

Western Trip-Part 1

We're back. During travels in four states (CO, ID, UT, WY) and participating in the Rocky Mountain Summit public conference, two private roundtables, client meetings, and prospect presentations, I encountered hundreds of business-people, econ and financial types, legal and accounting professionals, and others.



They mostly leaned Republican; most were Trump voters; and most were high-income and high-net-worth individuals.

My Takeaways:

1. They like tax cuts, repatriation, and deregulation.
2. They don't like uncivil, personal-attack politics.
3. They don't like attacks on constitutional freedoms like religion or assembly or press. They resent the use of the term fake news.
4. They nearly all fear trade wars and believe they are real. They didn't, however, fear Trump's blustering trade war rhetoric. They worry Trump's trade war is giving back all the benefits of item 1.
5. Peter Navarro is seen as a powerful influence who has Trump's ear, and people fear he is sinking the president.
6. They watch Fox, Bloomberg, CNBC – few watch CNN. However, they trust neither Fox nor CNN, which are viewed as polar opposites, and many think neither of them are neutrally honest.
7. They use electronic devices and newsfeeds to glean information, but they increasingly realize how seriously

social media and machine learning are manipulating and distorting their information flow. And they don't like it.

8. They are family-oriented, communal, and charitable. This is Western territory – you help people who need help.

9. They love the outdoors, the environment – horses, fly rods, hiking. They fear global warming, and most believe climate change is the result of human behavior, not just natural weather cycles.

Now to some direct business notes:

1. Some businesses employ undocumented labor, because they have to. The average among privately owned businesses seemed to be about 20% of total hires in the hospitality, maintenance, and construction sectors. Many of these businesspeople will not bid federal jobs because they cannot comply.

2. They are watching cost increases accelerate. This is a theme I heard repeatedly.

3. Those who are subject to global supply chains are starting to see trade war effects.

4. Foreign investment is being delayed or deferred, both outgoing and incoming. I learned of two foreign owned manufacturing facilities in Idaho whose construction has been canceled because of the Trump-Navarro trade war. Other American owned are repositioning abroad.

5. Many travel to China or have supply-chain business with China. They say Navarro doesn't get it. Here is a link to a Peter Navarro interview with Maria Bartiromo on Fox. All of his forecasts are now proven wrong.
<http://video.foxbusiness.com/v/5743778657001/?#sp=show-clips>

6. They fear Trump's ignoring input from political leaders in his own party. Here is a Bloomberg report on Kevin Brady,

chair of the House Ways and Means Committee.
<https://waysandmeans.house.gov/chairman-brady-calls-for-trump-xi-face-to-face-meeting-to-craft-fair-trade-deal-with-china/>

My conclusions:

1. Economic growth peaked in the just finished second quarter and after trade war rhetoric became trade war actual. The next six quarters will see the growth rate decline. Decline in growth was a dominant view. Some see recession in less than two years.
2. Inflation risk is rising due to the trade war.
3. Failure to solve immigration, DACA, and the status of 12 million undocumented people working in the US is a political failure that is now translating into an economic cost with rising uncertainty premia.
4. The flatter yield curve suggests the bond vigilantes agree with the prospect of a slowing economy.
5. I agree with many economist colleagues that it is going to take a considerable shock to jolt America hard enough that we make a political policy change.
6. The political direction of the country is at a crossroads. The Pelosi–Schumer–Maxine Waters Democrats are not getting traction. The Republican hard right is scaring other Republicans who are seeking solutions, not confrontational combat.
7. I end my four-state Western trip with reinforced deep respect for the many local people I met who are caring and patriotic and are genuinely worried about the behavior of their president but who are not being given an acceptable alternative.
8. An emerging alternative is Mitt Romney, who will win the Senate seat in Utah and be his own national voice. He owes

nothing to Trump. He is becoming a deficit hawk.

For investors, Bonds are telling three stories. The Treasuries curve is flattening, the muni curve less so. High-yield and junk spreads are too tight and have no room for error. We would counsel to Avoid junk credit: You are not getting paid for the risk it involves. Avoid long Treasury debt: You are not getting paid for term-structure risk. Use barbells, not ladders, in munis. The middle of the curve is very expensive.

Stocks: Watch out for FAANMG. Stay domestic and exercise caution on internationals. Favor banks, biotech, and staples. And remember, trade war risks are rising every day.

It is nice to be back in Sarasota.

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