

From the desk of the CIO
Brad Campbell, CLU, ChFC, MStax, CFP®, CFA®
Executive VP | Chief Investment Officer



Summary

In keeping this note short, and probably not so sweet, given recent market volatility, we'll keep this fairly high level. Frankly, there is a lot of data that needs to be tallied and reported before anything in particular can be made out of this week's pull back from the standpoint of business cycle analysis and gaging probabilities of the next recession. In short, the rhetoric surrounding trade negotiations with China is moving markets. Last week it was upward and this week is in the wrong direction.

Weekend Woes

This past weekend, a war of hyperbolic words between President Trump and Chinese leader, Xi Jinping, led to the cancellation of weekend plans for the U.S. and Chinese staffers to meet ahead of the upcoming G20 Summit in Argentina. It is typical for staffers to draft preliminary outlines ahead of in-person meetings between leaders to formally finalize the agreement. However, in this case both parties will arrive at the summit of the world's largest twenty economies without such a document. You may be aware of the incident over the weekend where Chinese officials barged into the office of the Papua New Guinea foreign minister to demand certain wording be altered in a planned statement released later that day at the Asia-Pacific Economic Cooperation summit in Port Moresby. The incident came right after Vice President, Mike Pence, representing the United States at the conference, gave a speech where he indicated that President Trump was willing to more than double the tariffs planned for implementation on January 1st of the new year. These dynamics caused CNN to report a statement by Craig Allen, president of the US-China Business Council, where he commented, "The level of uncertainty is unprecedented. The probability of coming to, if you will, a clean, comprehensive agreement has declined considerably."

As we've noted in prior writings, and during in person conversations with clients, trade and tariffs used as a negotiating stick have caused a likely slow-down in global growth and have certainly injected uncertainty into the economic equation just when corporations were beginning to show some confidence in their capital spending. This feels a bit like the days of debt ceiling crisis' that roiled markets several times over the years. Those situations were internal to the United States, involving a push and pull among members of our two party system, with a vote to extend the debt ceiling used as a bargaining chip. The question remains, will the U.S. and China reach an agreement on trade before the tariffs go into effect on January 1st right after the illuminated ball drops in Times Square in the heart of global capitalism? To support the notion that the trade war is the culprit for this week's market declines, let's turn the clock back to last week. Commerce Secretary Wilbur Ross rallied optimism over a trade deal, and avoidance of the impending tariffs, when he commented that negotiators would meet in Washington ahead of the G20 meeting. Right on cue, the stock market rallied nearly 2% after the October correction.

If I were a betting man, and I'm not (whenever I go to Vegas for a business conference I go mountain biking and golfing), I'd wager that if a trade deal is struck markets go higher into the end of the year. Markets are forward looking and when the data relied upon to make these forecasts is murky the worst-case scenario becomes the new base case.

We wish you and your families a Happy Thanksgiving this week and hopefully by the time our belts are a little tighter we'll have more clarity on trade and tariffs so we can act accordingly.

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