Philequity Corner (April 16, 2018)
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When the President Speaks

In the past month, markets were pummeled relentlessly by the US and China's tit-for-tat regarding trade tariffs (see *Tit-for-tat*, 9 April 2018). Stocks went from 52-week highs to 52-week lows as volatility spiked. Nervous traders came to dread every statement coming from US or China.

Conciliatory tone

As the word war between the two countries continued, global stock markets continued to fall. Amidst all the protectionist rhetoric coming out of the White House and Chinese officials, President Xi Jinping suddenly spoke about the trade tariffs for the first time. In his wide-ranging speech, he said that "the cold war mentality and zero-sum game are increasingly becoming obsolete. Only by adhering to peaceful development and cooperation can we truly achieve a win-win." He added that "we need to promote dialogue, share responsibility, uphold inclusiveness and seek harmony."

Unlike the boisterous Trump, Xi came out as a true statesman. Instead of escalating the situation, Xi spoke in a conciliatory tone, choosing to take the higher ground and offering to cooperate.

When Xi speaks, everybody listens

In his speech last Tuesday at the Boao forum, Xi tackled concerns over trade. The important points he mentioned are the following:

1. "China does not seek a trade surplus. We have a genuine desire to increase imports and achieve greater balance of international payments under the current account."

2. In response to Trump's tweet that the high tariff on US car exports to China was a "stupid trade", XI said that "China will significantly lower tariffs on car imports by the end of 2018."

3. XI also pledged to speed up efforts to open up China's insurance industry and allow more foreign investments into banking, securities and insurance.

4. Finally, Xi said that the government will step up enforcement of intellectual property rights protection and significantly raise the penalties for offenders. Note that intellectual property theft was one of the reasons behind the US' tariffs against China.

After Xi speaks, market roars with approval

With Xi covering the most relevant topics regarding global trade, investors got the catalyst they were waiting for. More importantly though, the market welcomed Xi's conciliatory tone – a very sharp contrast to Trump's combative language. After Xi spoke, stock markets worldwide roared back, with the Dow Jones index rising 428 points or 1.8%.

Trump thanks Xi

After Xi's speech on Tuesday, market pundits were quick to say that stocks are going to continue their recovery as it looks like a trade war will not come to pass. Even Trump weighed in on this, tweeting that he is "very thankful for President Xi's kind words on tariffs and automobile barriers. We will make great progress together!"

Russia's turn to be attacked on Twitter

Unfortunately, the tweeter-in-chief just had to spoil the party. After yet another chemical attack was reported in Syria last week, Russia came to the defense of President Bashar al-Assad. Trump tweeted "Russia vows to shoot down any and all missiles fired at Syria. Get ready Russia, because they will be coming, nice and new and smart!" As of last Saturday, the US, UK and France launched coordinated precision strikes on targets in Syria.

This scared off investors who were just starting to celebrate the de-escalation of the rhetoric regarding a potential trade war. As a result, the Dow Jones index fell more than 200 points on Wednesday. Equity markets in Europe and Asia were also rattled by this and failed to sustain the rally triggered by Xi Jinping's speech.

2018 - most volatile year since 2009

With markets moving up and down with each statement from China and each tweet from Trump, it is no surprise that 2018 has proven to be one of the most volatile years yet. As of this writing, the S&P 500 has moved by at least 1% on 27 trading days this year. This compares with only 8 trading days seeing a higher than 1% move in 2017. If we extrapolate 2018's current volatility to the rest of the year, 2018 could be the most volatile year for stocks since 2009 – the tailend of the US financial crisis and the last bear market. Spoiled by a smooth uptrend in 2017 which saw stocks making new highs after new highs, 2018's historically high level of volatility has caused many investors to scamper for the exits as they reduce risk in their portfolios.

The key for investors is to stay in the market

While investors fear volatility, some day traders try to take advantage of the ups and downs. However, with all these unpredictable tweets by Trump causing wild swings, it is practically impossible to time one's entry and exit. It is wise to listen to the words of the largest asset manager in the world, Blackrock. The firm's Chairman and CEO Larry Fink said last week that investors should not try to time the market and just stay invested. Fink said "we spend too much time talking about market timing", adding that "the key for investors is to stay in the market".