630 Business Center Drive, Third Floor, King of Prussia, PA 19406 • www.tp-advisory.com
Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

What the Trump!

Global Markets and Regions

	2nd QTR	2018 YTD
US	3.50%	2.90%
Developed Europe	-0.90%	-2.70%
Asia	-3.90%	-3.50%
Emerging Markets	-9.59%	-7.96%

US Markets

	2nd QTR	2018 YTD
Dow 30	1.30%	-0.70%
Large Cap Cos.	2.80%	2.56%
Mid. Cap Cos.	3.37%	2.92%
Small Cap Cos.	7.33%	7.54%
Bonds	-0.21%	-1.63%

Markets have rebounded modestly from their levels at the end of the first quarter. They are not racing to new highs and renewed strength has not been universal. But the bottom hasn't fallen out of the markets. They won't necessarily go up, but they won't necessarily go down either. Volatility and uncertainty are pronounced as global growth has slowed and the specter of trade wars has increased. Foreign markets have retreated into negative territory. Emerging markets and China have been particularly hard hit. China stocks in particular have retreated 20% from their highs earlier this year, reaching official bear market levels. Chinese markets seem particularly unhappy with trade wars.

Oil prices and other commodity prices have increased pressure on both consumers (gasoline) and producers by raising costs. Interest rates are rising as the Federal Reserve continues to normalize their credit and interest rate policies after years of extraordinary accommodation in the aftermath of the Great Recession. This is putting pressure on the housing market and the still modest economic growth in the US. Federal and state fiscal deficits are continuing to build, highlighting government's inability to address long term debt and demographic obligations such as pensions.

On the other hand, the US economy grew at above 2% in the first quarter and appears to be poised to show about 4% growth in the second quarter. Unemployment is at record lows, benefiting consumer spending and savings. Wages are growing modestly. There has not been a corresponding dramatic increase in inflation. Global growth is slowing but still positive. The geopolitical threats have been generally turning down the heat, particularly in Korea and the Middle East. In general, good developments and bad developments seem to be balancing each other. The markets have been sensitive to events all year, rising on good developments and falling on bad developments and sometimes both in response to the rapid changes in the storyline. And then there is the "Trade War".

Trade wars evoke memories of the 1929 Market Crash, the Great Depression and World War II. The back and forth of threats and retaliation can be very disruptive to the economy, particular businesses and investments. The benefits of globalization to the world's expansion of wealth and prosperity are widely recognized. The possibility of an escalating trade war is perceived as an existential threat to that prosperity.

The face of the "Trade War" is Donald Trump and his rhetoric of America First and his confrontational negotiating style. Trump's primary target is China, the number two economy in the world. Scuffles with Canada, Mexico, Europe and other regions are side shows to the main event.

When China's stated economic policies are examined, they actually come off as more Trump than Trump's. China 2025 is China's stated 10 year plan to achieve 70% economic self -sufficiency by 2025. Through the use of subsidies, market access rules and cyber theft, China leader Xi Jinping has committed China to closing the technology gap with the US and the world. One Belt-One Road is their trillion dollar vision to commanding global trade through central planning. This is not a policy goal compatible with Free Trade.

The Chinese government is still "Communist" and Xi Jinping is "President for life". Donald Trump has a four year term, two of which are almost over. This is actually the beginning a long term "cold trade war" of which talk and tariffs are just tactics. It started before Trump came on the scene but has begun to intensify.

Thirty years ago Deng Xiaoping succeeded Mao Tse Tung and began the process of modernizing China's economy. Mao, like the old leaders of the Soviet Union, had a decidedly military centric view of how to achieve global power and influence. Deng has been noted by history as a pragmatic leader who overcame China's Maoist legacy of repression and military expansionism. He refocused China on economic development, prosperity and integration with the rest of the world rather than confrontation. He was much less ideological and was famous for having said "I don't care if a cat is black or white as long as it catches mice." Subsequent Chinese leaders have taken a decidedly less communist path to their still centrally planned state of economic prosperity, but they still consider themselves communists. A lot of progress has been made, not all of it compatible with global free trade. Xi Jinping may be taking a step back to the future.

Ostensibly, the US policy goal is free and open trade. At least that is our stated policy. In Donald Trump we do not have a conventional Republican President. He is not a conventional anything for that matter. Traditional free trade policy prescriptions probably don't apply. More generous critics have labeled him a pragmatist, possibly in search of a mouse catching cat. Maybe he will be in his approach to this evolving conflict. We also have a Congress that has not demonstrated a clear voice, so Trump is front and center. This is just the beginning. There is a lot more to come.