

ECONOMY

Trump declares the U.S. is 'winning' the trade war with China



THINK STRATEGICALLY:

The House of Freedom in the Korean DMZ

Market Experiencing Increased Volatility; Investors True to Risk Return Profile Rewarded; Retail Investors are Biggest Losers

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U.S.-China Trade War détente

As had been expected during the G20 meeting, presidents Trump of the United States and Xi of China met to discuss the U.S.-China Trade war. According to Trump, they had a good meeting and agreed to continue to negotiate. Trump added that no additional tariffs would be imposed in an effort to make a deal with China. The White House said one of the initial steps would be for China to begin buying large amounts of agricultural products from a list provided by the U.S. of items essential for U.S. farmers. Trump declared the U.S. was “winning” the trade war with China following the temporary truce announced with the Chinese president.

House of Freedom in DMZ: President Trump visits North Korea

What began with a President Trump

tweet, asking North Korean Leader Kim Jong Un to meet in the demilitarized zone, or the DMZ for short, left the world quite amazed to see it unfolding on live television as Trump became the first sitting U.S. president to visit North Korea. While a brief visit, Trump crossed over to the North Korean side to greet Kim in a somewhat symbolic gesture. Trump, a showman by nature, relished the opportunity to create history by crossing over to North Korea. After exchanging pleasantries, South Korean President Moon Jae-in met them and then Trump and Kim went to Freedom House to meet behind closed doors for their first meeting since having failed to reach an agreement at their February summit in Vietnam. After this meeting, both agreed to resume their talks and mentioned that in two to three weeks, their negotiations would continue. Asked about the

results of the recent exchange, Trump summed it up by stating: “We are not looking for speed, we are looking to get it right.” While presidents Bill Clinton, George W. Bush and Barack Obama visited the DMZ, none were greeted by the North Korea leader.

Week in markets: June rewarded investors well

The Dow Jones Industrial Average closed June at 26,599.96, for a gain of 1,784.92, or 7.19 percent, and a year-to-date (YTD) return of 14 percent. The S&P 500 closed the month at

2,941.76 for a gain of 189.7, or 6.89 percent, and a YTD return of 17.30 percent. The Nasdaq closed the month at 8,006.24, for a gain of 553.09, or 7.42 percent, and a YTD return of 20.7 percent. Meanwhile, the U.S. Treasury’s 10-year note was impacted during the month, reaching 2 percent and losing 6.98 percent.

The stock market ended the month with substantial gains; however, for the past week, the markets were quite mixed because it was expecting news from the G20 meeting in Japan would provide the much-discussed truce between the U.S. and China. As we have seen during the most recent quarter, the market is experiencing increased volatility. Although the results for the month have been quite favorable, investors who remain true to their goals and risk/return profile have been rewarded. Investors must consider a broader view of their timeframe to properly assess their prospects.

What to expect for the rest of the year

Investors must be wise and keep tabs on global central banks’ monetary policies. If they start lowering rates, it appears there is a willingness to sustain the economic expansion.

- Should trade tensions ease and global growth revamps, the economic expansion may have enough runway to thrive.

- A robust U.S. labor market may very well be the fuel for the economic expansion to continue.

- The unemployment rate remains historically low, and with the U.S. running its economy at near full employment, it provides a stable outlook for salaries and consumer spending to rise.

- Increase in corporate profits is expected to increase during 2019, but at a slower pace.

- Stable or lower interest rates are expected from the Fed and other central banks, but the current interest rate is still quite low.

While there are areas about which we must remain vigilant, such as the possibility of increased trade tensions, a weaker-than-expected manufacturing sector and other geopolitical risks, the rest of 2019 will be positive for

investors who have diversified portfolios with a right mix of stocks, bonds, funds, exchange-traded funds (ETFs) and other instruments.

Final word: Who wins with P.R. GO bonds restructuring

The restructuring of Puerto Rico’s general-obligation bonds (GOs) includes \$18 billion out of \$35 billion in bonded debt. The transaction with GOs reduces the \$18 billion to about \$10 billion, with a 30-year repayment schedule and \$8 billion discount. The restructuring provides:

- Puerto Rico saving \$21 billion during the next 30 years.

- A significant cushion to meet future debt payments.

- Overall, it means a 64 percent recovery rate for most bondholders. For 2014 GOs, it is a 35 percent recovery rate.

- Allows the government to invest in new infrastructure and other initiatives, while providing stability for the island.

Opportunistic investors, such as hedge funds, are the biggest winners of this restructuring because most entered the market when GO prices were already heavily discounted and have now made money on the recovery. The biggest losers will always be the retail investor and local Puerto Rico investors who purchased their bonds often at a premium over par, and have seen their life savings lose most of their value.

I will always remember a 2010 conversation with a client who invested exclusively in P.R. GOs. The client had four main reasons:

- Interest rates;
- Tax exemption;
- Inheritance-law exemption; and
- The Puerto Rico Constitutional protection.

I asked him to imagine that a governor of Puerto Rico faces the choice of paying bondholders versus paying government employees, police and teachers. Before he could answer, I said: Hell will freeze over before we see any governor prefer to pay a bondholder over government employees. The most significant problem facing this transaction is that it does not have the support of the government of Puerto Rico.

Market Close Comparison	6/28/19	6/21/192	Change	YTD
Dow Jones Industrial Average	26,599.96	26,719.13	-0.45%	14.00%
Standard & Poor’s 500	2,941.76	2,950.46	-0.29%	17.30%
Nasdaq	8,006.24	8,031.71	-0.32%	20.70%
U.S. Treasury 10-Year Note	2.00%	2.06%	-2.91%	-0.068%

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