

TD Wealth

QUARTERLY REVIEW

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Tweetplomacy – If it is not a word, it should be.

I feel that traditional diplomacy and negotiations between nations have been forever disrupted by President – Trump’s use of this technology. I think it allows him to control the narrative and creates an element of surprise ensuring maximum message penetration.

In any type of negotiation, it is critical that you understand the person you are dealing with. Look at President Trump’s history before politics. The core of his business philosophy was in my opinion promoting the TRUMP name. Whether it was hotels, jets, helicopters, office towers, or golf courses, everything had to have the TRUMP (in capital letters) brand. In Michael Wolff’s recent controversial book about the presidential election, *Fire and Fury*, in the weeks before voting day all the polls indicated that Clinton would win by a substantial margin. TRUMP stated that even if he lost it would be unbelievably valuable to him in the promotion of his business brand – his name, TRUMP (again, always in capital letters).

Skipping forward a year he is now president, elected by a populous movement that might have felt (maybe rightly) that their concerns (health care, manufacturing job losses, immigration) have been ignored by traditional politicians. To me, these are his people. Everything he now does seems to appease and promote himself to his voter base.

Trump appears always in election mode and wants to appeal to his base directly. For this to work he must constantly show that he is the strongest, the most important, and the smartest guy in the room: Twitter gives license for this to happen. Much more coverage is given to his personal tweets reaching 20 million+ followers worldwide (according to forbes.com) than the traditional White House news briefings of past administrations.

Definition: Twitter is an online news and social networking service on which users post and interact with messages known as “tweets”. Source: Wikipedia



National Security? But we're neighbors and friends!



I have been asked by many people how the American President can possibly think that Canada can be a National Security threat. A little background is essential. Let's look at the current dispute going through the WTO (World Trade Organization) involving Ukraine and Russia. We know that Russia has invaded a part of Ukraine and additionally evoked economic pressure making it difficult for Ukraine to ship goods to other countries especially if those goods must go through Russia to reach those other countries. Ukraine complained to the WTO. Russia's legal defense against this trade allegation was to claim a little used section of the WTO Charter. All a country needs to do is invoke its "essential security concerns" as a method of blocking the complaint. Many countries thought this argument was very weak in that all you had to claim was "essential security concerns" and the whole complaint would not proceed. A vote was held and guesses who sided with the Russians: The United States of America. Quite unprecedented. The use of this strategy paved the way for President Trump to evoke "National Security" as his tariff justification.

So, I believe the choice of the most recent G7 (G6+1) Conference held outside of Quebec City in a region called Charlevoix was likely Trudeau attempting to prove a point. The airbase that all the G7 leaders landed at was constructed by the Americans during (World War 2) WW2. Why? To provide air defense necessary protect the gigantic aluminum smelter located close by that produced aluminum for US warplane production during WW2. Obviously, a stronger argument could not have been made to invalidate the assertion that Canadian aluminum was a risk to American "National Security".

Now, let's see how Trump responded to the G7 Conference agenda.

Agenda G7 Conference

This Conference (and this particular meeting) I believe offered a terrific opportunity to show the world that TRUMP was the most important person there and that everything stops when he enters a room. Strategically arriving 15 minutes late before the speaker had completed his introductory presentation he caused precisely the disruption intended. Who was the presenter? None other than the host, Justin Trudeau. This is about displaying power to the world's press: mission accomplished. He then departed early from the conference.

During the post Conference media event when Trudeau was asked about the trade dispute and the American tariffs on steel and aluminum, Trudeau responded, as he had for the last month on many US talk shows and major US papers, that "Canada would not be pushed around". Evidently, Trump took huge offence with the timing of this statement against the US and himself personally. Remember, this is all about looking powerful and with TRUMP flying to Singapore for his summit with North Korean leader Kim Jong-un (another huge world media event) he didn't want his game plan diminished in any way. The only way Trump appears to negotiate is from a position of absolute power and with Trudeau saying that "Canada wouldn't be pushed around" Trump felt that Kim Jong-un might feel the same way, thereby placing Trump at a bargaining disadvantage.

On June 20, while testifying before the Senate Finance Committee hearing on tariffs, Wilbur Ross, the Secretary of Commerce, played down the national security rationale; instead, he linked the new Canadian tariffs to the unresolved renegotiation of NAFTA (North American Free Trade Agreement), saying a resolution could make these go away. This was not a surprise to anyone. In other words, Mr. Ross clarified that Trump was actually using any tactics available to get his way at the NAFTA negotiating table. Cherry picking the facts, controlling the narrative, all overlaid with volatile rhetoric: a classic stratagem.

Saturday, June 9, 2018
08:00 – 09:00 AM
G7 and Gender Equality Advisory Council Breakfast
Location: G7 Outreach Meeting Room, Le Manoir Richelieu
Participants: Leaders, Sherpas and council members
Media: Photo Opportunity
Source: <https://g7.gc.ca/en/g7-leaders>



Holy Cow – NAFTA

Trade involves two factors: GOODS and SERVICES. Goods are items that you buy such as food, clothing, toys, furniture, and tools. Services are actions such as haircuts, medical checkups, mail delivery, and teaching. The existing NAFTA (North American Free Trade Agreement) covers both of these areas. NAFTA has existed since 1994 and much has changed with globalization, technology in all its forms, and the 2008 financial crisis. The populist mandate of Trump to revisit NAFTA was one of the platforms that solidified his election to office.

The Office of the United States Trade Representative summarizes the data about NAFTA very well. Source: <https://ustr.gov/countries-regions/americas/canada>

Read this one-pager of information, because I think it explains things quite well.



Goods Trade with Canada – total \$582 Billion

- Exports from the US to Canada – **\$282 Billion**
– supported **1,200,000 US jobs**
- Imports from Canada to US – **\$300 Billion**
- Goods Trade deficit with Canada – **\$18 Billion**

Services Trade with Canada – total \$91.5 Billion

- Exports from the US to Canada – **\$58.7 Billion**
– supported **360,000 US jobs**
- Imports from Canada to US – **32.8 Billion**
- Services Trade surplus with Canada – **\$25.9 Billion**

When Trump talks about the trade deficit with Canada it is only in relation to the Goods Trade Deficit. With a strong relationship between jobs related to goods manufacturing and Trump's electoral base, it is easy to see why he singled out this factor as the major bargaining narrative. Dairy, along with Canada's Supply Management System, is an additional easy target for US negotiators seeking a bargaining advantage. Remember, the US is 10X the size of Canada and a protracted trade dispute will harm Canada much more than the United States.

I believe this POTUS (President of the United States) is very combative and counter punches very well. He appears to make decisions on instinct and be more interested in form than substance. Unilateral relationships with many countries might now be viewed as diminishing America's influence and business abilities around the world. Trump often exemplifies the mainstream Republican conservatives and how they see the world. In tariff fights he see the world as the United States versus everyone else and justifies this by explaining that the US has almost zero unemployment coupled with a very strong economy yet is still carrying a massive Goods Trade deficit (thereby affecting employment of his electoral base) with all developed countries. Trump has convinced many in the Republican party that his view of the world should be theirs and they seem to be agreeing with him.

I strongly believe that Canada and Canadian negotiators know exactly who they are dealing with. They understand that you don't take on someone 10X your size without a lot of support in your corner. The tactics of meeting with everyone in the US who could possibly help the Canadian cause and having all European members face US tariffs in a coordinated manner is the ideal response. Don't take the bait and get offended, stick with the plan and always keep talking. But, this could take a while.

OK – But how does this affect my portfolio and how do I ride this unpredictable wave?



- 1) NAFTA will likely get done but increased volatility will potentially be evident in both the US and Canadian stock markets as trade tension rises, not only with Canada, but in the rest of the industrialized world including China. But, I believe will not be resolved quickly.
- 2) The Canadian Dollar could weaken further because of trade uncertainty, oil price fluctuation, and increasing US interest rates.
- 3) Canadian interest rates may likely rise but much more slowly than our southern neighbor due to trade uncertainty, heavy Canadian personal debt obligations and a slowing housing market.
- 4) The US will potentially continue to steadily raise interest rates for the foreseeable future in response to a growing economy and low unemployment.
- 5) The opportunities for market growth will likely be better in the US than in Canada with overhanging trade dispute still ongoing.
- 6) The Supply Management System in its present form, I believe, will probably be re-negotiated, since it is the least contentious of NAFTA's major bargaining points.

You must believe and trust that the Board of Directors and the senior management of the companies you own will always work in the best interest of their shareholders and will continue to adjust their business planning to meet the ever-changing and currently unpredictable economic and political landscape. They won't be drawn into the moment and you shouldn't either.

Sincerely,



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