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Market Comment: Crossroads
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The market appears to be at a crossroads. Some would say this is obvious, after all doesn't the market need to perpetually stay at a crossroads (bulls vs. bears) to function properly? But we are seeing more indication that we could be finding ourselves at a true divergence we haven't witnessed in several years.

The recent trade war, rising inflation, increased debt, U.S. GDP growth, and global economic growth-could all lead us down vastly differing roads. During the presidential election, many of these issues were underreported. As such, a new cycle has developed. We transitioned from a period with little to no inflation, little to no growth and little to no volatility, to a period of higher inflation, strong asset growth and higher volatility.

In statistics we know that there are two tails on the bell curve resulting in outliers which can be negative and positive depending upon the distribution of the study. We also know that President Trump has previously kept score via the stock market and believes outcomes should only be positively skewed. Because of such, we think the markets have shrugged off trade war fears because investors believe that Trump will eventually reverse the course if economic indicators turn negative.

However, investor fears could take hold if the trade war continues much longer. At a time with increased inflationary pressures leading to rising rates and a surging federal deficit from the recent tax cuts, an oddity in today's financial markets is unfolding. The Federal Reserve is being forced to raise rates at a time in which the Federal deficit is greatly increasing. The end game is uncertain particularly because businesses will only add to inflationary pressures by passing along extra tariff expenses to the consumer. In addition, companies will find it more difficult to replicate the earnings growth seen in the first half of the year as the tax cuts and comparable results could indicate that valuations are stretched.

The other potential outlier, and one that Trump's advisors like Peter Navarro, Steve Mnuchin and Wilbur Ross are banking on, is to steer a course where global trade barriers are greatly reduced. The strong stance towards China may finally eliminate their currency manipulation along with unfair wage suppression, which have created advantages for their economy. Coupled with true fair trade around the world, positive earnings gains and favorable demographic trends could spark a positive outcome resulting in another move higher in the market. With a global economic boom, higher deficits and rising national debt will be contained and have little effect on the market's performance.

So at this crossroads, there could be two differing outliers instead of an otherwise more normal market bell curve. President Trump seems comfortable leading the nation to these extremes versus previous administrations that made it more difficult for investors to analyze. For now, we continue to focus on companies that have both competitive advantages and strong management to endure whichever road is eventually taken.