NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Cover Me

"The times are tough now, just getting tougher "-- Bruce Springsteen

Following the US/China trade announcement on Thursday, stocks were for-bid, while bonds sold off. In our opinion, both sides played to a draw, providing each other with near-term political **cover**. But as investors are discovering, the devil will be in the details as to whether the rally sticks. We were surprised there was even an announcement, especially fresh off the heals of the USMCA deal about 24 hours earlier. However, in retrospect, we believe the USMCA "bi-partisan" accord was simply a means to provide House Democrats **cover** to move forward with impeachment.

The skeptic in us continues to suggest a Phase-1 deal simply resets the trade backdrop to where it was almost 24 months ago, and that selling China soybeans doesn't speak to the root cause of the problem. But even with a Phase-I trade accord, we believe tariffs will continue to be adopted as an accepted form of economic foreign policy, both here and abroad. And the ability to stop, start or escalate tariffs via a 144-character tweet, suggests to us that we are far from any comprehensive trade resolution and/or subsequent enforcement. In our opinion, China still has no impetus to make any measurable concessions before November 2020, only to potentially face a new U.S. President in less than 12 months.

Over the next 24-48 hours, Wall Street analysts will be tripping over themselves to increase earnings estimates and price targets for the S&P. However, we caution investors that a counter-intuitive outcome associated with reduced trade tensions could disproportionately help countries that have greater trade exposure with China. And together with the Conservative Party's victory in the UK (hence ushering an "all-clear" for BREXIT), may restore growth abroad, and draw investors (both fixed-income and equity alike) away from U.S. capital markets.