ($530 million). Agricultural companies impacted by trade tensions include Cargill and Archer-Daniels.
Auto & Related	High	The decision by the US in May to delay levying tariffs on European auto imports for 180 days was a welcome reprieve for the sector, but trade war risk still remains a significant concern for both OEMs and suppliers as evidenced by the latest tariff threat against Mexico. We would emphasize that tariffs of any meaningful size or consequence would result in a significant indirect tax on consumers that has the potential to upend the existing auto sales cycle by reducing overall demand, raising unemployment rates in this sector, and threatening future investment in advanced engine technologies (hybrid/electric) and autonomous capabilities. This is especially so for Europe and for names such as Daimler which is materially exposed to a tariff war. As it relates to Mexico, approximately 14% of all US light vehicles sold in FY 2018 came from Mexico with an estimated value of $52.6 billion. In addition, the US imports $59.4 billion worth of automotive parts from Mexico. On a relative basis, we believe General Motors has the most Mexico exposure among the domestic OEMs. Within the automotive supplier base, we believe the names most likely to be affected include American Axle, Delphi and Lear among others.
Banks	Low	The direct impact of tariffs and a potential US/China trade war would be negative, but the impact would likely be limited and manageable over the near term. The indirect, second-round effects of weaker economic growth or lower rates for longer could lead to slightly lower earnings, smaller net interest margins and somewhat higher credit losses. European banks would likely have a larger impact than US banks given that trade is more important to overall economic growth in Europe than in the US.
Capital Goods	High	Chinese tariffs target aircraft and certain classes of SUVs, passenger cars and off-road vehicles. Agricultural tariffs and sensitivity to China construction/mining demand will continue to weigh on companies such as Caterpillar and Deere. Overall, more than 1,200 companies have applied for exemptions from tariffs for products they said they could access only from China. Through early May 2019, approximately 13% of requests had been granted.
Chemicals	Low	This industry is a specific target of the Chinese retaliatory tariffs (mainly polyethylene). We assume tariffs would be passed down the supply chain and expect the main effect of tariffs to be a swapping of trade patterns; longer-term effects would be through indirect second-round effects as trade patterns, prices and inventories adjust.
Consumer Products & Apparel	High	After apparel and footwear emerged relatively unscathed from the first round of tariffs, it appears that we are heading to a scenario where a 25% tariff may be applied to all Chinese imports. In consumer products, the potential headwind will be diverse across the space. Many have begun minimizing the impact by pushing for price concessions with Chinese suppliers, re-tooling products and shifting production out of China.
Energy	Low	Initially, what may be lost in terms of demand would be compensated for by the supply side tension; second-order effects would be negative for the industry; US oil exports to China had been increasing over the past years given relative competitive pricing. An all-out trade war could upset the trend with cargoes likely displaced to another region; WTI discount to Brent would increase to facilitate the trade flow.
Food & Beverage	High	Credit quality will continue to decline across the sector as margins are pressured from rising input costs coupled with a lack of pricing flexibility with the end consumer.

Source: Western Asset. As of 31 May 19

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Table 1: Summary of Trade War Impact Across Global Credit Sectors, *continued from previous page*

Sector Category	Degree of Trade Vulnerability	Key Observations
Gaming	Medium	Most operators have geographically contained portfolios throughout the US, and as such would be limitedly impacted unless the skirmish ends up pushing unemployment levels higher. That stated, there are several global operators (Las Vegas Sands, Wynn, etc.) that have significant exposure in Macau, and would likely feel a much larger impact, particularly in the event China implements protectionist measures, which we believe has a low probability but remains a tail risk nonetheless.
Metals & Mining	Low	Copper remains the focus; sentiment is more guarded, but the supply side characteristics (and current tighter balance) keep this in check. Longer term, second-order effects would be negative; the remainder of the commodities complex has been adversely impacted from growing uncertainty over trade war effects and demand destruction which has manifested itself in lower prices. We continue to believe fundamentals remain intact (for now).
Pharmaceuticals	Low	Most of the products related to pharmaceutical companies are active pharmaceutical ingredients (APIs), which could impact some generic companies, but we believe the impact would be limited overall as manufacturers can access ingredients from other API manufacturers (e.g., India, Eastern Europe, etc.). China is not a major supplier to the US of finished dosages of pharmaceuticals. Select medical device companies could be at greater risk from these tariffs if there is manufacturing concentration in China.
Retailing	Medium	The tariffs on Chinese imports create another headwind for US retailers, which intend to pass along most, but not all, of the higher product costs. European impact is limited as retailers have no US exposure.
Technology	High	This is a major area of contention. US technology firms are the most negatively impacted, given their long complex supply chains with significant Chinese exposure. In Europe, software players appear relatively insulated; hardware and semiconductor sectors are more exposed to "second-degree" impact, (e.g. Infineon, STM's role in the European automobile supply chain).
Telecommunications & Media	Medium	Risk for domestic telecommunications companies is limited. Content revenue streams and cost structures are insulated as content owners do not generate much from China; US media studios are likely to face tariffs and restrictions on distribution in China (one of the few industries where the US has a trade surplus); minimal impact in Europe as risks center on domestic competition, regulatory environment and M&A.
Transportation	High	The new tariffs may accelerate the re-evaluation of sourcing decisions that should lead to lower freight charges. The highly cyclical shipping industry has significant operating leverage, but currently margins are low due to excess capacity and rising fuel costs.
Utilities	Low	Utilities are largely a domestic concern and primarily insulated from the impact of tariffs and trade wars; tariffs on industrial machinery may add to costs but are not considered material.

Source: Western Asset. As of 31 May 19