Weekly Market Summary

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A Strong Sense of Deja Vu! When Politics & Economic Matters Continue Being Driven by Total Ignoramuses

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Last week witnessed a comedy show in Congress! William Barr - the 85th US general attorney - had failed to show up to a hearing by the House Judiciary Committee on Thursday May 2nd, prompting Representative Steve Cohen - Democrat of Tennessee - to happily munched on Kentucky Fried Chicken whilst seated at the main stand and as press cameras clicked; The highest law enforcement officer in the country, Cohen said, was a gobbler (naïve and foolish person). "*What is he hiding under here?*" Representative David Cicilline, Democrat of Rhode Island, asked, miming confusion as he moved Barr's empty chair around. "*Just checking*."

A day before, the Republican-controlled Senate Judiciary Committee had provided a more friendly venue for Mr. Barr to take his first Congressional questions since the Mueller report was released, though it was by no means a tranquil session. Democrats had pressed Mr. Barr on a newly revealed letter in which Mr. Mueller complained about Mr. Barr's 4-page initial summary of his findings (mostly relating to allegations of conspiracy or coordination between Mr. Trump's presidential campaign and Russia, and allegations of obstruction of justice). They asked him to explain why he did not view specific actions by President Trump to thwart investigators as obstruction of justice; And they excoriated Mr. Barr as "*purposely misleading*" Congress and the public and even lying to Congress, all in service of insulating Mr. Trump from the consequences of his actions. In return, Mr. Barr took the punches and did not give ground, agreeing with Republicans that the time had come to review the conduct of investigators and move on. It was only after the Senate hearing that Mr. Barr formally withdrew from a planned appearance the next day before the House Judiciary Committee (led by Democrats). Dozens of Democrats in Congress, including some running for president, had seized on Mr. Mueller's letter on Wednesday and called for Mr. Barr to resign. "*After today's hearing before the Senate Judiciary Committee, it is clear that Attorney General Barr lacks all credibility*," said Senator Kamala Harris of California, one of the presidential candidates. "*The American public deserves an attorney general that will fairly and impartially enforce the law. Barr must resign*." And whilst Mr. Barr stood officially in Democrat lawmakers' sights, it was surely president Donald Trump their ultimate target.

Talking about the Donald, we "*surprisingly*" learned over the past few days - via a New York Times investigative report (alias "Fake News" ☺) - that the US president's businesses had generated huge losses and his hotel and casino properties were eligible for large depreciation write-offs that meant he paid taxes for only two years during the 1985 to 1994 period. The report was based on tax records the newspaper said it had obtained. Trump has justified his tax payments (or non-payments) using the same parts of the U.S. tax code that he has criticized other businesses for taking advantage of since he entered politics. The US President also previously complained that large corporations such as Amazon.com - led by the world's richest man, Jeff Bezos - are eluding their tax responsibilities. Without disputing the substance of the newspaper's findings, Trump called it "*very old information put out is a highly inaccurate Fake News hit job!" and added via a tweet on Wednesday that "you always wanted to show losses for tax purposes... Almost all real estate developers did - and often re-negotiate with banks, it was sport*." Worth noting that president Trump broke with more than 40 years of tradition by refusing to release his tax returns before the 2016 election.

Last month, House Ways and Means Chairman Richard Neal requested that the IRS release Trump's personal and business tax returns, but Treasury Secretary Steven Mnuchin on Monday refused. Neal, a Massachusetts Democrat, is currently consulting with legal counsel on how to proceed, and the clash is likely to turn into a protracted legal battle.

Nevertheless, what mostly shocked/impacted financial markets in past week (they've been totally sedated since early 2019, with record low equity and bond volatility), is that the US-China trade war is back on ("*HURRAH"!*) Trump's Sunday night pair of tweets promising a fresh round of tariffs on Chinese imports, including an increase from 10% to 25% tariffs on $200 billion of goods starting Friday 10th May (today) and a similar 25% charge on a further $325 billion in goods that "*remain untaxed*", surely came as a total surprise (might want to cross check that with the president's personal banker/broker! ☺), especially that these threats and a later declaration that China's leaders "*broke the deal*" were made as a high-level delegation of Chinese negotiators – led by China's vice-premier - was due in Washington for what had been seen as make-or-break talks on a new trade deal with US counterparts. They also largely unnerved global markets on Monday morning (and throughout this week), raising the prospect of tit-for-tat trade sanctions and threatening one of the best starts to a year for global equities in nearly half a century. The yen, which is seen as a haven in times of uncertainty, initially strengthened as much as 0.5% to ¥110.52 and was last trading at ¥109.83, its strongest level against the dollar in more than six weeks. Meanwhile, the offshore renminbi weakened 0.8% against the dollar following Mr Trump's comments to its weakest since February (USD/CNY last at 6.815). In addition, China's CSI 300 index of major Shanghai- and Shenzhen-listed stocks tumbled 5.8% - marking its worst day since February 2016 – whilst the S&P 500 futures dropped as much as 1.8% before recovering some ground by the end of the trading session amid optimism that trade talks would still take place later in the week. The 10-year US Treasury yield slipped 6 basis points to trade at 2.46%, while German bund yields moved back into negative territory, last yielding -0.04% (A dear friend keeps reminding me of the inherent value in owning 10-year German risk-free paper, even after paying the government 4 bps on yearly basis!).

Mr Trump's tweets vowing to ratchet up tariffs on all Chinese imports (effectively in place since Friday 10th May - US time) have surely wrongfooted analysts/investors who had been growing optimistic that a trade deal between the US and China was in the cards, and ruptured the calm that had descended over global markets since the December's turmoil. Many believe they were prompted by a downbeat assessment of the state of the talks delivered at the weekend by Robert Lighthizer, the US trade representative, according to one person with knowledge of the negotiations. Although US officials had publicly claimed that the latest round of talks in Beijing had made progress, they apparently privately complained that China was back-tracking on various promises and had retreated on a fundamental issue involving the "*architecture*" of the deal; Whilst Chinese officials had long insisted their commitments to change economic policies would be enshrined in Chinese law, they were now saying they could only be done through regulations, making them less solid and harder to enforce. On the other side, Chinese Ministry of Commerce officials were "*livid*", according to a person familiar with Beijing's reaction to Mr Trump's latest threat. "*They are tired of getting ambushed*."

President Trump remains under pressure to reach a deal with China, with his own party fractured over the merits of tariffs and Democrats looking to blame the President if the trade war seriously damages the U.S. economy. Whether the world's two-largest economies sink deeper into their trade conflict and drag the global economy in the process may largely depend on planned US-Chinese negotiations in Washington later today. Assuredly neither country wants a long, bruising trade war that undermines growth! The incentive to reach a deal will grow stronger by the day for Trump, who is seeking re-election in November 2020, whilst China needs to ensure continued stability for its financial markets and growth outlook.

Additionally, it should be clear to all that no country wins a trade war, whatever Donald Trump or his "*hardline*" trade advisors think! According to the International Monetary Fund, in an all-out trade-war scenario, annual gross-domestic product may shrink by as much as 0.6% in the U.S. and by 1.5% in China. The imposition of new tariffs and a "*complete breakdown*" in negotiations would also probably cause a drop of 10% to 15% in U.S. stocks from their highs, and a 15%

to 20% plunge in Chinese equities, UBS Global Wealth Management Chief Investment Officer Mark Haefele suggested in a note to clients this week. "*It remains our base case that the U.S. and China will ultimately reach a deal, but with the deadline for the imposition of new tariffs now very short, the path to that deal could well be bumpier than it once looked,*" Haefele said.

In a 2015 speech announcing his candidacy, Trump noted that the country "*needs a leader that wrote The Art of the Deal (Trump's book)*." "*I'm a negotiator. I've done very well over the years through negotiation*," he said in a Republican debate in 2016. "*That's what I do, is deals… I know deals, I think, better than anybody knows deals*" Trump has recently repeated. But the past two years of Trump's presidency have shown that whatever skills Trump "*thinks*" he acquired over the course of his business career have not necessarily translated to his work in the White House. The failed repeal-and-replace health care negotiations, bungled efforts to get funding from Mexico for his promised border wall, multiple government shutdowns, the pulling out of the Trans-Pacific Partnership and the Iran nuclear deal – have all proven that Trump is more adept at breaking deals than making them.

With the New York Times report now underscoring the steep losses and frequent failures of Trump's deals (whilst he never personally filed for bankruptcy, his businesses sought bankruptcy protection four times), and North Korea once again returning to missile testing following stalled talks between the US and North Korea leaders lately, a swift transformation in the US president's negotiating skills/style is desperately needed!

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