



Good News, Good Markets and Mao and Stalin Redux!

Equity markets discarded any fear of a trade war last week and overcame early losses to end the week with substantial gains.

The Dow rose 3.25%, the S&P 3.54% and the NASDAQ 4.13%. Why, after so much hand ringing about tariffs and a possible trade war, investors turned positive is an important question. Several answers come to mind. Investors were clearly relieved that the tariffs on steel and aluminum were not as draconian as advertised. Our two major trading partners were exempt, Mexico and Canada. Interestingly, those two countries represent 25% of U.S. steel imports, while China, the country most singled out, represents 2.2% of U.S. steel imports. Besides being relieved about the severity of the tariffs, the act of not placing them on Mexico and Canada gave investors more confidence that negotiation on NAFTA may come to a successful conclusion. The news that Mr. Trump and Kim Jong-un may actually meet cooled down the Trump-Kim Jong-un rhetoric. Although many analysts are warning that this may, or probably won't, come to much and certainly not peace, it may be wise to remember the opposite of war is not peace, but the absence of hostilities.

Domestically, the economic news was also encouraging. The U.S. economy created far more jobs than expected and wages were under control, which some investors believe will allow the Federal Reserve to keep their earlier schedule of interest rate hikes intact. Another encouraging statistic was the report that the wage and employment gap between races continued to narrow. We continue to be concerned about trade hostilities and are concerned about the rhetorical hyperbole the Administration is using against our longtime allies when discussing trade. History has shown us there is a better way.

China has just changed its constitution to allow Mr. Xi to rule as long as he wants. In fact, showing the height of arrogance, he allowed his name to be written into the constitution in the same manner as Mao. Thus, this reverses one of the great accomplishments of Deng Xiaoping's, the paramount leader of China from 1978-1989, efforts to avoid another dictatorship in China. Mr. Putin, not to be outdone, is now also in a position to lead as long as he likes. Dictatorships create factions and factions in turn create economic and political stagnation. It is a shame, particularly in China where Mr. Xi came to power with great anticipation of loosening, rather than tightening, government control. These political events are important to the global economy, perhaps not so much in Russia which still remains weak economically, but certainly in China.

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The Week Ahead:

- **MONDAY:** U.S. Monthly Budget Statement expected at -\$216.0b; Japan PPI m/m expected at 0.20%
- **TUESDAY:** U.S. CPI m/m expected at 0.20%; Japan Core Machine Orders m/m expected at 5.20%; France Total Payrolls 4Q expected at 0.20%
- **WEDNESDAY:** U.S. Retail Sales Ex Auto m/m expected at 0.40%; U.S. PPI Ex Food and Energy m/m expected at 0.20%; U.S. Business Inventories expected at 0.60%
- **THURSDAY:** U.S. Import Price Index m/m expected at 0.20%; U.S. Export Price Index m/m expected at 0.30% France CPI m/m expected at -0.10%; U.S. NAHB Housing Marking Index expected at 72
- **FRIDAY:** U.S. Housing Starts m/m expected at -2.90%; U.S. Building Permits m/m expected at -4.10%; EC CPI m/m expected at 0.20%; U.S. U. of Mich. Sentiment expected at 99