July 2019

Financial Wanderings

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®

(and made even awesomer by Andrea Dickerson)

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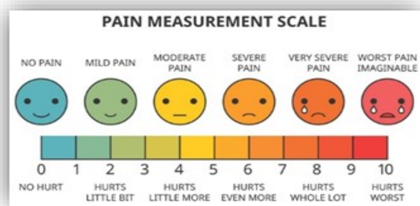
Trump can break stuff, but can he fix anything?

President Trump is a master at breaking things. Since coming into office, he has broken NAFTA, the TPP, the Iran deal, and the uneasy calm we shared with North Korea. More importantly to the stock market, he has also broken our trading relationship with China, and has bent many other trading relationships. Perhaps Trump was elected specifically to break things, but it's time to put some stuff back together.

Most recently, Trump started another fight with Mexico, this time using tariffs as a negotiating tool for border control. So now we are lobbing tariff bombs at everyone, even for things that have very little to do with economics. I'm starting to think Trump isn't using tariffs as a tool to reach a goal – but as the goal itself. Trump said as much recently when he announced that "tariff" is a "beautiful word." But Trump is wrong about that – tariffs hurt everyone. This is a game of chicken to see who can endure the most pain. Unfortunately, the pain might be starting.



While the overall economy is still solid, things are going in the wrong direction. A perfect example of the chaos Trump has produced is the story of GoPro. Motivated by the tariffs Trump placed on China, GoPro took the large and expensive step of moving some of their manufacturing from China to Mexico. However, after all that, Trump is now threatening tariffs on Mexico. So, what is a global business supposed to do with all this uncertainty?

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The answer is that they are paralyzed. According to the World Bank, global investment and business confidence are at their lowest point in 4 years. Here in America, business investment recently fell to 1.3%, the lowest level of Trump's presidency.

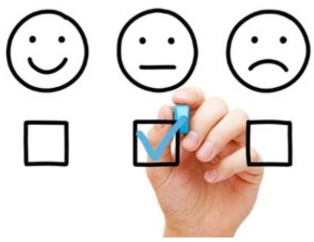
Just a few months ago, the consensus in the financial world was that the trade war was winding down, and soon, we could all move on. But that doesn't seem likely anymore. It seems that President Trump really believes tariffs are "beautiful," and "trade wars are good and easy to win." At this point, I fear this can only end in two ways: Either our trade adversaries completely bow down to Trump, or we're going to have to feel some economic pain. So, which one is going to happen first?

Should the Fed cut interest rates?

Since 1977, the Fed has operated under what's called their "dual mandate:" They aim to achieve the lowest possible unemployment rate and encourage stable prices (inflation). The unemployment rate is the lowest it has been in 50 years, and inflation is low and steady. So, based on that standard, the Fed should be taking a victory lap.

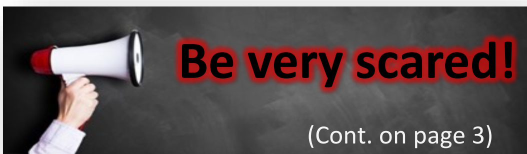
However, that hasn't stopped the financial world from overwhelmingly expecting the Fed to cut interest rates at their next meeting. It also hasn't stopped President Trump from repeatedly pushing the Fed to cut rates. So why does everyone want the Fed to cut interest rates – and should the Fed give in to the pressure?

Although President Trump wouldn't frame it this way, the biggest reason for the Fed to cut rates is our slowing economy. Job growth this year is the weakest it's been since 2010, and manufacturing is the weakest it's been since 2016 (based on the ISM manufacturing index). Similarly, retail sales and home sales are down, as are many other economic numbers. Recently, Fed Chairman Powell signaled that he would be willing to lower interest rates if needed. That's not the kind of thing that happens when the economy is booming. In fact, JP Morgan recently predicted our 2nd quarter GDP would be merely 1%.



However, none of that means a recession is coming soon. While the economy is clearly slowing, the fundamentals are still solid. Earlier this year, I called our economy "The Obama Economy," and I think that still makes sense. Over a 15-month stretch through 2014 and 2015, our GDP averaged nearly 4% growth (including a 6-month stretch at 5%!). However, after that strong growth, we fell back into the familiar routine of slow and steady growth. Rather than a steep dive into a recession, that may all be that's happening now.

So, what message would it send to the economy if the Fed panicked and lowered rates?



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(Should the Fed cut interest rates?..................Cont. from page 2)

Further, would it even help anything? Low interest rates are supposed to help the economy by encouraging borrowing and lending. But how many people are going to refinance their house that didn't already do it three years ago? Similarly, how many businesses are going to borrow money to invest in software and equipment that haven't done it already?

I truly struggle to understand how lower rates would help the economy or the stock market at this point. In fact, I think lower rates could actually backfire by convincing everyone that the economy is worse than it really is – which could cause families and businesses to clutch their wallets a little more tightly. Given all that, I appreciate the Fed's patience.

Although the President and the stock market desperately want and expect an interest rate cut, I hope the Fed continues to resist that pressure.

A trade war truce, but the damage remains

For the third time since our trade war with China started, a truce has been called. President Trump will not enact the $300 billion in additional tariffs on Chinese imports that he threatened back in May. That news helped push the stock market to all-time highs.

However, it's not much of a truce if we still have the original tariffs of 250 billion in Chinese goods that weren't there when Trump took office. We are merely back to where we were earlier this year – and there's always the threat that tensions will ramp up again.

Further, Trump's tariffs aren't limited to China. Since coming into office, Trump has either threatened, or actually placed tariffs on China, Mexico, Canada, Europe, India, Argentina, Brazil, Australia, South Korea, and probably some other countries I missed. Trump has a solid gold tariff hammer, and every problem is a nail.

Almost no one argues that those tariffs have caused at least a little bit of economic pain. However, if we can endure a little tariff pain to get China to play more fairly, or for Mexico to better secure the border - then maybe it will all be worth it over the long-term.

However, if Trump can't secure a legitimate deal with China, or if Mexico can't secure the border to Trump's satisfaction – then all we have is the pain and continued uncertainty. Imagine how the stock market might panic if illegal border crossings go way up next month?

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A trade war truce, but the damage remains……….Cont. from page 3)

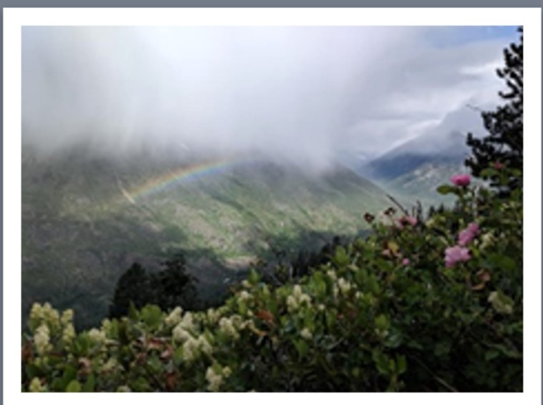
In addition to the short-term uncertainty, there are longer-term risks. Mexico depends deeply on America economically – which benefits America too. However, Trump used that dependence to back Mexico into a corner on something completely unrelated to trade. That had to be eye-opening for the Mexican leaders. What country would want to give America that much leverage over them? Mexico is like a business with only one gigantic customer – and that customer just turned into a big pain. If you were that business, you'd probably start looking to diversify.

So regardless of the current truce in the trade war with China, massive uncertainty will persist in the economy. Will that stop consumers from consuming? Will it stop business from investing in equipment and employees? We're about to see just how damaging "uncertainty" really is.

Blackburn Financial is growing!

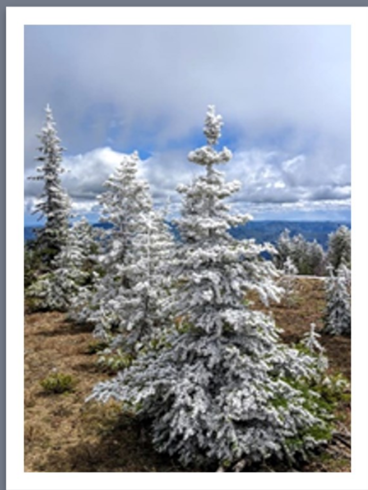
We would like to welcome Steve Allen to Blackburn Financial. Steve is a local financial advisor who comes to us with 18 years of financial planning and investment management experience. We are excited to have him on our team!

Probably a mountain or a lake



Looking up the Icicle Valley, but this reminds me of Hawaii.

On a recent hike up Icicle Ridge, I experienced some of the most interesting and diverse weather I've seen. These two photos were taken within an hour of each other.



Freezing fog left these trees looking like frosted Christmas trees.

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