



## What's Up with the Market? Sep '17

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### Is the Trump trade in jeopardy or just getting a second wind? (North Korea, Trump, Hurricanes)

Last month in the newsletter, we focused on how “no news is good news” for the markets lately. So much for that this past month. The big stories were: North Korea continues to get more aggressive; Multiple hurricanes leave path of devastation from Texas to Puerto Rico; and Trump comes under fire as more members of his manufacturing council push back, leading many to wonder if the “Trump trade” is in jeopardy.

### North Korea escalates nuclear tests

North Korea is the greatest concern to the markets right now. Kim Jong-Un seems as if he is itching for war with the U.S. as North Korea continues to escalate its nuclear tests. The latest claims are that they have developed a hydrogen bomb that could be loaded onto an ICBM (intercontinental ballistic missile). This is despite numerous sanctions imposed by the UN. Every line that is drawn for Kim Jong-Un is immediately crossed, and eventually action will have to be taken. The markets don't appear too worried as we have shrugged off most of the major headlines surrounding it. But fear is starting to creep in as the gold market approaches a one-year high (see chart).



Recently China, who is NK's main trading partner and source of food and fuel, has finally stepped in and backed sanctions on North Korea (<https://www.news.com.au/world/asia/china-backs-un-to-take-necessary-measures-against-north-koreas-latest-nuclear-testing/news-story/2f50913bb52cc75ce2e696f1002a6264>), which could be a great first step. But according to Chinese President Wang Yi (<https://www.news.com.au/world/asia/china-backs-un-to-take-necessary-measures-against-north-koreas-latest-nuclear-testing/news-story/2f50913bb52cc75ce2e696f1002a6264>), "We believe that sanctions and pressure are only half of the key to resolving the nuclear issue. The other half is dialogue and negotiation. Only when the two are put together can it unlock the nuclear issue of the Korean Peninsula." If China could successfully intervene with North Korea, we

could put this worry behind us. However, the complexity of the issue, combined with the delicate nature of our trade relations with China and the possibility of nuclear war, has gotten my attention as far as downside market risk is concerned.

## Protests in Charlottesville

Another incident that occurred, which seems so long ago now, is the protests in Charlottesville. After the protests, many felt Trump was late to condemn white supremacy groups by name. This resulted in leaders, such as Merck's CEO Kenneth Frazier, **pushing back by issuing statements and dropping off Trump's manufacturing council** (<https://www.theatlantic.com/business/archive/2017/08/business-leaders-are-fleeing-their-associations-with-the-trump-administration/536937/>). Unfortunately, this has been a common theme: The president saw similar pushback after dropping out of the Paris Climate deal and after the so-called "Muslim ban."

## Trump trade in jeopardy?

While it is yet to be determined if these policies are good for the economy, it does appear that Trump and the corporate community are growing a little farther apart. After the election, the main thesis of the Trump trade was how good his administration would be for business (deregulation, tax reform, etc). However, with the recent developments, one has to wonder how likely he is to get anything approved.

The main issue for the President, after failing to repeal Obamacare, has been tax reform. The administration **outlined a new tax plan** (<https://www.cnn.com/2017/09/27/politics/donald-trump-tax-reform-indianapolis/index.html>) earlier this week, and Trump is promising it will simplify the tax code while increasing investment and spurring growth. The framework calls for reducing the personal income tax brackets from seven to three, doubling the standard deduction for married and single filers and slashing the corporate tax rate to 20%. As with all things political, there are already strong opinions on both sides of the aisle, and I'll be keeping a close eye as more details are unveiled.

## Hurricanes wreak havoc

On top of all the news from the political front, September also brought a succession of **devastating natural disasters** (<https://www.cnbc.com/2017/08/28/cramer-tracks-hurricane-harveys-impact-on-energy-and-insurance-stocks.html>). Hurricane Harvey unloaded a few years of rain in the span of a week as it camped out over the Houston region. This not only impacted gas prices as refineries were shut down, but also affected insurance companies as they gear up for record-breaking (payments, settlements).

Just as the recovery in Texas began, Florida and the East Coast got slammed by Hurricane Irma, which caused record flooding across the state and destroyed 15,000 homes in the Florida Keys. The two storms combined are estimated to have caused **\$200 billion in damage** (<https://abcnews.go.com/US/hurricanes-harvey-irma-cost-us-economy-290-billion/story?id=49761970>). Then came Hurricane Maria, which has caused “apocalyptic” destruction in Puerto Rico (<https://www.cnn.com/2017/09/25/us/hurricane-maria-puerto-rico/index.html>).

As you can see, there are many market-moving events out there. Stay tuned as we keep a close eye on these developments.

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Warm Regards,

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