EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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MARKETS, TRADE AND TANTRUMS

At the start of last week, European markets were down more than 1% as investors were fretting the re-emergence of the coronavirus in Europe. As the week reached an end it was clear that COVID-19 was starting to sink its claws back into Europe, mostly due to the movement of people during the holiday season. Among the faster growing, larger economies in Europe, Spain reported daily increases as high as 8 000 new cases. Germany experienced its highest daily increase since April with 2 034 new cases, and in France, the daily number of new cases also increased. While European markets were struggling to catch their breath, markets in the United States reached a new all-time high. A bunch of positive economic indicators from the United States pointed to a solid economic recovery, amidst high levels of COVID-19 infections. One such indicator was the August purchasing manager's index (PMI), that jumped from a July value of 50.3 to 54.7, its highest level since February 2019. Seasonally adjusted existing house sales, (this is another measure analysts like using to infer an economy in an expansionary phase) jumped 24.7%, from 4.7 million in June to 5.86 million in July.

United States markets seem to be ignoring the growing unrest between China and the United States. Officially trade talks about the first deal, which was announced late in 2019, have been delayed due to the pandemic. Although the White House Economic Advisor, Larry Kudlow, explained that negotiations were still on target. China has not been honouring the agreement to buy more United States products, despite the flood they experienced in February, which caused swooping shortages in many agricultural products. China not honouring their agreements seems to be a recurring trend, something Trump brought to light in the global political sphere and has been fighting for since his inauguration. Another agreement the Chinese recently chose not to honour was Hong Kong's independence. As a result, countries seem happy to join the United States' sanctions against Huawei, an industrial jewel of China, and one of the largest firms in the world. It seems the unorthodox mannerisms of Trump continue to bear fruit. Beating China is an important story Trump wants to use in his re-election campaign, which has been very quiet to date, even as Joe Biden, Trump's democratic counterpart, continues to lead the polls. For this reason, China is trying to delay negotiations, and not honouring their deal. They probably assume that Joe will be easier and more reasonable (read more presidential) to deal with, like every president before Trump. We are, however, concerned about a Joe-victory. All things aside, Trump has been best at fighting inefficiencies.

Last week, the United States Federal Reserve (Fed) explained that they are careful about implementing yield-curve control; something we are happy about. Japan's zombie-like, government-controlled bond market is quite scary. Especially if you consider that long-term rates, like the 10-year yields, are usually a good indicator of long-term economic growth. Having a central bank dictate what growth is, might remove some of the fire from free markets.

This week the Kansas City Fed will host their annual Jackson Hole Economics Symposium. Many expect Fed chair, Jerome Powel, to give more guidance about inflation. Market participants seem concerned about a possible resurgence of inflation in the upcoming years and want more guidance about how the Fed will react. Remember, lower rates and the excess liquidity in the market have been very supportive of markets. The last time the Fed tapered down some of their support, markets threw a big tantrum.

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