Not in Davos

For most of us, Davos is an irrelevance, though Trump could change all that.

Complacency is for the super-rich

Although I can see the appeal for journalists of hob-nobbing round the pistes with Fortune 500 CEOs, rock stars and Hollywood's A-list, I still struggle to see Davos as a particularly newsworthy economic / market event. Of course, the journalists have to write about it. How else do they justify the expense of the helicopter flight to the hotel to their editors? Mostly, I struggle to take seriously the hectoring from multi-millionaires that we should not be "complacent" about world growth and market strength. Who is this "we". Most of us will not be strapping on ski-boots today or mingling with Angeline Jolie. The vast bulk of all the populations represented by company and country leaders at these summits simply want a job that is secure and will pay them enough to lead a decent standard of living, with a little left over for treats. Those treats do not usually include swiss ski-trips. Are the world's wealth managers being complacent, or are they being herded into crowded low yielding high-risk investments by the policies of the very central bankers and supra-national entities that are telling them not to be complacent? As you can tell, I have no strong feelings on the matter. Maybe that's because I have never been to Davos and almost certainly never will. Sour grapes.

NAFTA is an existential risk

Donald Trump swings through the ski-chalets later this week to give an address. We don't really see Davos as Trump's sort of thing either. It would not be out of character for him to shake things up a bit. Economic nationalism is in the ascendancy. Canada's Trudeau has fired a warning shot across the bows of unfettered capitalism, Trump will likely deliver a similar though more nationalistic message. Trump's global tariffs of up to 30% on solar panels and washing machines is not just an attack on China or Korea, as some local Asian pundits are reporting. It is an indirect warning whilst the latest round of NAFTA talks is taking place. Be under no illusions, Trump expects NAFTA to tilt the playing field back in favour of the US, from wherever it is currently positioned. He will not be satisfied with less. NAFTA could be terminated. If you want a clear and present risk to shake off that complacency, this is it.

We are not complacent

If Trump were to terminate NAFTA as he has threatened, then we expect to see US, Mexican and Canadian equities tumble, the recent US Treasury bond yield increase to reverse, the CAD and MXN to get hit hard, but also the USD against the EUR. Such an upheaval may threaten risk appetite worldwide. With many pointers that valuations are overstretched, any correction could be substantial and aggressive. We are not complacent.

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