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Complexity to Clarity

Weekly Market Insights

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A Very Sad Ending to the G-7

The G-7 ended on Sunday but the bad feelings will continue for quite a while. No one expected an earth shattering agreement but no one expected the embarrassing ending. The concluding communique was just boiler plate, addressing the need for cooperation and the benefits of a rule based global system of trade, something the Trump administration has been calling for. The United States had a part in drafting the statement and Trump left early for Singapore. This was not what one would expect from the President of the United States. Mr. Trudeau, Prime Minister of Canada, made a statement criticizing the U.S. tariffs on Canadian metals. This should come as a surprise to no one. The reaction was swift and way overboard. The first thing that happened is Trump repudiated the communique he had worked on and signed, then as usual, made harsh personal attacks on Mr. Trudeau. Having done this, some of his advisors continued the assault, the worst coming from Peter Navarro. Very little of the hostile rhetoric commented on the substance of Mr. Trudeau's comments, but aimed at him personally. Strange behavior for an Administration that wants to be the leader of the West. This has not enhanced the stature of the United States around the world. Just to add to the confusion, Mr. Trump announced he wanted to readmit Russia into the G-7. His proposal was roundly rejected. Next, the world will watch nervously at the meeting in Singapore. This will not be the place for off-the-cuff remarks. Any agreement with North Korea must be well thought out, ironclad, fully verifiable, with no wiggle room.

Financial markets have been reacting to the events in Europe, particularly in Italy. The fear has been is Europe really moving to more populist, authoritarian government and what does this mean for the EU and the Eurozone? The worry personified by Italy, the Eurozone's third and the world's eighth largest economy, is now being run by two populist parties that have in the past expressed deep skepticism of Italy's membership of the Eurozone.[1] There is a great dividing line in Europe, which heretofore has been absent in the United States and Canada. Roughly speaking, it is between the "middle class and the workers", or if this sounds like a 1940's line of Marxist discussion, it is pretty close, but why now? Both Drs. Chryssogelos and Professor Matthew Goodwin, Senior Fellow the European Program, argue it is policy mistakes by the EU. EU policies have heavily favored the highly educated, industrialized countries and hurt the periphery and unless the EU changes, the trend towards populism and authoritarianism will continue. The majority of the movement is not political ideology, but old fashion economics. Why is this very important for U.S. investors? Because markets, particularly financial markets, are global in nature and what happens in Europe will be reflected in the movements of the S&P 500.

Meanwhile, here in the United States financial markets continued to do well. The Italian problem faded a bit and positive economic data and good earnings ruled the day. We have written often that in our view, the U.S. markets, barring a shock, should do well for the remainder of the year. Next year, the U.S. will face a number of escalating problems, most specifically inflation, budget deficit, and higher interest rates.

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