Weekly Market Summary

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Strong Economic Data on Both Sides (and I Mean Both Sides) ... Market Focus Is Elsewhere !
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In past weeks, economic data on both sides of the Atlantic has shown strength and resilience in the face of rising political/geopolitical pressures. After positive second-quarter growth readings showing the world economy rising at its most rapid pace in 2-1/2 years, the world economy looks well on its way to a year of faster and firmer growth. Even more encouraging this time around is the fact that expansion is broad-based, as long-time laggards Japan and the Euro area join the party. Global gross domestic product is projected to increase by 3.4% this year and 3.5% next year, based on a median forecast of economists surveyed by Bloomberg. Whilst that would be down from an estimated 4%-plus pace in the second quarter, it still represents a clear acceleration from last year's 3.1% advance. "*Recent data points to the broadest synchronised upswing the world economy has experienced in the last decade*," International Monetary Fund (IMF) chief economist Maurice Obstfeld wrote in a recent blog post. "*World trade growth has also picked up, with volumes projected to grow faster than global output in the next two years*."

The pickup has been paced by promising rebounds in Europe and Japan - two economies that until now had been seen as drags on the global economy. After years of lacklustre growth, the euro-area economy is starting to build momentum: The expansion accelerated to 0.6% in the second quarter (+2.2% YoY), and it is more evenly spread across the 19-nation region than in the past. In Japan, a 4% annualised surge in GDP in the same period put the nation in an unexpected spot, the top of the growth table among the Group of Seven industrial economies! "*The global economy is in better shape than it has been in several years*," Deutsche Bank chief international economist Torsten Slok recently noted. “*We just don't see what would be a trigger for a recession*." Torsten called it a "*Goldilocks*" scenario for stock market investors, with recovery solid enough to generate higher corporate profits but not so fast as to lead to a rapid pickup in inflation and interest rates. In the US, the longest expansion since 1850 has witnessed a temporary growth dip in the early part of this year but momentum has recently picked up and the economy is expected to grow above 2% this year and next, modestly above potential, supported by solid consumption growth and a rebound in investment. And despite wage indicators starting to show a modest acceleration as the labour market continues tightening, US CPI & PCE inflation is expected to remain contained in the next 12-18 months, before returning to the Federal Reserve’s medium-term target of 2%.

Yet, market performance during the past three weeks has been far less impressive: Stocks – as measured by the US Dow Jones Industrial Average, the German DAX or the Japanese Nikkei indices – are down (anywhere between 0.5% and 2.5%), whilst government bond yields trade 8-12 bps lower compared to levels witnessed in late July. Such lacklustre performance can only be explained by the market’s growing unease with the recent surge in political/geopolitical risks. That would include the below breaking news to name a few:

- **North Korean Inflammatory Rhetoric:** On Tuesday August 8th, US President Donald Trump issued an intense warning to North Korea, saying it "*best not make any more threats against the United States*" as that would "*be met with fire and fury unlike the world has ever seen*". Trump's fiery statement followed a Washington Post report citing a leaked US intelligence memo that acknowledged North Korea could make nuclear warheads small enough to fit on missiles, and that they may have 60 such devices. It also came days after the UN Security Council passed a hefty sanctions resolution on North Korea following its test of an intercontinental ballistic missile. North Korea’s state media responded directly to Trump’s threats, calling them “*absolute nonsense*” and adding that “*only absolute force can work on him*”. It also added that North Korea is "*seriously examining the plan for an enveloping strike at Guam through simultaneous fire of four Hwasong-12 intermediate-range strategic ballistic rockets in order to interdict the enemy forces on major military bases on Guam and to signal a crucial warning to the US*". Whilst tensions appeared to have calmed down in past week, military drills planned for tens of thousands of troops from the US, South Korea and several other countries – over the coming few weeks – could quickly reignite pressures on the Korean peninsula.

- **Trump's White House Mess:** "*No WH Chaos*!" and "*A great day at the White House*" were Donald Trump's tweets on July 31st and August 1st, reassuring precisely no one. Indeed, the last week of July / first week of August witnessed a series of high-profile departures (firings) from the Trump administration, providing the Saturday Night Live show (SNL) with plenty of material/substance for their funny political sketches and impersonations: It all started with Sean Spicer, the former WH press secretary, handing his resignation following the appointment of Anthony Scaramucci (the "Smooch" ☺) as White House communications director. That was soon followed by Reince Priebus – former White House Chief of Staff – officially leaving the Trump administration on July 28th evening, after submitting his resignation the day before (Priebus had consistently drawn criticism for failing to stem the flow of WH leaks). And last Anthony Scaramucci - Trump's 3rd communications director and only 10 days in office! – who "felt it was best to give the new Chief of Staff John Kelly a clean slate and the ability to build his own team" (according to WH press secretary Sarah Huckabee Sanders).

- **Deadly Events in Charlottessville:** Clashes broke last weekend at a while nationalist rally in Charlottesville, Virginia. One woman was killed and many more injured when a car, allegedly driven by a rally participant, sped into a crowd of anti-racism protesters. Two state troopers monitoring the action died in a helicopter crash later in the day. The event quickly took on enormous political importance as Democrats and Republicans alike denounced the violence and the white supremacist views promoted at the far-right rally. Trump spoke out in the immediate aftermath of the tragedy – but his speech attracted criticism for not being strong enough. The US President said: "*We condemn in the strongest possible terms this egregious display of hatred, bigotry and violence, on many sides. On many sides. It is going on for a long time in our country*". With unease amongst America's most prominent CEOs (Trump's Manufacturing Council & Policy Forum executives, who were previously eager to work with a new president promising to ease regulatory constraints and cut or simplify taxes) growing, it was just a matter of time before cracks emerge. Merck chief Frazier's resignation from Trump's manufacturing council on Monday 14th August marked the first crack in the councils after the bloody weekend in Charlottesville. Later that evening, Intel Corp. CEO Brian Krzanich and Under Armour Inc. chief Kevin Plank emerged to say that they too were stepping back. Trump had a Twitter outburst over Frazier's decision Tuesday morning, before a planned new conference, calling executives who quit "grandstanders," while claiming others were eager to sign on. Following Trump's defiant comments on Tuesday, General Electric Co.'s leadership decided the company wouldn't be associated with the council any longer, despite Chairman Jeffrey Immelt saying a day earlier that he would remain. With more corporate chieftains fleeing on Tuesday afternoon, President Donald Trump abruptly abolished two of his White House business councils on Wednesday; In a face-saving effort, he tweeted from Trump Tower in New York: "*Rather than putting pressure on the businesspeople of the Manufacturing Council & Strategy & Policy Forum, I am ending both. Thank you all*!"

Over the past 24 hours, financial markets have come under further pressure following terrorist attacks in Barcelona (so far claiming 14 innocent lives and scores of wounded civilians) that have added to unease about US policy paralysis and lingering tensions over North Korea. "*The terror attacks in the U.S. and Spain just add to all the other geopolitical mess,*" Simon Quijano-Evans, a strategist at London-based Legal & General Investment Management Ltd., said in a note to clients. "*At some stage that is likely to culminate into a more extreme market reaction.*" Still, other investors believe the latest equity selloff / bond market rally is temporary. Neither the terrorist attack in Spain nor political turmoil in the U.S. should create a trend, said Naoki Fujiwara, chief fund manager of Shinkin Asset Management Co. in Tokyo. "*Both the U.S. and Japanese economies are doing well, and what's most important is the direction of U.S. monetary policy*," Fujiwara said. "*As long as the fundamentals are steady, the market will recover*."

For my part, I can only hope that President Trump would soon take Dace Trott's advice into account. The Republican Congressman from Michigan tweeted the following on Wednesday: "*I think America needs more unity and less divisiveness…meaning Donald Trump should focus more on golf & have less press conferences.*" Maybe only then, market focus could shift back to those positive economic fundamentals ☺

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