Weekly Market Summary

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A Sense of Deja Vu?! Mediocrity Still Strongly Prevailing at the White House!!

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Over the past 24 hours, President Donald Trump followed through on his pledge to impose stiff tariffs on imported steel and aluminium, whilst excluding Canada and Mexico and leaving the door open to sparing other countries (*please pick Bahrain!*). At a meeting with workers from both industries on Thursday afternoon, the US president signed a proclamation authorizing the tariffs, namely a 25% duty on steel and 10% on aluminium, the same levels Trump promised when he revealed the plan initially on March 1st - after a Commerce Department investigation found that imports of the metals pose a risk to national security (those tariffs will take effect in 15 days). "*Today I'm defending America's national security by placing tariffs on foreign imports of steel and aluminium… Our factories were left to rot and to rust all over the place*," Trump said. The president also warned there would be more tariffs coming, saying he planned to proceed with what he has called "*reciprocal taxes*" on imports from countries that charge higher duties on U.S. goods than the U.S. now charges on their products. "*We're going to be doing a lot of that*," he added.

Fellow Republicans harshly criticized the measures, saying they would cost U.S. jobs, raise consumer prices and hit American manufacturers. Senator Jeff Flake of Arizona said the "*so-called 'flexible tariffs' are a marriage of two lethal poisons to economic growth --protectionism and uncertainty*." Senate Finance Committee Chairman Orrin Hatch of Utah said, "*Simply put: This is a tax hike on American manufacturers, workers and consumers*." "*I disagree with this action and fear its unintended consequences*," House Speaker Paul Ryan of Wisconsin noted in a statement. "*There are unquestionably bad trade practices by nations like China, but the better approach is targeted enforcement against those practices*."

Internationally, trading partners - including China and the European Union - threatened retaliation, triggering fears of a trade war. On Thursday, China's foreign minister, Wang Yi, vowed a strong response to any efforts to incite a trade war. Such a conflict "*will only harm everyone and China will surely make a justified and necessary response*," Wang noted. The EU has warned it would respond with its own 25% tariff on about $3.5 billion of American goods. The bloc is targeting iconic U.S. brands produced in key Republican states on a range of consumer, agricultural and steel products, according to a list drawn up by the European Commission. International Monetary Fund's Managing Director, Christine Lagarde, said no one wins in a trade battle and warned the proposed tariffs could have a serious negative economic impact. The message appears to have partially gotten through! Trump's decision to exclude Canada and Mexico from the duties, because of their status as key regional allies and partners with the U.S. in renegotiating a new North American Free Trade Agreement, is a step in the right direction. Additionally, any U.S. trade partner has now the option of asking to be excluded from the tariffs, a US official recently suggested, and allies could be excluded if they can demonstrate how the tariffs would damage their national security.

Exempting some nations marks a compromise from Trump's initial plan for across-the-board tariffs, very similar to the US president's previous policy reversals! After all, the list of Trump's flip-flops includes - but is not limited to - his contradictory views/actions on NATO, China as a currency manipulator, the Export-Import Bank, US intervention in Syria, James Coby's performance and firing, Health Care, immigration reforms and enforcement, special interests in governments ("Drain the Swamp" deceptions) and GOLFING !! On the latter, and as a candidate and public figure before he ran for the presidency, Trump argued repeatedly that President Barack Obama shouldn't play golf. "*I love golf, but if I were in the White House? I don't think I'd ever see Turnberry again, I don't think I'd ever see Doral again,*" he said in New Hampshire ahead of their primary. "*I'd just want to stay in the White House and work my ass off and make great deals…because I'm going to be working for you, I'm not going to have time to play golf. Believe me*," Trump told a Virginia crowd in August 2016 (*bla bla bla!*).

The latest casualty for this ever-recurring White House fiasco is Gary Cohn, the National Economic Council director who had announced his resignation on Tuesday (triggering a mini-stock selloff), after failing to persuade Trump against the tariffs. Cohn is a free-trade advocate (and an ex- senior GS!) who vociferously opposed Trump's plan, so his views were well-known. During Tuesday's trade policy meeting in the Oval Office, Trump asked for an update on the legal paperwork that will make the tariffs official and discussed the timing of the signing of the tariffs order. He then sought confirmation that everyone - and especially Cohn - was willing to stand behind him. According to one source with knowledge of the exchange, Trump specifically asked Cohn: "*We're all on the same team, right? He then asked if Cohn was going to support the president on the issue*". Cohn didn't answer, the people said. Just hours after that meeting, the White House announced Cohn was gone (the latest in a string of staff departures from the WH in recent weeks). Yesterday, whilst signing the tariffs decree, President Trump was all praises for Cohn! "*This is Gary's last meeting in the cabinet, and I must say he has been terrific….He is gonna go out now, make another couple 100 million, and he might then come back… I have a feeling he will come back*," Trump suggested.

Well, let me tell you who is coming back Mr. President: Stephanie Clifford (alias porn star Stormy Daniels), who accepted $130,000 under a confidentiality agreement struck with Trump's personal lawyer days before the 2016 presidential election following an alleged long affair with the business tycoon throughout 2006/2007, is now seeking a judge to void it. Because Trump didn't sign the deal - Clifford argues in a suit filed March 6th in Los Angeles – she should not be bound by its clause requiring disagreements to be settled in private arbitration.
As Stephen Colbert - a US comedian, television host and writer – puts it, "Ok, I know we're getting numb to the Trump presidency, it is a natural defence mechanism, but let those words sink for a second: A porn star is suing the US president!"

Friday's weekly market piece was so devoted to Trump's flip-flop decisions and erratic policies (there is a lot of personal joy covering that topic☺), that I lost track of the major US payroll data that was expected for later that afternoon. Below is a full update on the Friday payroll release:

Just when investors thought the days of strong growth and low inflation were gone, the latest US payroll figures revealed they are not, or at least not just yet! February data confirmed that the pick-up in wage inflation during January was short lived, with the 0.1% monthly advance taking the annual rate back to 2.6% - bang in line with the average seen over the past two years (and much lower than the previously prevailing 3.5% annual wage growth, whenever the labour market proves to be very solid). Meanwhile an eye-popping 313,000 gain in jobs, plus a rise in average working hours, suggests that the US economy is growing very strongly, despite some of the softness witnessed in some of the hard economic data recently. The strong gain in headline payrolls was accompanied by cumulative upward revisions totalling 54,000 to the prior two months. Of the jobs created in February, 100,000 came in goods-producing sectors, primarily construction (+61K) but also manufacturing as well (+31K).

The main culprit for a softer wage increase during February, however, was the return of more seasonal weather during the survey period. In January, more workers than normal were unable to work because of the weather - a fact that typically means lower-paid employees who don't have permanent contracts are not included in the aggregate earnings data. That artificially boosted January's figure, but meant we expected a softer number in February as those people were again counted. The 0.1% monthly increase, and 2.6% year-over-year pace, means that inflation no longer appears to be accelerating as fast as it did a month ago. The return of workers after weather-related absences in January also resulted in a strong gain in labour force participation (to 63.0% from 62.7%) and average hours (from an upwardly revised 34.4 to 34.5). Strong job gains, combined with the pick-up in average working hours, meant that aggregate hours rose by 0.6%, following a 0.1% drop in the prior month (aggregate hours is the numbers that matters for GDP calculations!).

Market Reaction: Contrasting messages from the wage and employment figures meant that the US$ and bond yields were little changed to slightly higher just after the release. Equities – on the other hand – rallied aggressively (especially in the last hour of trading). The Dow Jones Industrial Average, as well as the S&P and NASDAQ, closed up roughly 1.75% on the day. Oil prices surged in sympathy with stocks, buoyed by signs of strength in the US economy. Next week will be crucial for bond markets, with the release of key US data (namely CPI & Retail Sales, but also PPI, NAHB Housing Index, NY & Philly Fed surveys, …) and the auctioning of 3-, 10- & 30-year treasury bonds (in addition to short term T-bills).

Will 10-year US yields -- last traded at 2.895% on Friday evening – finally witness next week a break of the all-important 3.00% psychological resistance? I guess that we will all know better in few days!!

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