Appian Asset Management

Monthly Monitor

June 2019

Trump, tariffs, the economy and markets?

The world was shocked on 9th November 2016 as Donald Trump was elected as the 45th President of the United States. Initially, Asian markets went into freefall until investors acknowledged that the proposed tax cuts, deregulation and infrastructure spending could provide distinctly pro-growth possibilities. Thus far, he has had mixed success with regards these policies. The tax cuts were enacted and provided a windfall for corporates, equity markets and the economy. Anecdotally, levels of regulation have been reduced but not dramatically so. Whilst infrastructure spending plans floundered on political disagreements on the thorny issue of how they should be funded. With the S&P up 32% since Trumps election victory, he can justifiably claim a great deal of credit for his initial policy actions. However, it is his policies on trade that markets are presently forensically evaluating and not in a positive manner as reflected by the equity market falls for May (S&P -7%) and a downturn in forward looking economic indicators.

Trump has, since the late 1980s, postulated on the ills of the US relationship with its trading partners. And in doing so he has highlighted his unique misunderstanding as to

why they US runs an aggregate trade deficit. In the late 1980s the target of his criticism was Japan. Today it is China, Mexico, Canada, the Eurozone and the other roughly ninety countries that the US currently runs a trade deficit with.
There are two primary reasons why the US runs a plethora of trade deficits

- The USD is the world's reserve currency and
- The US economic model is focused on over consumption (with limited appetite for saving)

However, Trumps belief is that deficits are caused by poor trade agreements and via his negotiating skills he will be able to reduce these imbalances. This premise would be laughable were not for the serious implications such reasoning can have for the US and global economy. A trade war is negative for all parties involved with the most obvious implications being

- Higher prices
- Disruption of supply chains and
- The creation of greater uncertainty for consumption and corporate investment plans

The US more than any other country should be acutely aware of the dangers associated with Trumps actions as the Smoot-Hawley tariffs of 1930 intensified the Great Depression. Just as now, the President (Hoover) ignored the criticism of experts (1,028 economists wrote an open letter in May 1930 decrying the proposed tariffs). Unsurprisingly, Hoover, Smoot and Hawley lost their seats in the 1932 election.

Reflecting on the above, why haven't markets collapsed? Investors believe that;

- The Federal Reserve is capable of diminishing the worst consequences of trade tariffs.
- Trump, is in essence a media personality. His priority is to generate a positive image of his abilities. As part of that it seems that he evaluates his stewardship of the economy via the performance of the stock market. Should markets decline substantially and criticism of his policies become more widespread, a reversal of his stated positions is likely and "new" trade agreements will be put in place.

However, before we arrive at these "new" trade agreements we can continue to expect market volatility as investors painstakingly evaluate Trumps ill-informed musings on trade as the story below reveals.

"Ten times Trump asked Merkel if he could negotiate a trade deal with Germany. Every time she replied, you can't do a trade deal with Germany, only the EU. On the eleventh refusal, Trump finally got the message" German Government official May '17.

Trumps economics professors from his alma mater (The Wharton School) must be shocked by his recent actions, just as the world was with his election but for investors with sensible dispositions the "Trade War" tweets from 1600 Pennsylvania Avenue will eventually dissipate and the world can glory in his "Art of the deal" style trade agreements that will display few fundamental changes to their previous incarnation e.g. USMCA or NAFTA 2.0

Appian Market Update Call

Please join Chief Investment Officer Niall Dineen, Senior Fund Manager Pat Kilduff and Senior Relationship Manager John Flavin by telephone **Tuesday**, **June 11th at 10 am** for a discussion on: *"Trade Wars – what it means for the global economy and your investments"*

Dial in details

To listen in to the conference please use the dial in details below.

Ireland (national) : 0818 270 298
Ireland, Dublin: +353 (0)1 428 9999

Code: 457522#

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Submit questions

If you would like to submit a question for the team, please forward it by email to anna.hadfield@appianasset.ie

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Appian Unit Fund Prices

4 June 2019

Appian Value Fund	**145.80**
Appian Equity Fund	**184.49**
Appian SCOF	**176.71**
Appian Liquidity Fund	**104.47**
Appian Ethical Value Fund	**102.49**
Appian Burlington Property Fund	**124.04**

For more detailed information on each of our funds click **here**

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