



# MONTHLY Market Review

September 1, 2017

## Fire & Fury

A chaotic presidential summer vacation;  
Government shutdown now a distinct possibility

The Fed's annual Jackson Hole Economic Symposium was supposed to be the main event in August, but the reality TV show in Washington stole the spotlight. Neither Federal Reserve Chair Yellen nor European Central Bank President Draghi offered up any new signals on monetary policy. Yellen instead defended the Dodd-Frank law and regulations which the Trump administration vowed to roll back. It may be a sign that she does not expect to be reappointed when her term as the Chair expires in early 2018. Draghi's silence on the strengthening Euro was interpreted as a green light for traders to push the currency even higher against the greenback. Equities finally experienced a mild pull-back as President Trump whipped up one controversy after another, from geopolitical standoffs, tariff threats, to picking fights with Congressional Republican leaders. The usual safe havens – U.S. Treasuries and gold – rallied as a result. Crude oil prices slipped in spite of the disruptions caused by Hurricane Harvey on refineries and ports along the Gulf Coast, which sent gasoline prices higher. Metal prices climbed further on the expectation that Chinese economic growth will remain solid going into the country's quinquennial power transition in the autumn. Lastly, the bitcoin bubble got even wilder with the price of a bitcoin closing out August at \$4741, having started out the year at merely \$952. Given the virtual currency's lack of apparent intrinsic value (not backed by the full faith and credit of any country or real assets), we could be witnessing either something akin to the tulip bubble or the evolution of a new world order.

**JIMMY CHANG, CFA**  
Chief Investment Strategist  
212-549-5218  
jchang@rockco.com



Equity Markets Indices <sup>1</sup>	7/31/2017 Price	8/31/2017 Price	MTD Change	YTD Change
MSCI All Country World	478	478	0.2%	13.4%
S&P 500	2470	2472	0.1%	10.4%
MSCI EAFE	1937	1931	-0.3%	14.7%
Russell 2000 <sup>®2</sup>	1425	1405	-1.4%	3.5%
NASDAQ	6348	6429	1.3%	19.4%
TOPIX	1619	1617	-0.1%	6.5%
KOSPI	2403	2363	-1.6%	16.6%
Emerging Markets	1066	1088	2.0%	26.1%

  

Fixed Income	7/31/2017 Price	8/31/2017 Price	MTD Change	YTD Change
2-Year US Treasury Note	1.35%	1.33%	-2	14
10-Year US Treasury Note	2.30%	2.12%	-18	-33
BarCap US Agg Corp Sprd	1.02%	1.10%	8	-13
BarCap US Corp HY Sprd	3.52%	3.78%	26	-31

  

Currencies	7/31/2017 Price	8/31/2017 Price	MTD Change	YTD Change
Australian (AUD/\$)	1.25	1.26	-0.7%	10.3%
Brazil Real (Real/\$)	3.13	3.15	-0.8%	3.4%
British Pound (\$/GBP)	1.32	1.29	-2.2%	4.8%
Euro (\$/Euro)	1.18	1.19	0.6%	13.2%
Japanese Yen (Yen/\$)	110	110	0.3%	6.3%
Korean Won (KRW/\$)	1119	1128	-0.7%	6.9%
US Dollar Index (DXY)	92.86	92.67	0.2%	10.3%

  

Commodities	7/31/2017 Price	8/31/2017 Price	MTD Change	YTD Change
Gold	1269	1321	4.1%	14.7%
Oil	50.2	47.2	-5.9%	-12.1%
Natural Gas, Henry Hub	2.84	2.89	2.1%	-21.4%
Copper (cents/lb)	289	308	6.5%	22.9%
CRB Index	183	181	-1.0%	-6.1%
Baltic Dry Index	946	1184	25.2%	23.2%

SOURCE: BLOOMBERG

## Jersey Shore

There is a long history of U.S. presidents taking extended summer vacation given Washington's heat and humidity. Over the years, various seaside destinations in New England – Martha's Vineyard, Hyannis, Kennebunkport, etc. – have become popular presidential vacation spots. Likewise, several presidents have favored the comfort of their own ranches – Lyndon Johnson's ranch was dubbed the "Texas White House", Ronald Reagan rode horses at his Rancho del Cielo near Santa Barbara, and George W. Bush chopped wood at his Prairie Chapel Ranch, not far from LBJ's old compound.

Further back in time, before the era of dedicated planes for presidential travel that started in 1933, the breezy shoreline of New Jersey, a quick getaway from Washington, D.C., was once a preferred presidential vacation spot. The Congress Hall Hotel in Cape May, situated at the southern tip of the state, was a popular summer retreat starting with Franklin Pierce in 1855. In the ensuing years, it entertained James Buchanan, Ulysses Grant, Chester Arthur, and Benjamin Harrison. Harrison enjoyed his stay so much that he made the hotel his Summer White House.

The seaside town of Long Branch, about 115 miles north of Cape May, was another popular destination. President Grant acquired a 28-room cottage there and brought his family over as soon as Congress adjourned for the summer. James Garfield visited Long Branch soon after his 1881 inauguration, as Mrs. Garfield moved there to recover from malaria. On July 2, 1881, while waiting for the train at the capital's Baltimore and Potomac Railroad Station to start his holiday at Long Branch, Garfield was shot twice by an assailant. He survived the attack, but his incompetent physicians' attempt to find and dislodge the bullet from his body led to a serious infection. On September 6, 1881, the frail Garfield with an open wound in his abdomen was taken to an oceanfront cottage at the town of Elberon on the Jersey Shore to escape the D.C. heat. He passed away twelve days later.

Long Branch's glory days as the Monte Carlo of America were lost to the tides of time, as well as to the forces of nature – rising sea levels have eroded part of the beach where past presidents and their affluent friends once strolled in style. The cottages where Grant and Garfield stayed have been torn down. However, there still stands a building that was once an Episcopal chapel where seven former U.S. presidents have worshipped. It is aptly named the Church of the Presidents.

**There are only twelve legislative days in September, yet so much still needs to be resolved on a bipartisan basis to avert a government shutdown.**

This summer, after about a century of hiatus on the presidential vacation scene, New Jersey was back in the spotlight. President Trump, a passionate golfer, spent seventeen days at his Trump National Golf Club in Bedminster, NJ.

## Chaos Reigns

Unlike past presidential vacations, which were usually slow news periods punctuated by footages of the president chatting with people at a local ice cream parlor, reading a book under the shade, or taking a stroll with the first lady on the beach, the 2017 vintage turned out to be full of fire and fury.

It started out business as usual with presidential tweets lashing out at the so-called "fake news" and political opponents. However, the vitriol soon shifted to target Senate Majority Leader Mitch McConnell and other Republican senators. The president also ratcheted up, perhaps by design, the tension over the North Korean missile situation with bellicose statements that seemed to have caught his national security team by surprise. Then came the senseless Charlottesville attack which, ironically, could have been an opportunity for the president to unify the country. Unfortunately, Trump insisted on placing the blame on "many sides" and further inflamed the situation. With several CEOs resigning in protest from various White House advisory councils, the president had to disband the councils on manufacturing, strategy and policy, and infrastructure. Lastly, Steve Bannon, the controversial White House Chief Strategist, was sent packing after he openly dissed his West Wing

colleagues with the media. He promptly returned to Breitbart News and vowed to “crush” the opposition.

We bring up these issues not to pass judgment on the president, but to raise the concern that an increasingly isolated presidency could lead to further dysfunction in Washington, which could eventually hurt the real economy and the financial markets. There are only twelve legislative days in September, yet so much still needs to be resolved on a bipartisan basis to avert a government shutdown. For example, the budget for FY2018 faces contentious funding issues for Planned Parenthood, sanctuary cities, and the border wall. Trump has publicly threatened to shut down the government if there is no funding for the border wall. The State Children’s Health Insurance Program (SCHIP) needs to be extended or millions could lose their insurance. Then there is the debt ceiling debate, which would pit fiscal hawks against more moderate members even within the Republican Party. Furthermore, Washington’s dysfunction could put in jeopardy the much ballyhooed tax reform and infrastructure spending.

### **Political Calculation**

If the 2018 mid-term elections were held today, some political observers suspect that the Republicans would lose control of the House. Such an outcome would likely lead House Democrats to start the impeachment proceeding against the president in 2019, which would plunge American politics into deeper chaos and potentially dent business and consumer confidence and spending. The combination of a tightening Fed, political paralysis, and diminishing confidence could eventually bring on the next recession, potentially in 2019 or 2020.

Such a scenario, of course, is not set in stone. It is still a long way to the mid-term elections. The Republicans’ survival instinct may push them across the finish line for some kind of tax cuts to prime the pump. Likewise, the Left may wind up overplaying its hand. To wit, Rev. Al Sharpton recently called for the defunding of the Jefferson Memorial, and the *L.A. Times* reported that some USC students associated the Trojans football team’s mascot horse with white supremacy because its name *Traveler* is similar to General Robert E. Lee’s favorite

horse *Traveller*. ESPN reassigned play-by-play announcer Robert Lee from a University of Virginia football game out of concern over his name’s association with the Confederate general. Ironically, this Robert Lee happens to be Asian-American.

### **Destination Europe**

Political turmoil, social division, and terror were not just confined to this side of the Atlantic Ocean. French President Macron, in the midst of a factious process to reform the labor market, has suffered a steeper fall in popularity than any of his predecessors during the first 100 days in office. Deadly Islamic terror attacks seemed to have become regular occurrences in Europe, as Barcelona and Turku, Finland were the latest to be victimized. Migrants from North Africa have continued to flock across Europe’s Mediterranean coastline. Italy was so overburdened with migrants that it threatened to stop accepting migrant rescue ships. Austrian officials warned that it would use troops to stop migrants from crossing the border from Italy. A legal showdown is brewing between the European Union and several central and eastern European countries over their rejection of Brussels’ refugee relocation quotas.

While these structural problems continued to simmer, Europe’s stronger-than-expected cyclical recovery has lessened their impact for now. With the Eurozone unemployment rate hitting eight-year lows, the region’s sentiment has vastly improved, which could help German Chancellor Merkel cruise to her fourth term later on September 24<sup>th</sup>.

In the long run, however, structural forces will trump cyclical ones, and populism could rise again. Italy’s 80-year-old ex-premier Silvio Berlusconi has capitalized on the anti-migrant sentiment to engineer a comeback this summer. There is a good chance that his political party could form a coalition government in 2018, and he could serve again by 2019 after the political ban for his past infractions expires. What a bromance it would be if President Trump were to meet Prime Minister Berlusconi; the two billionaires would be regaling each other with endless stories of their *la dolce vita* and great accomplishments. ●



**ROCKEFELLER**  
ASSET MANAGEMENT

For More Information on Rockefeller & Co:

**ROCKCO.COM**

**insights@rockco.co**

**New York, NY**  
10 Rockefeller Plaza  
3rd Floor  
New York, NY 10020  
212-549-5100

**Washington, DC**  
900 17th Street NW  
Suite 603  
Washington, DC  
20006  
202-719-3000

**Boston, MA**  
99 High Street  
17th Floor  
Boston, MA  
02110  
617-375-3300

**Rockefeller Trust Company, N.A.**  
10 Rockefeller Plaza  
3rd Floor  
New York, NY 10020  
212-549-5100

**The Rockefeller**  
**Trust Company (Delaware)**  
1201 N Market Street  
Suite 1401  
Wilmington, DE 19801  
302-498-6000

This paper is provided for informational purposes only. The views expressed by Rockefeller & Co.'s Chief Investment Strategist are as of a particular point in time and are subject to change without notice. The information and opinions presented herein have been obtained from, or are based on, sources believed by Rockefeller & Co. to be reliable, but Rockefeller & Co. makes no representation as to their accuracy or completeness. Actual events or results may differ materially from those reflected or contemplated herein. Although the information provided is carefully reviewed, Rockefeller & Co. cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided. Company references are provided for illustrative purposes only and should not be construed as investment advice or a recommendation to purchase, sell or hold any security. Past performance is no guarantee of future results and no investment strategy can guarantee profit or protection against losses. These materials may not be reproduced or distributed without Rockefeller & Co.'s prior written consent.

<sup>1</sup> Index pricing information does not reflect dividend income, withholding taxes, commissions, or fees that would be incurred by an investor pursuing the index return.

<sup>2</sup> The Russell 2000<sup>®</sup> Index is a registered trademark of the Russell Investment Group. Russell Investment Group is the owner of the copyright relating to this index and is the source of its performance value.

Copyright 2017 © Rockefeller & Co., Inc. All Rights Reserved.