



Philequity Corner (September 16, 2019)

By Wilson Sy

A tweet is just a tweet

Global markets experienced heightened volatility due to the escalation of the US-China trade war amid a global economic slowdown. Many investors were whipsawed by the stock market's sharp and sudden swings. These gyrations were fueled by Trump's explosive tweets against China and his unpredictable pronouncements on the direction of trade talks.

Trading on tweets

Considering the impact of his tweets, investors have been closely monitoring Trump's Twitter feed. Some have formulated trading strategies based on his Twitter pronouncements. JP Morgan created the "Volfefe Index" to measure the effect of Trump's tweets on US interest rates. Based on data gathered since 2016, a study conducted by Bank of America showed that stocks generally post a negative return when Trump ramps up his Twitter activity. The stock market has an average loss of 0.09% on days when Trump tweeted more than 35 times. On the other hand, equities have seen an average gain of 0.05% on days when Trump tweeted less than five times.

Trump's market-moving tweets

Below are examples of Trump's recent tweets which have triggered volatility in the stock market.

1. **July 30: "That is the problem with China, they just don't come through... My team is negotiating with them now, but they always change the deal in the end to their benefit."**

After agreeing to restart negotiations, Trump surprised everyone with a combative tweet. This sparked a correction in the S&P 500 from 3,013 to a low of 2,822.

2. **August 2: "Trade talks are continuing, and during the talks the U.S. will start, on September 1st, putting a small additional Tariff of 10% on the remaining \$300b of goods and products coming from China into our Country."**

Trump escalated the trade war when he introduced new tariffs on \$300b of Chinese imports. This resulted in the Dow's 767-point drop on August 5.

3. **August 23: Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing your companies HOME and making your products in the USA.**

Trump's angry tweet caused the Dow to fall 623 points while the S&P 500 declined 2.6%.

As time goes by

Though Trump's tweets can trigger wild market swings, we must remember that a tweet is just a tweet. Despite the volatility caused by Trump's Twitter rants, US indices have recovered and are now trading close to their all-time highs. Somehow, this reminds me of the song, "As Time Goes By" by Herman Hupfeld. It became one of the best songs of all time when it was featured in the movie Casablanca in 1942. We quote the first stanza of the song.

*You must remember this
A kiss is still a kiss
A sigh is just a sigh
The fundamental things apply
As time goes by*

A fight for love and glory

Trump has repeatedly bragged about his close personal relationship with Xi, but his actions and tweets suggest otherwise. Neither Trump nor Xi wants to back down from the trade war despite the harm it poses to the global economy. Perhaps, this is not just a trade war but a battle for global supremacy. The last two stanzas of “As Time Goes By” aptly capture Trump’s complex relationship with Xi Jinping.

*Moonlight and love songs
Never out of date
Hearts full of passion
Jealousy and hate...*

*It’s still the same old story
A fight for love and glory
A case of do or die
The world will always welcome lovers
As time goes by*

A gesture of goodwill

After escalating the trade war and tweeting that Xi Jinping is an enemy (*From friend to enemy*, August 26, 2019), Trump has delayed a tariff increase scheduled in October.

September 11: *At the request of the Vice Premier of China, Liu He, and due to the fact that the People's Republic of China will be celebrating their 70th Anniversary on October 1st, we have agreed, as a gesture of good will, to move the increased Tariffs on 250 Billion Dollars worth of goods (25% to 30%), from October 1st to October 15th.*

There are also initial reports that Trump is amenable to an interim trade deal which would roll back or delay tariffs in exchange for China’s commitments on intellectual property and agricultural purchases.

The fundamental things apply

Those who closely follow Trump’s Twitter feed and those with a short-term perspective may have lost money because of his unpredictable online pronouncements. Trump’s tweets have triggered sharp run-ups as well as dizzying drops in the stock market. However, we must remember that a tweet is just a tweet. Instead of trading on swings caused by Trump’s Twitter tirades, investors should ground their decisions on underlying financial and macroeconomic conditions (“*the fundamental things apply*”) while also adopting a long-term perspective (“*as time goes by*”). This is proven by the recovery of US stock indices which closed near all-time highs last Friday. Though fundamentals may suffer if the trade war deteriorates, we are hopeful for a breakthrough in the trade talks in October. This can propel the stock market to new highs and set the stage for the recovery of a slowing global economy.

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