Trade, Dollar, Trump

"In the long run we are all dead" was John Maynard Keynes' famous criticism of economic models. The rest of the quote goes, "Economists set themselves too easy, too useless a task, if in tempestuous seasons they can only tell us, that when the storm is long past, the ocean is flat again." We thank Nick Colas and Jessica Rabe of Datatrek for the full quote of Lord Keynes. We find ourselves looking at Nick and Jessica's daily missives with regularity. Here is their website: http://datatrekresearch.com.

So, is a dollar crisis coming? Are protectionist forces at work? Will that be the storm source described by Keynes? "Obviously a weaker dollar is good for us as it related to trade and opportunities." Thus said US Treasury Secretary Mnuchin in Davos.

"The dollar is going to get stronger and stronger, and ultimately I want to see a strong dollar," said President Donald Trump. Trump spoke right after Mnuchin made his remarks.

Peter Boockvar of Bleakley Advisory Group reminded readers that in April 2017 Trump said, "I think our dollar is getting too strong, and partially that's my fault because people have confidence in me. But that's hurting, that will hurt, ultimately.… It's very, very hard to compete when you have a strong dollar and other countries are devaluing their currency."

Is it any wonder that markets have been whipsawed by this mixed message about the world's reserve currency from the president and the Treasury secretary of the United States? Is it any surprise that volatility measures rose?

Students of history are encouraged to focus on the dollar's course since the collapse of the post-World War II, Bretton

Woods fixed-exchange-rate regime. That collapse came in the 1970s during the Nixon presidency. History may not perfectly repeat, but it does rhyme, as the aphorism frequently attributed to Mark Twain goes. We think currency-related risk is now rising again.

Couple a mixed message on the dollar with rising protectionism, the imposition of tariffs, withdrawal from trade agreements, and threats made against our largest trading partners, Canada and Mexico, and the pot threatens to boil over.

Yes, there are tax-cut benefits coming; and, yes, global stock markets have been on a celebratory tear. We have been bullish and have participated in them.

But also yes to history as a guide that currency weakness and trade barriers work to raise inflation and to slow economic growth.

We suggest that readers take time to review the lessons from 1970–72. Specifically, read about comments made and policy originated by the French finance minister, Giscard d'Estaing, and US Treasury Secretary John Connally. I was a new and solo investment adviser in the years before Cumberland was founded (in 1973), and I recall vividly the negotiations and the volatility of the US dollar and other currencies and how they impacted markets. I specifically recall the fiery exchange between the two men in a Paris meeting.

Yes, history can guide those who take the time to learn from it. It does rhyme.

We have put a cash reserve in place. We are not fully invested in our US ETF portfolios. We are taking a pause in this bull market. We want to digest this anti-trade rhetoric and this dollar-value mixed message.

Of course, we could alter that position at any time. Trump's speech this morning was presidential and well delivered. His Q&A excellent and he didn't stray off message. Now if he doesn't tweet away the gains, he may be able to build positively on this visit to Davos. We shall see. Meanwhile a little cash seems appropriate.

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The Dollar Got Roughed Up Last Year

Excerpt below:

The dollar fell some 10% against a basket of currencies last year, the first annual decline in five years.

Where’s the greenback heading?

David Kotok – Chairman and chief investment officer, Cumberland Advisors

“The dollar is in the cross hairs of conflicting forces: central banks normalizing or not normalizing conflicts with accelerating U.S. growth. Rising federal deficits conflict with Fed balance-sheet shrinkage. There’s no way to know about dollar strength versus weakness.”

Read the full article at [Barron’s]