

Weekly Market Summary

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My Way or the Highway?! Leaders of the Free World at their Finest!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

My Way or the Highway is a predominantly American expression that dates back to the 1970s. It suggests an ultimatum like “take it or leave it”, which implies that the other side must totally accept the speaker’s decision or suffer negative consequences such as receive nothing, be asked to back off or simply get fired. Interestingly enough, this idiom is generally associated with Narcissism and Egotism (*rings a bell?!).*

In late February, we reproduced a Bloomberg opinion piece entitled “*Brexit and Trump Put American-British Influence at Risk*”, which noted that one predictable thing about empires is that they eventually fall and that there is a high chance we may be watching one fall right now! According to John Micklethwait, Editor-in-chief of Bloomberg News, “*the fatal blows may have landed in 2016, with the shocking results of the Brexit referendum and the election of President Donald Trump. Both were dramatic turns away from a worldview that defined and served the partnership. Both triggered sudden collapses in competence and moral authority. Other countries probably found the Anglosphere cloying and/or destructive and might feel some schadenfreude right now. But John argues “the Anglosphere benefited them too, and its troubles are nothing to celebrate”.*

With that being said, the latest escalation in the U.S.-China trade war (*the tech cold war has officially commenced!*) surely looks like the beginning of a profound break in the global order; As China and the U.S. form two opposing economic and geopolitical coalitions, the rest of the world will be forced to choose. Maybe the European Union can form a third unaligned pole (seriously? ☺), as France and Germany’s membership in the EU (and the U.K.’s absence from it) provides them with the negotiating power to avoid falling under the Chinese or American sphere of influence. In many ways this type of multipolar alignment would be a return to the past. The dual-superpower world that existed for much of the second half of the 20th century was always an exception, and the era of American supremacy that began after the collapse of the Soviet Union was never going to last. Until recently, however, a new kind of bipolar arrangement seemed possible: A kind of competitive partnership between China and the U.S., with the EU playing a supporting role. The events of the last few weeks have left that looking increasingly shaky & unlikely!

Below, we turn our attention to major events that have shaped financial markets in past few days:

- **Oil Suffers its worst day of 2019:** Oil prices witnessed their worst daily performance of the year yesterday, as mounting trade tensions between the world’s biggest economies sent investors fleeing from risky assets. Futures in New York fell as much as 5.7% on Thursday for the steepest intraday decline since December 24th. U.S. West Texas Intermediate (WTI) crude for July delivery fell 5.7% to close at \$57.91 a barrel on the New York Mercantile Exchange. Brent, the international crude benchmark, fell as much as 4.8% to \$67.76. Equity markets also slumped; the Dow Jones Industrial Average dropped more than 400 points after the Chinese Communist Party’s flagship newspaper published two commentaries warning of a “*technology cold war*”. Growing gloom over worldwide trade was amplified by a surprise jump in American crude stockpiles; Inventories rose by 4.7 million barrels last week to the highest level since mid-2017, despite expectations for a drop, according to the U.S. Energy Department. Whilst there is no shortage of supply risks - including the possibility that the Organization of Petroleum Exporting Countries (OPEC) will extend output curbs or that rising tension in the Middle East could disrupt crude flows -- swelling U.S. stockpiles are mitigating those concerns. Oil investors should get accustomed to “*a hell of a lot of volatility,*” ConocoPhillips’ Chief Executive

Officer Ryan Lance said during an industry conference in Houston yesterday. “Cycles are getting shorter, the peaks and troughs are getting significant.”

- **Full-Blown Trade War Quickly Shifts from Risk to Baseline:** After months of predicting a trade deal between the world’s two largest economies, economists at some of the biggest financial institutions are now growing increasingly pessimistic, especially following the latest spreading of the conflict from trade and investment flows to the technology sector (Most notably China national telecommunication champion Huawei Technologies Co.) and more (Chinese surveillance companies). Goldman Sachs Group Inc., Nomura Holdings Inc. and JPMorgan Chase and Co. are among those that have re-written their forecasts as U.S. President Donald Trump threatens to impose 25% tariffs on around \$300 billion of additional Chinese imports. Analysts at Nomura have made that hike in duties – which would mean practically all of China’s exports to the U.S. are hit by tariff hikes -- their baseline forecast. They see it as a 65% probability before year-end, and most likely to come in the third quarter. “*The U.S.-China relationship has moved further off track over the past two weeks after a period of what appeared, on the surface, to be steady progress towards reaching an admittedly narrow agreement,*” Nomura economists wrote in a note. “*We do not think the two sides will be able to get back to where they seemed to be in late April.*” Goldman Sachs economists warned that without signs of progress over coming weeks, implementation of the further tariffs could easily become their base case. “*While we still think an agreement is more likely than not, it has become a close call,*” they wrote. For Bank of America Corp., there is not enough admonishment (just a slow grind lower in equity prices in past weeks) from investors yet to force the two sides to a deal. JPMorgan analysts on May 17th said their new baseline is for the status quo - that is, all the rounds of tariff hikes to date from the two countries - staying in place well into 2020. “*We also take seriously the alternative, more severe scenario of moving into a full-blown tariff war, i.e. 25% U.S. tariffs on the remaining \$300 billion Chinese imports in the second half of 2019,*” the JPMorgan team wrote. And it is not just Wall Street sounding more pessimistic! A senior Chinese government researcher said Wednesday that China and the U.S. could be stuck in a cycle of “*fighting and talking*” until 2035! Zhang Yansheng, who previously worked at the nation’s top economic planning body and is now a prominent Beijing think tank, said none of the key American demands can be “*realized in the short term.*”
- **Brexit Confusion Resurfaces. It’s All About What happens After the End of May (☹):** Theresa May just announced a timetable for her resignation as U.K. Conservative Party leader and Prime Minister after a backlash over her Brexit plans. May said she will step down as head of the country’s ruling Conservative Party on June 7th, but will stay on in her role of Prime Minister for another few weeks so that an election to choose her replacement can begin after President Donald Trump’s state visit to Britain. May’s decision signals the end of a turbulent, three-year premiership that has been marked by bitter divisions within her party and across Britain over how to leave the European Union. The U.K. was due to withdraw from the EU on March 29th; But May’s inability to get the divorce deal she negotiated in Brussels approved in Britain’s deadlocked Parliament has forced her to delay exit day until October. With today’s announcement of her own departure, it will be for May’s successor to define the course of Brexit. The current favourite is pro-Leave campaigner Boris Johnson, the U.K.’s former Foreign Secretary, who favors a quick, sharp break from the EU. The pound is on a record losing streak (last at 1.2675 versus the US dollar) as investors weigh up the prospect of a no-deal exit. The final crisis of May’s beleaguered leadership began on Tuesday when she announced her last-gasp plan to persuade members of Parliament to back the Brexit deal she spent two years negotiating with the EU. It was instantly rejected, leaving Britain’s divorce from the bloc in disarray and May with nowhere to go. On Wednesday night, high-profile minister Andrea Leadsom quit May’s Cabinet

in protest at her plans. Other ministers - including Home Secretary Sajid Javid and Foreign Secretary Jeremy Hunt - made it clear that they did not support May's proposed Withdrawal Agreement Bill.

- ***Is the White House “Crying Out” for Impeachment?*** Donald Trump's dramatic decision to blow up infrastructure negotiations (to the tune of \$ 2 trillion) amid renewed talk of impeachment revealed a president willing to abandon the remainder of his first-term legislative agenda for a political brawl. Trump stormed out of talks with Democrats on Wednesday, saying he would not negotiate with leaders who hours earlier accused him of a “cover-up” (in the absence of a better word ☺) to evade probes into his personal conduct and finances. The drama - which Democrats described as a premeditated stunt - exposed Washington's deepening personal and partisan division and revealed a President willing to shut down nearly all legislative progress under the theory that doing so will hurt Democrats more than Trump and paint Democrats as “insane” and “far left.” “All they are geared up to do, six committees, is squander time, day after day, trying to find anything which will be bad for me,” Trump posted on Twitter. The President rejected the notion he had lost control with House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer. “I was extremely calm yesterday with my meeting with Pelosi and Schumer, knowing that they would say I was raging, which they always do, along with their partner, the Fake News Media,” he tweeted. “What happened in the White House would make your jaw drop,” Schumer said afterward. “I pray for the president of the United States,” Pelosi added. “This is the world's largest adolescent who is running the country, who has a giant budget and has the button,” said Representative Mark Pocan, the Wisconsin Democrat who heads the Congressional Progressive Caucus. “This should scare everyone a little bit.” (pick me! ☺) Speaker Nancy Pelosi continued to suggest that House Democrats are “not on the path to impeachment” although President Donald Trump's actions could be impeachable offenses. “Whatever we do, we need to be ready when we do it,” Pelosi told reporters Thursday at her weekly news conference

To end this weekly piece on a funny note, we leave our readers with Stephen Colbert's coverage of Wednesday's infrastructure meeting between Trump & Pelosi/Schumer. The Late Show host noted the following: “According to people in the room, Trump walked in, didn't shake anyone's hand or take a seat, and left before anyone could speak! All told, it was OVER in 3 minutes! According to Stormy Daniels, that is 2 bonus minutes” ... “Effectively Trump has a clear stance on infrastructure; It's my way or NO highway !!”

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