Weekly Market Summary

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It Is Official! Trump Calls the Chinese Leadership... Ivanka and Nordstrom Still Not Seeing Eye-to-Eye!

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Markets learned mid-week that US President Donald Trump had sent a note to his Chinese counterpart – Xi Jinping – in his first direct communication since he took office, saying he was seeking smoother ties. The US President also thanked Xi for a congratulatory letter and wished the Chinese people a happy Year of the Rooster, according to White House spokesman Sean Spicer. This morning, however, we got confirmation that Donald Trump reaffirmed the U.S.'s long-standing support for the 'One-China' policy in his first phone call as president with Chinese counterpart Xi Jinping. "The two leaders discussed numerous topics and President Trump agreed, at the request of President Xi, to honor our 'One-China' policy," the White House said in a statement Thursday. "*They also extended invitations to meet in their respective countries. President Trump and President Xi look forward to further talks with very successful outcomes*."

The One-China assurance may ease a key source of diplomatic tension between the world's two largest economies that emerged after Trump spoke by phone with Taiwanese President Tsai Ing-wen and subsequently questioned the policy. Trump is facing pressure to meet campaign pledges to get tough on China, which he previously accused of draining America of manufacturing jobs. The billionaire real estate developer has also promised to label China a currency manipulator, bring trade complaints against the nation and impose higher tariffs if it does not halt what he sees as unfair trading practices, raising the risk of a trade war that could hurt global growth. Additionally, Trump appointed well-known China hawk Peter Navarro as a trade adviser, while Secretary of State Rex Tillerson has said the U.S. should deny China access to artificial reefs it built in the South China Sea. China, in turn, has sought to maintain "*strategic composure*" in its response and avoid escalating tensions. Xi has formerly reached out to Trump three times since his election win, including two congratulatory messages. They had a phone conversation on November 14th, in which Xi said cooperation was "*the only correct choice*" for ties.

This latest rapprochement between the two world leaders, coupled with US strong economic data and Trump's announcement yesterday that a "*phenomenal*" tax plan will be released within the next 2 to 3 weeks to "*lower the overall tax burden on American businesses, big league*", has led to all three major US stock indices (Dow, S&P and Nasdaq) climbing to record highs and the US dollar staging a convincing rally against peers as markets put aside uncertainties about President Trump and Congress getting caught up trying to replace Obamacare as well as agreeing on immigration and national security issues.

Nevertheless, developing stories over the past few days have not all been rosy and bullish! First, there is this rethink – if not an outright reversal – by Goldman Sachs' economists, who fear that the positive shift in sentiment among investors, businesses, and consumers that immediately followed the US election last November, and led to a spike in equities and government bond yields, had more to do with market participants giving a higher probability to tax cuts, easier regulation and new fiscal stimulus – compared to that of meaningful restrictions to trade and immigration. "*One month into the year, the balance of risks is somewhat less positive in our view*", Goldman's Alec Phillips noted. Phillips now cites three key reasons for this new, more cautious, tone:

1- Obamacare struggle is a sign of things to come, with Republicans' uphill efforts to replacing the Affordable Care Act soon proving to be the norm rather than an exception. For investors expecting that the Republican-controlled Congress would be able to push through a sweeping agenda including tax reform and fiscal stimulus, this may prove disappointing.

2- Polarization of political parties is getting worse: Trump's executive order barring nationals from seven predominately Muslim countries sparked a backlash in Washington and has done little to heal the rift between Republicans and Democrats, making the prospect of cross-party cooperation even more remote (overnight a federal appeals court unanimously refused to reinstate President trump’s ban on travel from those designated countries, issuing a sharp rebuke in a ruling likely destined for the US Supreme Court)

3- There is a real possibility of market disruption: Trump's focus on immigration and trade may prove more than disappointing for Wall Street and Corporate America; it could prove downright disruptive. "Some of the recent administrative actions by the Trump Administration serve as a reminder that the president is likely to follow through on campaign promises on trade and immigration, some of which could be disruptive for financial markets and the real economy", according to Phillips.

And then there are the usual, frequently recurring, European minor glitches and major complications!! Take for example Greece, where bonds sharply fell this week and yields on two-year notes rose 66 bps to 10.03%, the highest in 9 months. A quarrel between the IMF, the government in Athens and European creditors about the terms attached to Greece’s latest bailout has raised renewed concern about the country’s place in the currency bloc. Whilst an eventual agreement is the most likely scenario, the Greek government appears divided: The Finance Ministry seems to support a quick deal, but other parties are resisting and arguing that Greece could get a better deal if the looming elections yield a major negative surprise that could spook the European leaders and force them to soften their position (hopefully not a repeat of uncertainties that plagued financial markets throughout 2015 !). This morning, we learned that Greece’s creditors may present the government of Alexis Tsipras with a framework of measures required for completing the nation’s stalled bailout review, as prolonged deadlock raises doubts about the country’s ability to repay debt due in July. It will include fiscal measures equal to about 2% of Greek gross domestic product, which would be triggered if Greece fails to meet the budget targets agreed under its latest bailout, one of the people familiar to the proposals said.

Add to that mounting risks associated with the outcome of France’s upcoming presidential election – the first round of which is due on April 23rd. There are undoubtedly good reasons for investor concern: If Marine Le Pen, head of the Front National, were to become the next French President, there would be far-reaching consequences beyond the country's borders. Her election manifesto not only contains radical measures to combat what she sees as the loss of control over the number of immigrants in France, which implies a massive reinforcement of the police and armed forces, but also contains several points which could not be implemented within the EU in its present form. One of her aims, for example, is to counter unfair competition from abroad via so-called intelligent protectionism, along the lines suggested by President Trump. Also, businesses would have to pay a fine for employing foreign staff, and a 3% duty on imported goods would be levied in order to finance a monthly boost to low-income households' purchasing power to the tune of € 80 per month. The logical approach for Le Pen is therefore to negotiate a radical overhaul of the EU to give France greater freedom to act. There would then be a national referendum on the outcome of negotiations. In the end, France might leave not only the Schengen area or the NATO Military Command, but also the EU and thus the currency union (Our news readers might want to start getting ready for the word “*FREXIT*”!).

Last, a quick word on my header reference to the Ivanka – Nordstrom backlash: President Trump lashed out on Wednesday at the Nordstrom department store chain for dropping his daughter Ivanka’s accessories and clothing line, once again raising ethical questions about the relationship between his presidency and his family’s extensive business interests. Six days after Nordstrom announced that, based on sales, it would no longer carry Ms. Trump’s products - a decision that prompted some Trump supporters to call for a boycott of the stores - the US President took to Twitter to complain about the matter. “*My daughter Ivanka has been treated so unfairly by @Nordstrom. She is a great person -- always pushing me to do the right thing! Terrible!*” Trump tweeted. He first posted the message from his personal account, and then re-sent it from his official White House account. Mr. Trump’s complaint also raised questions about how he might handle the moves of numerous other companies as their relationships with Trump brands change. The large national discount retailers T. J. Maxx and Marshalls, and Neiman Marcus, the luxury department store, for example, have recently taken steps to give less prominence to Mrs. Trump’s products.

But the story does not stop there; White House counselor Kellyanne Conway stepped in too overnight, giving a "*free commercial*" for Ivanka Trump's clothing line and raising questions as to whether she violated a federal rule that bars public officials from using their positions to promote private business interests! "*It's a wonderful line. I own some of it,*" Conway said during an interview on Fox News. "*I'm going to give it a free commercial here. Go buy it today everybody; you can find it online*." (*I always thought these absurdities only happen in third world countries! Silly me!*).

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