Continued Volatility, Global Concerns and a Good Market Week!

Although the equity markets closed on Friday with a loss, it was not large enough to erase the gains from earlier in the week. The most anticipated question in the minds of investors and analysts was what military action would the United States and her allies take in Syria. The administration had signaled that it might respond with more than a surgical strike. That was not the case. It was a well thought out surgical strike aimed at the chemical weapons factories. This type of response from the U.S. and her allies should have a calming effect on the markets.

As always, it seems other things have arisen that will keep investors nervous. None has interfered with economic growth, but market volatility and a weakening U.S. dollar may be a warning sign about one or all of these potential problems. They are: trade wars or escalating tariffs, rising interest rates, and ballooning debt, both government and private. We have written recently about the first two. In short, we are not believers in a coming trade war, and we are certainly in the camp of rising interest rates, but we have faith in the Fed that they will proceed with caution. Yes, rates will continue to rise. The last problem, debt, is of course related to the rising interest rates. Our concern is that many companies have taken advantage of low rates to take on debt. Some, such as the weaker parts of the retail sector, have taken on debt to survive. The Federal Government has been running a very large deficit and given the nascent tax reform and budget, the deficit is due to expand at a rapid rate. Municipalities, to a great extent, are in financial difficulties and we await the administration's proposal for large infrastructure spending. All this while the economy is at or very near full capacity, interest rates are just starting to rise. With the increase in corporate debt, we have not seen commensurate growth in productivity related to investment, which tells us the borrowed funds went to non-productive purposes. Add to this, we are experiencing a very unseemly conflict in Washington and the equity market is priced for good news. None of this says the market is in trouble, as earnings are still positive, but they are matters to be concerned about.

We wrote last week that trade, the trade deficit and how they fit into national income accounting would be one of this week's topics. It is a very interesting and much misunderstood topic. We also planned to write about trade policy, its flaws and ways to correct them. We are on our way to Washington and will, in the absence of any shocking news, devote next Monday's paper to them.

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The Week Ahead:

- **MONDAY:** U.S. Retail Sales Ex Auto and Gas expected at 0.40%; U.S. Business Inventories expected at 0.60%; U.S. NAHB Housing Market Index expected at 70
- **TUESDAY:** U.S. Housing Starts m/m expected at 2.60%; U.S. Industrial Production m/m expected at 0.40%/ China GDP y/y expected at 6.80%
- **WEDNESDAY:** UK CPI m/m expected at 0.30%; EC CPI m/m expected at 1.00%; Canada Bank of Canada Rate Decision expected at 1.25%
- **THURSDAY:** UK Retail Sales Ex Auto Fuel m/m expected at -0.40%; U.S. Leading Index expected at 0.30%
- **FRIDAY:** Canada Retail Sales m/m expected at 0.50%; Canada CPI NSA m/m expected at 0.40%; Germany PPI y/y expected at 2.00%