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NEWSLETTER

The Advisor

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Jackie is the founding partner of Campbell & Company, CPA's, PA. Being both a CPA & CFP, as well as working with clients in various industries, has given her a broad base of experience to better serve her clients & assist them in meeting their business & financial goals. Jackie is also a registered representative with Retirement Wealth Advisors (RWA), Member FINRA/SIPC, which allows her to offer securities and other investments to her clients.

U.S./NORTH KOREA TENSIONS AND THE IMPACT ON STOCK MARKETS

There are several countries in the world that have a nuclear capability, but there is only one where the person at the top seems unhinged by many professional observers. That presents a problem for the U.S., Japan and South Korea in particular. North Korea's leader, Kim Jong-un, who is referred to as the "Marshall" or the supreme leader, by North Koreans, is the son of the country's former leader, Kim Jong-il.

By the age of two, most North Korean children have already remembered the words to songs that glorify Kim and his father and grandfather as if they are deity.

The problem this presents to the U.S. is that there is a much smaller chance that there could ever be an internal resistance movement in North Korea; a fact that removes one solution from the table. Most of North Koreas supplies come by way of their larger neighbor China. China sees North Korea as a convenient buffer between it and South Korea and Japan, so the motivation to stop exports to the country are suppressed.

On August 5, the United Nations Security Council adopted a resolution imposing new sanctions against North Korea in response to its escalating threats and missile launches.

Although the North Korean leader had been warned about the increased tensions that his missile launches have created in the West, and the potential response that North Korea faces, the country fired off three more short-range missiles on August 24.

The death of American college student Otto Warmbier has been seen as a tipping point in relations, but also facilitated some back-channel communications between the Trump administration and the rogue nation. This, according to sources at the Associated Press.

Response of the Markets

Investors feel more confident to invest in the stock market when they feel bolstered and the world seems stable, free of major disruptions. But, geopolitical events like North Korea's posturing create uncertainty, instability and downright fear in investors. In the immediate aftermath, of the tension created by Kim's pronouncements of firing missiles at Guam, and the president's response, the climate of stability had entered an unnerving phase that impacted the markets immediately.

Through August 25, investors had withdrawn $30 billion from U.S. stock funds, over the preceding 10 weeks. Much of that money was redirected at emerging markets and foreign stocks. Despite this fact, U.S. stock exchange-traded funds (ETF's) have had net gains since the end of June.

Also, many market indicators are still bullish and many of the tensions, leading up to Kim's threat against Guam, did not stop the markets from rising. During the current quarter, the S & P has been up nearly 1 percent through August 25 and saw a record high on August 8.

Many regional conflicts in the past have been weathered by the markets. South Korean stocks are up 30 percent this year and the market bounced up 9.1 percent after Soviet Ships headed back to their ports during the Cuban Missile Crisis in 1962. It may take more than a mad man to really ruffle Wall Street's feathers.

2017 ECONOMIC POLICY SYMPOSIUM AT JACKSON HOLE, WYOMING

Some of the world's top central bankers, along with our own Federal Reserve leadership, just met at an annual summit where they discussed the global economy. Held this year in Jackson Hole, Wyoming and hosted by the Kansas City Federal Reserve, the conference brings together the Federal Reserve Chairwoman, Janet Yellen and the European Central Bank's (ECB) president, Mario Draghi, along with many other economists and central bankers.

This year's theme; "Fostering a Dynamic Global Economy," was designed to allow the central banks to both meet and express some views publicly that would provide insights into their thinking.

In a speech, Draghi indicated that additional monetary stimulus was required in Europe. He also did not mention anything about the euro being too strong against the dollar, which invited currency speculators to be bullish on the currency that day.

After his remarks, there was an immediate effect on the currency markets and the euro increased against the dollar, reaching the highest level since January of 2015.

Leave Regulations Alone

A point of contention, expressed by both Yellen and Draghi, in their speeches related to proposed changes to credit availability and regulations. Precipitating the financial crisis, created by the real estate bubble in 2008, there had been laws enacted that challenged bank's ability to underwrite credit responsibly, leading to many defaults and a tightening of credit.

Yellen argued that the more restrictive credit measures were a good thing for financial stability and warned against any attempts at changing regulations that would loosen credit and dismantle any of the post-recession regulations. Draghi reflected similar concerns in his remarks. Also, the two central bank heads were not in favor of any withdrawals from international trade agreements.

In contrast to the broader roll backs of regulations, Yellen did say that a lessening of regulations on smaller banks might be appropriate.

In the context of both leader's speeches, the topic of monetary policy was mostly absent, a break from the symposiums of the past. The fact that the unemployment rate is at a 16-year low, and inflation has not emerged as a concern, have both contributed to an environment where further rate increases are not the Fed's primary focus.

Draghi also spoke about the growing interest in more protectionist policies, which he criticized. President Trump has pointed out the enormous trade deficit between the U.S. and China and the need for fairer trade between the two countries. Tariffs on goods manufactured in China and Mexico were mentioned during the campaign.

The European Central Bank will be eventually discontinuing its quantitative easing program; something the American Federal Reserve has already done. The ECB had started its program in 2015, reflecting the strategy employed by the U.S. central bank. The Fed has a $4.5 trillion balance sheet of mortgages and treasuries that needs to be reduced. The ECB had been buying approximately $71 billion in bonds monthly in its program.

The news out of the summit provided few clues for investors or money managers who were hoping for more useful hints as to the Fed's current thinking and future inclinations.

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About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.