

## SMOOT HAWLEY ALL OVER AGAIN? DON'S BLOG 2018.03.06

My reverent hope is that the threat of import taxes on steel and aluminum are just that—a threat leading to a dialog on reworking our trade agreements. I do believe for too long we have acted like the wealthy uncle not concerned about money, but rather just wanting to get along. Courting favor if you will and being hailed as benevolent and a welcomed guest to any and all parties. Make no doubt about it, trade wars—if it comes to that—result in economic losses for everyone. If you may recall the Smoot Hawley Tariff Act was one of the preludes to the Great Depression of the 1930s. This act resulted in the delayed naming of the Hoover Dam as such, calling it for many years the Boulder Dam. This is of little consequence; however, it does reflect how President Hoover's tariff act affected his reputation. Do we ever learn from history? It seems many times we do not. Human nature never changes, I guess.

In prior blogs I have made mention that the February decline in both stocks and bonds were likely an indication that the worm has turned. My best guess continues to be that the stock market is making a rounding top and the annual gains of the last several years will be difficult to come by. As for bonds, I remain of the opinion that high quality long dated bonds will fare well as we move forward. Lower quality bonds could be in serious trouble.

Much of this market comment above is based on my feeling that slow to no growth may become no to negative growth. The Fed may be raising rates at too rapid of a rate. Please note my blog of last week. They may come to realize this, but probably too late to avoid serious damage. I think it is entirely possible QE stimulus may be in the offing again sometime between now and the end of the year.

### A Final Thought

I thought the following chart #1 might be of some use when analyzing the bond market. As you probably know, many of the name bond managers have declared an end to the bull market in long dated government bonds. In the case of Bill Gross, this has happened several times over the last few years. One of these days he will be right, but I doubt it will

be this time. I just can't see where the economy is accelerating to the extent that inflation will become a problem. Without serious inflation, risk-free long government are not going to decline in price. Again, the high debt and lack of income growth for employees remains a serious drag on the economy. Note chart #2.

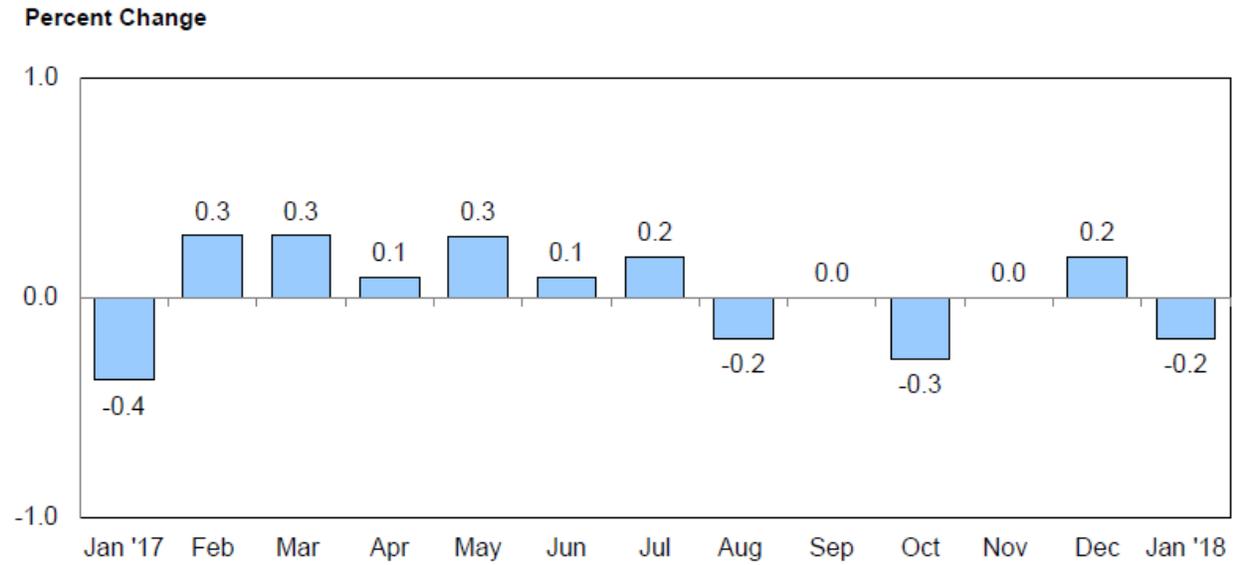
Chart 1



Source: Global Financial Data, Inc., Federal Reserve Board, Haver Analytics, Goldman Sachs Global Investment Research.

## Chart 2

Chart 1: Over-the-month percentage change in real average hourly earnings for all employees, seasonally adjusted, January 2017 – January 2018



Adapted from themaven.net