ECONOMY

Overall market sentiment tense

THINK STRATEGICALLY:

An Apocalypse in Trade, Investment

Trump's Expanded Trade War With Mexico Could Provoke Global Retraction as China Accuses U.S. of Backtracking on Trade Talks

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Trade, investment apocalypse with China, Mexico

The Greek word "apocalypse," which originally meant "revelation," seems fitting to use for this edition of Think Strategically to reveal the basis from which the U.S. trade situation continues to impact the markets. This past month, most stocks fell, and bond prices increased as investors reacted to the increased tariff war between the U.S. and China. However, the administration of President Trump threw the world a curve ball as it proposed the implementation of tariffs on all imports from Mexico to curb the so-called crisis at the U.S. southern border.

Increasing tariffs on most U.S. exports will translate to higher prices to consumers, slower economic growth and inflation. Most economic forecasts place the U.S. growing at 2 percent to 2.5 percent in 2019, which is very similar to the nation's 2.3 percent average over the 10-year expansion. This increase is due in part to continuous job growth, low-interest rates and the 2017 tax reform.

The Trump White House announced that the United States would implement tariffs on Mexico due to an alleged border crisis. This increases the trade disruption and adds significant pressure on the still-open U.S.-China trade war and already-weak global growth that could provoke a global retraction from most markets.

Apocalypse is quite proper to describe the current situation with China, even though President Trump is correct in his assessment that to pursue a more balanced trade pact with China, to get the job done, it will become even more complex. For the fourth week in a row, most stocks have lost value. The doubling down of the trade war and increased political tensions with trade partners is creating increased volatility and a tense overall market sentiment. We must now add Mexico to the trade war as the president threatened to impose tariffs on that nation.

The month of May provided a significant loss for most stocks, creating investment opportunities and, on the flip side, encouraged bonds to rally, with the combination optimal for balanced portfolios. U.S. and global yields declined, with the 10-year Treasury ending at 2.13 percent, which is the lowest in 21 months. Having a set of goals and maintaining a longer-term perspective, combined with staying invested during times of volatility, allows the balances to be maintained. As the market is cloaked with uncertainty, its volatility

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Market Close Comparison	5/31/19	4/30/19	Change	YTD
Dow Jones Industrial Average	24,815.04	26,592.91	-6.69%	6.40%
Standard & Poor's 500	2,752.06	2,945.83	-6.58%	9.80%
Nasdaq	7,910.59	8,095.39	-2.28%	12.30%
U.S. Treasury 10-Year Note	2.13%	2.39%	-11.03%	-0.55%

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is more likely to increase during these periods. That is why maintaining a diversified portfolio that combines stocks, bonds, mutual funds, alternative investments and cash is vital when managing one's finances.

China playing trade defense: The other side of the story

The State Council Information Office of the People's Republic of China on June 1 published a document titled "China's Position on the China-U.S. Economic & Trade Consultations." What is quite clear is that it blames the U.S. of backtracking in the trade talks. This white paper allows investors to understand how the Chinese view the trade war with the U.S., so, we can draw our own conclusions from the combined available data. The Chinese government states the following points:

•U.S.-provoked economic and trade friction damages the interests of both countries and the world.

•The U.S. has backtracked on its commitments in China-U.S. economic and trade consultations.

•China states its view is forward-looking and not interested in reviewing the past.

•Striking a mutually beneficial and win-win agreement serves Chinese and U.S. interests and meets world expectations.

•China will not give ground on issues of principle. Sovereignty and dignity must be respected.

•No challenge will hold back China's development.

China's hope is the U.S. will be able to agree to a pact in a spirit of respect, equality and mutual benefit.

Week in markets: Stock market tanks in May

The unexpected tariff threat on Mexican imports created havoc on an already jittery market. The Trump administration plans to impose the 5 percent tariff beginning June 10, which would increase monthly until reaching 25 percent, with the charge being pegged to immigration along Mexico's border.

U.S. companies produce a vast array of products imported from Mexico and their value is more than $350 billion. Should the U.S. implement the full 25 percent tariff on all Mexican imports, economists are predicting U.S. economic growth will take a 0.7 percent hit.

It may take some time, but tariffs are not expected to rise to 25 percent on all imports from Mexico. That said, the ongoing threats of higher tariffs and trade disruptions will continue to be a source of stock-market volatility.

The Dow Jones Industrial Average closed the month at 24,815.04, for a loss of 1,777.87, or 6.69 percent, and a year-to-date (YTD) return of 6.40 percent; the S&P 500 closed at 2,752.06, for a loss of 193.77, or 6.58 percent, and a YTD return of 9.80 percent. The Nasdaq closed at 7,453.15, for a loss of 642.29, or 7.93 percent, and a YTD return of 12.30 percent. Meanwhile, the U.S. Treasury's 10-year note fell to 2.13 percent, or a loss in yield of 11.03 percent for the month.

Final Word: P.R. bond buyers return

Since the beginning of their downfall in late July 2013, most Puerto Rico municipal bond funds have all but left the market while the government was undergoing its debt restructuring through Promesa.

As the holdings of several prominent players is reviewed, it is noted that some of them are back in a great way, following the restructuring of Sales Tax Financing Corp. (Cofina by its Spanish acronym) bonds, which allowed $17 billion in revenue bonds to be exchanged.

Companies such as Nuveen, Pimco, AllianceBernstein LP, MFS and others have increased their holdings from a collective total of $2.31 billion to $4.22 billion, with the largest increase a whopping 873 percent and the lowest as little as 43 percent.

However, the most significant is the fact that the biggest investor of high-yield municipal bond funds is Nuveen Asset Management, with total assets of $19.5 billion, which increased its holding of Puerto Rico bonds from $0 in July 2018 to $456 million in March 2019 and $824 million in April 2019, an 81 percent increase.

It should be noted that Nuveen Asset Management has also been a subinvestment adviser in Puerto Rico to UBS Asset Managers of P.R., to manage the U.S. portion of the U.S. Municipal Income Bond Fund (USMIF), which invests 80 percent primarily in U.S. municipal bonds and 20 percent in Puerto Rico securities, with consistent results.

Puerto Rico's recent rise in fortune comes amid expectations of increased federal funding, deep debt restructuring, advances with Promesa and the financial restructuring of the government of Puerto Rico.

Should these firms maintain their investments in Puerto Rico, it would signal an energetic show of confidence that our economy, and the advances that have been pushed through, are beginning to show positive results during these trying times of fiscal austerity and restructuring.

As was said in the beginning, apocalypse is originally a Greek word meaning "revelation," and the return of these marquee, or flagship, investors is a huge revelation.

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