John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 23, 2019

"Last week's partial trade deal has provided an immediate benefit in that a tariff truce has been achieved. But questions still remain on when China will begin their pledged purchases of U.S. agricultural products, and what else has to happen for that to start.

Word is that the deal could be documented and signed as early as next month when the two countries meet again at the Asia-Pacific Economic Cooperation Summit in Chile.

Either way, the cessation of new tariffs, the productive tone of the talks, and the agreement they reached, is a definite positive for the market. And as more details are fleshed out on the phase 1 deal, the greater the market's response should be.

Traders are also focused on earnings season. It's off to a great start so far. Although, it's only been a few days." (Zacks Investment Research)

There are still more that 800 earnings announcements to come over the next week or so. Analysts' expectations are muted with some predicting a 5% decline in S&P 500 earnings. With expectations low it won't be surprising to see actual results come in better than expected. And, stocks tend to rise during earnings season.

Here's how the editors of the *Wall Street Journal* reacted to the new China trade deal: "President Trump on Friday announced a trade deal with China that he called "tremendous" or Tremendously" positive 15 times. The details look far more modest to

us, but this truce in the trade war beats the alternative of escalating tariffs that have already caused a significant global economic slowdown.

Mr. Trump said China will make some $40 billion to $50 billion more in agricultural purchases over two years and has promised to better protect intellectual property and welcome more foreign financial services. In return the U.S. won't increase tariffs to 30% from 25% on $250 billion of Chinese goods next week as Mr. Trump had planned.

The two countries also agreed to keep talking toward what Mr. Trump called a "phase two" agreement that would include the tougher issues such as Chinese technology theft and predatory regulation against American companies. There will also be a new consultation process to address disputes and monitor enforcement. The implication is that if progress continues, Mr. Trump will cancel the tariffs planned for December on more Chinese goods.

In essence both sides sued for a temporary peace to forestall further economic damage. China avoids a tariff escalation that has been hurting its exports and induced Beijing to impose capital controls to avoid capital flight and a run on the Chinese yuan.

Mr. Trump gets election-year farm purchases that will alleviate the harm his tariff war has done to American farmers. Equity markets should be relieved, and higher stock prices would buoy fading consumer confidence.

The truce, if it sticks, will also reduce the uncertainty that has undermined business investment and contributed to a global manufacturing recession. Mr. Trump often claims his tariffs are all benefit and no cost, but his economic advisers have been

warning him for months about slowing growth. Job openings in August fell to the lowest level since March 2018, especially in the Midwest states that are crucial to the President's re-election.

None of this amounts to the kind of grand deal that would fundamentally shift China's relationship to the world trading system. President Xi Jinping will still be able to avoid the hard decisions that would require him to reform state-owned industries or rein in the thieves at the ministry of security.

Mr. Xi also received a cringe-worthy kowtow on Hong Kong on Friday with Mr. Trump saying "I think great progress has been made by China in Hong Kong. And I've been watching. And I actually told the Vice Premier (Liu He) it really has toned down a lot from the initial days of a number of months ago, when I saw a lot of people. And I see fewer now."

Someone should tell Mr. Trump about the mass arrests of peaceful protesters in Hong Kong on charges of rioting that can carry prison terms of 10 years. Mr. Trump's habit of gratuitously praising dictators is one of the painful trademarks of his Presidency.

Assuming the truce holds through the 2020 election, Mr. Trump may believe he can then resume negotiations on a stronger position vis-à-vis China. He made no concessions on Hauwei, the Chinese telecom company whose chief financial officer has been charged with fraud in an attempt to evade U.S. sanctions against Iran. If Hauwei is a threat to U.S. national security, then it should be considered separately from these trade talks.

Mr. Xi appears to be gambling that Mr. Trump will lose in 2020 and China can deal with a friendlier President. That's one of several reasons to be skeptical of Democratic criticism of this trade truce. Democrats like Senate minority leader Chuck Schumer would criticize any deal Mr. Trump strikes as inadequate. They are only too happy to hold Mr. Trump's coat if his trade war hurts the economy and helps change their chances of winning in 2020.

Mr. Trump deserves credit for challenging China's abusive practices, but he'd be in a stronger negotiating position had his tariffs not done so much to weaken the U.S. economy. By withdrawing from the Trans-Pacific Partnership, he reduced U.S. trade leverage with China. By imposing steel and aluminum tariffs on allies, he made it harder to form a coalition of trading partners to confront China as a united front. By focusing on the irrelevant bilateral U.S.- China trade deficit, he distracted from China's serious trade issues.

If Mr. Trump gets a second chance with China in a second term, these are mistakes he needs to avoid if he wants a better deal."

U.S. stocks will remain sensitive to the U.S- China trade issues. That now looks likely to be the case until the 2020 election results are known. However, low interest rates, an economy that is still growing and corporate profits are the fundamental issues that will determine stock prices in the long run. Our best strategy is to hold on to our stock positions.

Marilynn and I are back in Lima, Peru. This time we are heading for the headwaters of the mighty Amazon River. Getting there and back to Lima involves some

complicated travel arrangements. Because of that I will have the next market review and update for, two weeks from today on November 6, 2019.

All the best,

John Dessauer