



STOCK MARKET DIGEST: TRADE AND TARIFFS

As we continue on through an unusual political season, many things have ignited uncertainty in the capital markets. The stock market is craving stability, predictability, and certainty. The volatility gauge is rising as we attempt to digest the impact of interest rate hikes, inflation, private diplomatic meetings, the churning of political leaders and heightened discussion about slapping a double-digit tax on imports from China, Mexico and other industrial competitors of the United States. The talking suits and respected economists are scratching their heads as they attempt to understand President Donald Trump's perspective on the fundamental concepts of international trade regulations. How would an import tariff impact the stock market?

Last week, the administration advised that it would collect tariffs on an additional \$16 billion in Chinese goods, broadening the list of products that the U.S. will hit with a 25 percent tax. Is this part of the "fake news rant" or could there be some validity to the belief that China will retaliate with tariffs to match the U.S.'s initial threat? How do we measure if this action would be good for the economy? The twitter feeds are ramping up to assure the United States that the trade wars would be a "no-brainer" for Americans. However, investor sentiment has shifted from optimistic to outright bearish with a looming trade war lurking in the headlines.

Stocks struggled for a second consecutive week as markets worried about various "headline risks" coming from the White House. With trade war anxiety rising, it is essential to stay abreast of where the market stands regarding valuations, underlying fundamentals and earnings potential. Equities have enjoyed the best of both worlds in the past few years with double digit earnings growth and the overall financial conditions remaining accommodating despite the recent rise in short and long-term interest rates. The market does not like uncertainty, and a couple of things have happened in the past few months that have increased the volatility barometer.

When President Trump tweeted the statement that trade wars are good, the world stock market reacted immediately with an extended sell-off period. Although US stocks managed to rise slowly after the President's tweet, if we look at the broader spectrum, the fear factor caused investors blood pressure to increase, and significant sell-offs to begin. Investors might hope to see Republican legislators like Senate Majority Leader Mitch McConnell and House Speaker Paul Ryan attempt to somehow force President Trump to control the trade war. Even so, investors should not panic while the verdict is still out on another "As the World Turns" episode.

VZD Capital Management, LLC believes that to become a reasonable investor, you must look beyond the irrationalities of the stock market on a day by day basis. We are contrarian and believe in profit-taking to strengthen under-valued positions beaten down by speculations and economic noise. We do not attempt to predict the market's gyrations from day to day. We invest for the long-term, screen for bottom-up, growth-at-reasonable price gems and continue to rebalance based on positional growth. Please know how much we appreciate the honor to serve as your wealth manager.

Ethel J. Davis was honored by the **Wall Street Journal** and **Forbes Magazine** as a Five-Star Wealth Manager You Need to Know. Such recognition is thanks to the confidence every client has placed in her. Thank you for your continued support, patronage, and referrals as we continue to expand our boutique firm.

With Gratitude,

Ethel J. Davis and Associates
CEO | Portfolio Manager