

Even optimists are giving up hope of a quick resolution to the US-China trade war

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Daniel Acker | Bloomberg | Getty Images

Soybeans are harvested with a Deere & Co. combine harvester in this aerial photograph taken above Tiskilwa, Illinois.

Investors and economists for months have clung to the hope that rational self-interest would ultimately bring a negotiated end to the United States-[China](#) trade war, perhaps even ahead of the [U.S. midterm congressional elections](#) next month.

But such optimism is increasingly seen as misplaced as more experts are now bracing for a protracted conflict — with little optimism for resolution.

"When it comes to trade we're starting to get to the point where people are pricing in the worst," Patrik Schowitz, global strategist at J.P. Morgan Asset Management, said Monday on CNBC's "Squawk Box."

"There is quite a lot of talk now that this is going to be a permanent new situation, that we are heading for a new cold war," Schowitz added. "So I think people are starting to price in the worst possible outcome."

Yves Bonzon, chief investment officer at Julius Baer said the private bank had believed that the threat to profits at U.S. companies listed on the S&P 500 from intensifying trade tensions would be enough to bring about a truce.

"So this is why, from the beginning, we expected the U.S. administration to back off at some point, claim some concession from China," Zurich-based Bonzon told reporters in Hong Kong last week.

But, he admitted, that scenario is not playing out.

"I think we've probably been a bit slow to adjust to that new reality that this is not going away," he said, citing the growing realization that U.S. President [Donald Trump's](#) administration is determined in its efforts to "rebalance" the country's relationship with China.

Indeed, the prospect of a protracted fight that is likely to drain economic and investment energy for much of next year, at least, is gaining ground.

'A denial factor'

Haibin Zhu, chief China economist at J.P. Morgan, said the bank's baseline scenario is for the U.S. to impose tariffs on all Chinese imports.

That means "real painful economic events in 2019," he said at a conference last week in Hong Kong.

With the transformation into a "full-scale trade war, (the) impact will be much bigger," Zhu said, adding that it could shave about one percentage point off of China's economic growth.

Inwha Huh, executive vice president and global head of structured trade solutions at HSBC, said during the same conference, meanwhile, that companies have been too complacent about the risks.

"There's been a denial factor in the market," Huh said during a panel discussion.

Julius Baer's Bonzon said that a resolution ahead of the Nov. 6 U.S. elections is unrealistic and the outlook beyond is unclear.

He said that the bank is now taking the "pragmatic view" that Trump will ultimately win re-election and his trade stance will remain in place well into the next decade.

"Most likely, we're going to have a continuation of the current policies," he said.

Agustin Carstens, general manager of the Bank for International Settlements in Basel, Switzerland and a former governor of Mexico's central bank, said the global financial community is united in the view that the U.S. and China must find a solution.

"I think that those two countries, they have been made aware of what is at stake," Carstens told CNBC on Monday, referring to the just-concluded [International](#)

[Monetary Fund and World Bank](#) meeting in Bali, which he attended and where he said participants urged the world's two largest economies to make progress.