

# Financial Wanderings

June 2018

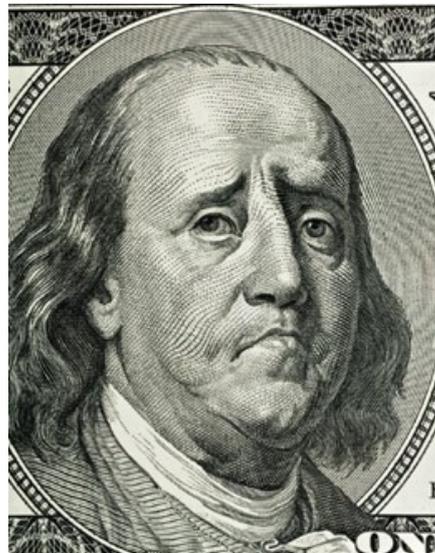
A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP®  
(and made even awesomer by Andrea Dickerson)



## Why didn't the markets celebrate the Trump/Kim summit?

After Donald Trump and Kim Jong Un became BFF's, the risks of war on the Korean peninsula dropped significantly. There's no doubt a war would have been terrible news for the stock market and world economy, not to mention millions of lives. So why didn't the stock market celebrate?

Another factor is that all we have so far is a vague agreement on both sides. None of the hard stuff has been dealt with yet: What does "denuclearize" mean? What will the inspections look like? What's the timeline? Those are the tricky things.



The first reason is that most of the good news happened months ago. Once both sides stopped threatening each other with nuclear annihilation, the markets were happy. Had something really gone wrong with the talks, I think the markets would have reacted negatively.



However, it's a good start. From the standpoint of the markets, we are in a far better place than we were a year ago. Unless Trump and KJU start talking about "fire and fury" again, I wouldn't expect the markets to pay much attention to North Korea.



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Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

# Un-synchronized global growth?

Over the last couple years, one of the most popular phrases in the financial world was “synchronized global growth.” The idea was that all the major economies in the world (America, Europe, Japan and China) were finally growing together, which was very helpful to the American economy and stock market.



However, as much as a strong global economy can help us, it can also pull us down. The last big drop in the stock market was in early 2016, and China was a big reason for that drop. Similarly, in 2011 & 2012, a crisis in Europe caused major drops in the stock market (remember Greece?). Unfortunately, similar worries are starting to creep into the financial world. Both Europe and Japan are looking weaker, and China recently had a string of surprisingly bad economic reports. No one is predicting a recession in any of those places any time soon. However, it's not good news if the global economy is slowing.

On the other hand, it doesn't seem to be hurting the American economy so far. The May jobs report was stellar, consumer confidence and business confidence are high, and Americans are still buying lots of expensive, unnecessary things.

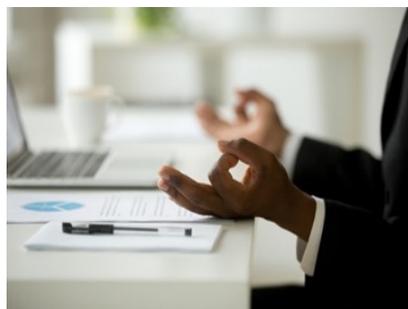


The only semi-bad recent economic news was our 1st quarter GDP of only 2.2%. However, even that isn't terrible news. Our 1st quarter GDP has been notoriously weak for years, and economists can't quite figure it out. They usually blame it on stormy winter weather keeping people at home.

Most economists think our GDP will bounce back in the 2nd quarter to 3%-4%, or even higher – which would quickly make everyone forget about our lackluster 1st quarter. So, we are still doing well here in America. Let's hope the rest of the world can keep it together.

# The trade war is on. Why aren't the markets scared?

After months of tough talk, the trade war is on. We've officially implemented tariffs, and the world has retaliated. We are feeling the impacts right here in the Wenatchee Valley as our apples were hit with tariffs by both Mexico and India. Similar stories are playing out all over America. This looks like the start of something the financial world has feared since Trump won the Presidency. So why isn't the stock market freaking out?



The most obvious reason for the calm stock market is the strong economy. It's hard for the markets to tank when the economic numbers are so solid. However, I also think the markets are understanding Trump a

little better.

With Trump, everything is a sales pitch or a negotiation.



## (The trade war is on. Why aren't the markets scared?.....Continued from page 2)

He's gone from saying China was "raping our country," to recently tweeting that there were "too many jobs lost in China." Just a few weeks ago, his Treasury Secretary announced that "the trade war is on hold." But now we've enacted \$50 billion in tariffs on China. So, Trump's words don't reflect what is true, or even what he really believes. When he tweeted that "trade wars are good and easy to win," he was just bluffing that he's silly enough to think that. I'd prefer that my adversaries see me as serious and knowledgeable. But he is clearly trying to negotiate. I think the markets are taking solace in that realization.



However, I worry that the markets are ignoring a couple risks. First, this is a very delicate situation with high stakes. Even if this is all a negotiation and neither

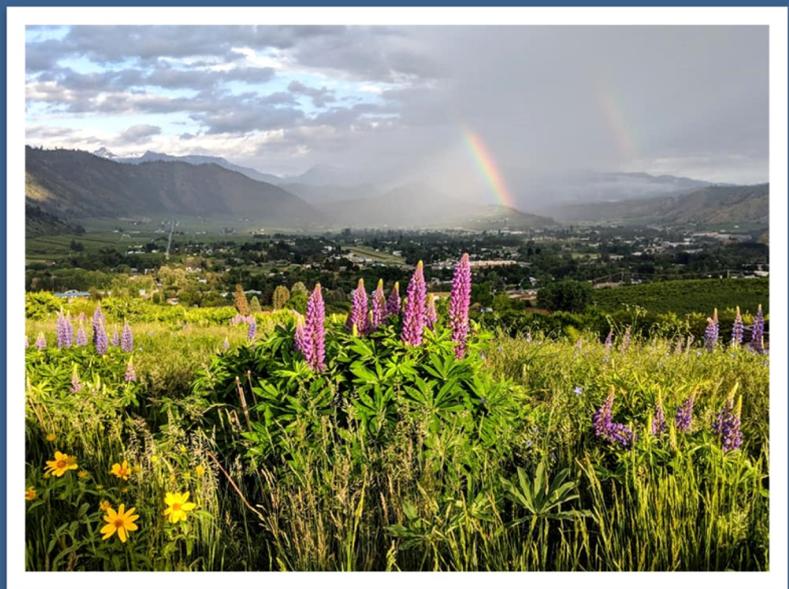
side wants a major trade war, it's not hard to imagine things spiraling out of control – which is the worst-case scenario.

Even if Trump plays this perfectly, and a year from now we have the greatest trade deal in the history of the universe with China, there's still the question of how much damage could be done to the economy until that time. Trump has started trade fights not only with China, but also with Mexico, Canada, Japan, and Europe. In other words: All of our major trading partners. That uncertainty has to paralyze our business world to some degree.

However, a little uncertainty is a lot better than an all-out trade war. The markets are still betting that it's not going to get too nasty. Our economy is pretty strong right now, so unless things get crazy, I think we'll be okay.

## Probably a mountain or a lake

A beautiful early-morning view from above Cashmere



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