Weekly Market Summary

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Tired of Following Childish & Idiotic Presidential Tweets?! Join the Club!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

This week - in financial markets - was supposed to be all about US inflation data and the tone of last month's Fed minutes (March 21st FOMC meeting). Instead, all eyes and ears were on president Trump's barrage of daily tweets!

Starting with the US inflation data (in case you missed it!), markets learned on Wednesday afternoon that core CPI (Consumer Price Index – excluding the volatile food & energy components) has now moved back slightly above the official target of 2.0% (March reading @ +2.1% growth year-on-year). A day prior to that, the Bureau of Labour & Statistics ("BLS") showed US wholesale prices (PPI) advancing well ahead of expectations last month, with core producer costs increasing at a +2.9% y/y pace, the most in record back to August 2014. And whilst that is not unequivocal evidence that inflation is about to accelerate into a serious problem again (especially that there were similar sharp and short rises in 2015), it does suggest that the Fed may have real reason to become more nervous about inflation (the recent sharp jump in oil and aluminium prices would surely add to such fears!).

Then, on Wednesday afternoon, the US Federal Reserve published the minutes of last month's FOMC meeting, the first under the chairmanship of Jay Powell. There was little, if any great surprise, but it was still an interesting read: On markets' recent uptick in volatility, the Fed wanted us all to know that the price fluctuations of the past two months (mostly in equity markets) will not affect the central bank behaviour, and that indeed stocks are too expensive ("*in their discussion of developments in financial markets, some participants observed that financial conditions remained accommodative despite the rise in market volatility and repricing of assets that had occurred in February. Many participants reported that their contacts had taken the previous month's turbulence in stride, although a few participants suggested that financial developments over the inter-meeting period highlighted some downside risks associated with still-high valuations for equities or from market volatility more generally*"). Additionally, Federal Reserve officials saw signs that the job market continued to strengthen as they voted last month to raise interest rates by a quarter percentage point to a range of 1.50% - 1.75%. "*All members viewed the recent data and other developments bearing on real economic activity as suggesting that the outlook for the economy beyond the current quarter had strengthened in recent months*," the minutes read. On the inflation front, and while CPI was still running below the Fed's target of 2% at the time of the meeting, Fed officials did project that price increases will accelerate toward the mark this year and next. Minutes from the Fed's meeting also revealed an in-depth discussion of the recent flare-up in trade tension between the US and its allies, and policymakers all warned a tit-for-tat trade conflict presents "*downside risks*" to the outlook. Nevertheless, fears of a trade war have yet to shake the Fed's bullish outlook, nor have they deterred the central bank from plans to gradually tighten monetary policy going forward. All participants at the March meeting said "*some further firming*" in rates would be needed as they become more optimistic on the outlook for both growth and inflation.

My initial read is that the US inflation data and Fed minutes lean largely on the hawkish side (i.e. would imply lower bond prices & higher yields), especially considering that a number of participants on the Federal Open Market Committee were already looking for a slightly steeper rate-hike path in March. The strong and general sense that fiscal stimulus will be boosting the economy further – coupled with strong inflation readings - would have led "*in normal times*" to a major bond sell-off (surely breaking the 3.0% psychological resistance on 10-year US Treasuries!), a stalling of the recent equity market rally and an improving US dollar. Instead, all we got was little market reaction, with bonds, equities and currencies confined to a very narrow trading range throughout the week. It appears that the bond vigilantes are acting a lot less vigilant these days! There was a time, following the inflation crisis of the early 1980s, when the bond market, regardless of the Federal Reserve's policy, worked to keep a cap on bond prices (lower prices & higher yields) just to be sure the economy did not get too steamy. Whenever there were signs that the pace of growth was picking up, the so-called vigilantes would rush to sell, driving interest rates higher and acting as a brake on the economy.

But if the past few weeks are an indication, most market players seem to have looked for excuses to add fuel to this bond rally (30 UST yields last at 3.03% versus possibly a 4.5% – 5.0% fair value to my mind!). Behind it all is a conviction among bond investors and traders that the Federal Reserve would not risk raising interest rates too fast (nor too far) until global growth and inflation actually show clear signs of holding up and political/geopolitical tensions ease! Not to mention investors' unease/worries with regards to Trump's unpredictable and chaotic foreign and domestic policies (earning him the nick-name of "gambler-in-chief"!).

Below we take a close look at Trump's flip-flopping tweets this week – in relation to domestic developments (FBI's recent raids & Muller's ongoing investigation), as well as international actions (Trade frictions with China / US & coalition expected strikes on Syrian targets) - and their initial impact on equity & bond markets:

I have agreed with the historically cooperative, disciplined approach that we have engaged in with Robert Mueller (Unlike the Clintons!). I have full confidence in Ty Cobb, my Special Counsel, and have been fully advised throughout each phase of this process*. **(Equity Positive / Bond Negative)

Never said when an attack on Syria would take place. Could be very soon or not so soon at all! In any event, the United States, under my Administration, has done a great job of ridding the region of ISIS. Where is our "Thank you America?"* **(Equity Positive / Bond Negative)

If I wanted to fire Robert Mueller in December, as reported by the Failing New York Times, I would have fired him. Just more Fake News from a biased newspaper!* **(Equity Positive / Bond Negative)

Much of the bad blood with Russia is caused by the Fake & Corrupt Russia Investigation, headed up by the all Democrat loyalists, or people that worked for Obama. Mueller is most conflicted of all (except Rosenstein who signed FISA & Comey letter). No Collusion, so they go crazy!* **(Equity Negative / Bond Positive)

Our relationship with Russia is worse now than it has ever been, and that includes the Cold War. There is no reason for this. Russia needs us to help with their economy, something that would be very easy to do, and we need all nations to work together. Stop the arms race?* **(Neutral for a change, possibly as markets tried hopelessly to figure out if Trump was praising or attacking Russia ☺)

Russia vows to shoot down any and all missiles fired at Syria. Get ready Russia, because they will be coming, nice and new and "smart!" You shouldn't be partners with a Gas Killing Animal who kills his people and enjoys it!* **(Equity Negative / Bond Positive)

Very thankful for President Xi of China's kind words on tariffs and automobile barriers...also, his enlightenment on intellectual property and technology transfers. We will make great progress together.* **(Equity Positive / Bond Negative)

The U.S. condemns the heinous attack on innocent Syrians, and will use all efforts available to hold those who use chemical weapons, in #Syria and otherwise, accountable. This is about humanity. We're talking about humanity. And it can't be allowed to happen.* **(Equity Negative / Bond Positive)

When a car is sent to the United States from China, there is a Tariff to be paid of 2 1/2%. When a car is sent to China from the United States, there is a Tariff to be paid of 25%. Does that sound like free or fair trade. No, it sounds like STUPID TRADE - going on for years!* **(Equity Negative / Bond Positive)

With president Trump expected to continue rattling stock and bond markets with his childish and regular tweets, adding a heightened level of volatility with his daily accounts and views on twitter, portfolio managers will continue lacking visibility on what could come next! Maybe, just maybe, this weekend could bring some normality on all fronts!!

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