



Deal or No Deal

Another week of financial/geopolitical roulette as the UK/BREXIT saga takes additional turns, the Hong Kong government offers the olive branch (sort of), and the on-again/off-again US/China trade talks get even more pollyannaish. What does this all mean for capital markets? More kicking the can down the road; equity holders find yet another reason to believe and debt investors fall back into complacency. Let's unpack.

- As the [WSJ reported](#) on Thursday, Hong Kong's Chief Executive Carrie Lam withdrew the extradition bill that laid the foundation for this Summer's once peaceful/recently violent demonstrations. But despite withdrawing this legislation, tensions between citizens and the government remain hot, especially following reports of police abuse/brutality and China's potential misalignment and/or retribution to Ms. Lam's recent actions. We view this "Deal" as a near-term market positive, but longer-term negative as China will not sit idly by and have its authority (one country/two systems) usurped by the opposing pro-democracy forces' fantasy of political reform.
- UK PM Boris Johnson suffered several defeats over the last few days casting significant doubt not only on his authority, but his ability to follow through with his BREXIT promise to leave the EU by the October 31st deadline, with or without a back-stop. Further, while Johnson tried to call for a snap election by October 15th, to help reinforce his policy/hard-BREXIT aspirations, he did not receive the required 2/3^{rds} majority to do so; serving up a large blow to his ability to govern. We view this "No Deal" as a positive for market dynamics in the near-term, as it potentially delays any hard-boarder/custom concerns between the UK/Northern Ireland.
- China and the US are talking about talking -- again, helping fuel a relief rally in US equities. Yeah, we are scratching our heads here, too. According to CNBC, equity markets are holding onto hope that a "[breakthrough](#)" could be had, but we remain concerned that any talks would take place after new US tariffs begin, making it difficult for either side to reach a deal. Further, there seems to be limited urgency amidst no headway thus far. We view this anticipation of a "Deal" as a near-term positive for markets. But we fear nothing will get accomplished even if the two sides meet and suggest to fade the rally. Further, we expect any interpretation of weakness by either side will be met with additional pressure/escalation/negative headlines by the opposition.



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