

Weekly Market Summary

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Escalation and Heightened Uncertainties on Various Fronts!! DO NOT Ask Me What's Next ... Speak to John & Robert!

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John Robert Bolton is an American attorney, political commentator, Republican, consultant, government official, former diplomat and currently serves as the 27th National Security Advisor of the United States (since April 9th, 2018 – replacing H.R. McMaster). Previously, Bolton served as the United States Ambassador to the United Nations from August 2005 to December 2006 (appointed by President George W. Bush) but resigned at the end of his recess appointment when he felt he was unlikely to win confirmation from the Senate, which the Democratic Party had gained control of at the time. Bolton is a former senior fellow at the American Enterprise Institute & Fox News channel commentator, and his political views have been described as American nationalist, conservative, and “*neo-conservative*”. He has been called a “*war hawk*” and is an advocate for regime change in Iran, Syria, Libya, Venezuela, Cuba, Yemen and North Korea – repeatedly calling for the termination of the Iran nuclear deal. Bolton was an early supporter of the Iraq War and continues to back this position. However, according to “fake” news the Hill, it was Bolton’s bushy moustache – and not his support of the Iraq War – that had President Trump wavering about offering him the job in 2016!

With war drums now beating louder in Washington's long standoff with Iran, National Security Advisor John Bolton is clearly the bandmaster! However, Donald Trump ran on the promise to pull the United States out of unwinnable post-9/11 wars - from Afghanistan to Syria - that have consumed American lives and military budgets, and such retreat remains one of the US President's strongest points in his pitch to be the outsider president. On the other side, Bolton, in the most powerful government position he has ever held, is working in exactly the opposite direction! In Cuba, Venezuela, North Korea, and now Iran, there is simply no shortage of battlegrounds for Bolton's crusade against leaders he sees as tyrannical enemies. So far, the US administration has approved the deployment of the USS Abraham Lincoln carrier strike group, an Air Force bomber task force (B-52s), the USS Arlington Navy ship and a Patriot missile defence battery in response to “*heightened Iranian readiness to conduct offensive operations*” (this comes on top of ending temporary waivers for Iranian oil exports, placing sanctions on Iranian metals exports and designating Iran's Revolutionary Guard as a terrorist group). But sending planes and ships would pale in comparison to Bolton's latest demand, reported by The New York Times - the possible deployment of 120,000 troops to the Middle East to support “*unrelenting force*” in response to any attack by Iran. ***Whether Donald Trump would accept that, ditching his mantra of no more “stupid wars,” is far from clear. At least for now, the US President appears wary of drawing the US into a war with Iran, in part out of concern that an armed conflict with the Islamic Republic would imperil his chances at winning a second presidential term in late 2020.***

Robert Emmet Lighthizer is an American attorney and government official, who is the current United States of America's Trade Representative. After graduating from Georgetown University Law Centre in 1973, Lighthizer joined Covington and Burling in Washington, D.C. In 1978, he left the firm to serve as chief minority counsel and later staff director and chief of staff of the Senate Committee on Finance under Chairman Bob Dole. In 1983, Robert Lighthizer was unanimously confirmed by the U.S. Senate to serve as Deputy U.S. Trade Representative for President Ronald Reagan and went on negotiating over two dozen bilateral international agreements, including on steel, automobiles and agricultural products. On January 3rd, 2017, President-elect Donald Trump announced that he intended to nominate Lighthizer as his U.S. Trade Representative, a cabinet-level position (later confirmed by the Senate on May 11th, 2017 by a vote of 82–14). Few days after his job confirmation, on May 18th, Lighthizer notified Congress that President Trump intended to renegotiate the North American Free Trade Agreement (NAFTA), which would make him the first USTR to renegotiate a major U.S. free trade agreement.

According to multiple media reports, Lighthizer became one of the most influential Trump Administration officials and the lead figure in formulating the administration's trade policy – arguing that the use of tariffs to promote American industry is a Republican principle dating back to the pro-business politicians who established the party, whilst also defending protectionism in a 2008 op-ed. Like President Trump, he has also claims that tariffs and quotas are a time-tested way of protecting American jobs when foreign countries engage in unfair trading practices.

With trade war drums now beating louder in Washington's long standoff with China, U.S. Trade Representative Robert Lighthizer is clearly the bandmaster! "Fake" news POLITICO once described Lighthizer as "*a decades-long sceptic of Beijing.*" The latter has consistently accused China of unfair trade practices and said he wants the Chinese to make substantive and structural changes to their trade policies, as opposed to only minor changes they have offered in the past. In past week, the Trump administration surprisingly increased tariffs on a large proportion of Chinese deliveries to the US from 10% to 25% and threatened to impose levies on all remaining imports from China. "*I think that China felt they were being beaten so badly in the recent negotiation that they may as well wait around for the next election, 2020, to see if they could get lucky & have a Democrat win - in which case they would continue to rip-off the USA for \$500 Billion a year.... The only problem is that they know I am going to win (best economy & employment numbers in U.S. history, & much more), and the deal will become far worse for them if it has to be negotiated in my second term. Would be wise for them to act now, but love collecting BIG TARIFFS!*" Trump tweeted last Sunday night. More worrying, the White House has now pulled out the big guns in its push to slow China's rise, with potentially devastating consequences for the rest of the world; On Wednesday May 15th, it initiated a double assault on China: Barring companies deemed a national security threat from selling to the U.S. and threatening to blacklist Huawei from buying essential components. China's response this morning has been to publicly signal a lack of interest in resuming trade talks with the U.S. under the current threats, whilst the Chinese government noted that stimulus will be stepped up to prop-up the domestic economy. "*Without new moves that show the U.S. is sincere, it is meaningless for its officials to come to China and have trade talks*", according to a commentary by the blog Taoran Notes, which was carried by state-run Xinhua News Agency and the People's Daily, the Communist Party's mouthpiece. ***Donald Trump – on many occasions - had signalled that he wants to move toward peace with China in their trade standoff, at times undercutting Lighthizer and the US negotiating team in public. His ex-National Economic Council head – Gary Cohn – believes the US President is 'desperate right now for a win'. Nonetheless, neither Donald Trump nor Xi Jinping can afford to blink, which suggests that escalating trade frictions between the two countries could last longer than anyone previously anticipated!***

Broader financial markets seem to have shrugged off the latest worsening war/trade rhetoric between the US and Iran/China, with equity markets slightly lower on the day, the US dollar edging higher and bond markets more or less steady (10-year UST yield last hovering close to 2.38%, a 16-month low) - whilst market volatility remains strangely depressed (VIX Index last at 16.34, well-below the 36 print in late December 2018).

Still, what happens next is really anyone's wild guess! If you're looking for more clarity, please speak directly to John & Robert!!

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