



## REVIEW AND COMMENTARY 2nd QUARTER – 2018

### *Trumplomacy*

As the most recent quarter ended, the rhetoric from the US regarding tariffs with various trading partners started to escalate. President Trump's own senior advisors seemed to have difficulty keeping up with his constantly changing twitter blasts, sound bites and public interviews. Certainly, if these tariffs are imposed, all economies, including the US, will suffer. While it is hard to imagine that the US will not come to some sort of compromise, the President's single-mindedness on the matter has markets worried. If economic sanctions continue to escalate there will be serious repercussions. While there may be some merit in the theory that US trading partners will suffer more than the US, there may be some underestimation of how painful it might be for the US consumers as exports slow and prices of imports increase.

Of course, this may merely be a page from *The Art of the Deal* where you threaten first, negotiate second, then both parties forge an agreement somewhere in the middle. However, as the President becomes more emboldened in his governing style, he may not be willing to compromise. This would be dire for his constituents given much of the retaliatory tariffs from US trading partners, particularly China, are directed at products and goods originating in the jurisdictions from his voter base.

It is not only the President's economic policy that has drawn the world's attention. Allies are challenged, adversaries embraced. President Trump's foreign policy strategy was highlighted by a visit to North Korea and there was a recent announcement of an upcoming meeting with Vladimir Putin of Russia. We aren't sure whether this falls under 'keep your friends close and your enemies closer' but it has perplexed US allies given he continues to berate members of the G7 and NATO. Domestic policy is equally puzzling as the current administration's stance of 'zero tolerance' towards illegal immigrants and those seeking asylum has led to the separation of very young children from their parents. Standards of compassion and conduct are changing so quickly, it is hard to grasp where the world will be months from now.

...../2

Canadian markets rebounded in the quarter as oil prices continued to advance as it has all year. The price of crude oil (NYMEX) closed in the mid 70's and despite OPEC's agreement to increase production short term supply issues pushed the commodity higher. The SP/TSX index responded to the significant increase in the Energy sector by posting a total return gain of 6.8%. Government bonds with 5 and 10 year maturities were flat for the quarter and year to date. Financial shares posted a positive gain but were relative laggards compared to the majority of the other sectors with the exception of Utilities which posted a negative return for the quarter and year to date. So far in the 3<sup>rd</sup> quarter the Utilities Sector has gained some traction posting positive returns. The SP 500 Total Return posted a gain of 3.4% in USD and 5.4% when adjusted for the Canadian dollar. The Canadian equity market gained some important relative ground to the US markets and it will be important to see if Ontario, under new provincial leadership, will attempt to become as business friendly as the United States with lower taxes and less regulation. If it does, Ontario and Canada's relative attractiveness may continue to grow with international investors.

The tariff war is a real threat to global prosperity and if the US is unwilling to back down there may be some risk to the equity markets. President Trump does appear to be quite sensitive to the performance of the capital markets, particularly the stock market, and the reaction to the unwillingness to compromise may be immediate. While he seems determined to deliver on his various election promises, it seems unlikely he will be able to continue to deliver if the economy and stock market turn against him. Additionally, there are the November elections only months away in the US and if the President's policies, both domestic and economic, unsettle his supporters, he may be forced, as unlikely as it seems, to moderate his stance on most fronts, if the Republicans are unable to maintain a majority in both the House and Senate. Thus, there may be a compromise or settlement sooner rather than later. Regardless, we feel that any long term disruption of trade will be unlikely. So, in our opinion, it is best not to over react and investors should stay the course.