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This Panda is no longer willing to play the game

China's approach to the US trade negotiations/demands now seems much clearer: Take two steps backward and cause collateral damage, and then one step forward just to keep hopes up and help camouflage the backward steps taken. This seems to be the playbook of the Chinese authorities in their trade tactics with the Trump administration.

Conclusion? President Xi may well have had enough of Donald Trump and is opting to absorb some short-term pain at home in order to see Trump out of office next fall. If he can bring the US economy back to a normal heartbeat rather than staying hot on tax induced steroids, this will influence the outcome at the polls. The Chinese economy will of course also feel the pinch, though President Xi does have the political capital to spend, Hong Kong withstanding.

At least from our vantage, this seems to be what we are observing and is the strategy. A US China trade deal therefore no longer seems to be in the cards until a new administration takes office. There are many hands and cards still to be played and if there is one thing about Donald Trump we know, is that he will play hard right to the end. Hang on to your seats! As a sidebar, it is a certainly a sad state of affair when one considers that the global markets and economy depend largely on the whim of one or two individuals!

With Europe and Japan's economy decelerating once again below 1% growth, and more countries' bond yields moving into negative territory, investors are flocking to US treasuries. This is further exacerbating the drop in US yields with 10-year treasuries dropping near the 1.5% level, down from 2.3% just a few months ago and 3.0% at the start of the year. It has now inverted the yield curve with higher short-term than long term rates. As a result, the US Federal Reserve is now caught in this game of trade chicken and forced it to reverse course and lower the FED rate by 25 basis points at July end. It will have to lower rates once again very soon.

Based on historical patterns, an inverted yield curve would signal that the global economy is heading for a recession. The question is will it, at least in the near term?

Our external advisors at State Street Global Advisors are not yet taking the view that a Global recession is imminent. Global consumption, full employment in the developed world and a firm service sector are showing resiliency. The old days of contagion are also less likely as individuals are far better informed and each has the resources to act. Stock markets around the world are therefore far more diverse, democratic and individualistic than they were 15 years ago and certainly 30 years ago, thinking back to the crash of 1987. The intraday rebound of US stock markets last December 26th, Boxing day, when they opened down 5% in the morning on a very bearish outlook and yet finished the day even, was a testimony of this new reality. This is certainly encouraging and, as a result, stampedes out of the markets are far less likely than in the past (though not impossible).

Portfolio Strategy: We are maintain a slight equity underweight in clients' portfolios. Largely based on negative momentum, we have reduced exposure to the Pacific (largely Japan) and to the Emerging equity markets while increasing exposure to the US equities. Trade friction between Japan and Korea along with a new VAT tax will not help matters.

We are also recommending an overweight in Gold, citing the momentum toward safety and equally the attraction to the metal now that bond yields have compressed globally, most notably in Germany and Japan where investors are faced with negative bond yields.

As a result, we will reduce exposure to International and Emerging equities in portfolios while increasing the gold protective position and adding a bit to US Equities and to the GWL Real Estate Fund.

We note that the Precious Metal (Gold) fund we utilize, is up 40% year to date as a result of the jump in gold prices from $1,300 to 1,500 per ounce since the start of 2019. While it was not necessarily our intention, this gold protective position has in fact served as an offset to Benchmark's avoidance of bonds (which against expectations are up 9% year to date). As clients know we have favoured a more predictable return for fixed income assets via the GWL Real Estate Fund (up 4% so far this year and in line for about 6% on the year), which we continue to favour.

The risk regime indicator has also dropped into the low risk aversion where one would no longer expect a stock market rout; Rather the opposite, any good news henceforth (not that we expect any) would have the opposite and positive market effect.

As usual please do not hesitate to contact me on any matter.

All the best,

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