



A Very Violent Week!

Although it was a lackluster week in the equity markets (the S&P 500 lost .03%), a lot took place on the political front. The big news, of course, was the United States bombing of Syria to punish and dissuade Syria from using chemical weapons. This was the first major international move by the Trump administration, and it is generally considered a good one. Most of the U.S. allies have voiced approval, particularly those who feel they are in harm's way. It sent some important messages that have been needed to be sent, not only to reassure our allies around the world, but to those who wish the U.S. ill. This should help the administration in all its global negotiations. Not so much that other countries will fear the U.S. That is not the objective, but to understand that the U.S. really does have resolve. Unfortunately, that is not the only violence that occurred last week. Sweden, Russia and Egypt suffered terrorist attacks with loss of life.

The Washington press is playing up a possible shake up in the West Wing. The two players being discussed are Steve Bannon and Chief of Staff Reince Priebus. The most important and praiseworthy move would be removing Steve Bannon. He has already been removed as a member of the National Security Council. These moves would be important because these two, particularly Mr. Bannon, represent the America First anti-free trade faction in the White House. Perhaps the lower profile of Mr. Bannon is why the meeting between President Trump and President Xi actually appears to have accomplished something even in the face of the bombing of Syria. China has agreed to reopen their markets to American beef and better access to financial sector investments. Both are important. Happily, from our point of view, no one brought up China as a currency manipulator. We have argued for some time that the accusation is not correct. What is a problem for the U.S. is access. However, this is a good start.

Another positive for the administration was the confirmation of Judge Neil Gorsuch. It was a sad thing that the filibuster rule is gone. We all may regret that sometime in the future, but it is a good thing that this is settled. While on the President's agenda, we will reiterate our view that, at least some time and perhaps for the entire term, a serious tax overhaul will get through Congress. Our expectation is a tax cut and some mild corporate tax relief centered on foreign earnings repatriation.

Two very important pieces of information came out of the Fed last week. One good, one very disturbing. The disturbing release is the Richmond Federal Reserve President resigned saying he had disclosed confidential information. The Fed can't afford scandal; it operates on trust. The good news is the Fed feels the economy is strong enough that it will start to shrink the balance sheet. It was a very necessary move to flood the system with liquidity during the "great recession," but now it is time to start to retreat from that aggressive position.

There were a couple of economic releases last week that were important. U.S. fourth quarter corporate earnings were excellent, the strongest in five years. On the other side of the ledger job creation was very disappointing, well below expectations. We remind readers again that these numbers are subject to revision, sometimes dramatically so. Also, none of these releases should be taken in isolation. Investors should observe releases such as job creation over time rather than one isolated number.



Dow Jones: 20656 YTD +5.21% | S&P 500: 2355 YTD +5.80% | NASDAQ: 5877 YTD +9.53%

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The Week Ahead:

- **MONDAY:** Italy Industrial Production (m/m) expected at 1.30%
- **TUESDAY:** EC Industrial Production SA (m/m) expected at 0.10%, US NFIB Small Business Optimism expected at 104.5
- **WEDNESDAY:** Brazil Retail sales (m/m) expected at 0.30%, US Import Price Index (m/m) expected at -0.30%
- **THURSDAY:** sales ex auto and gas expected at 0.30%, US Business inventories expected at 0.30%