

Hello Everyone,

Based on Tuesday's results, Wall Street is convinced gridlock will define the next two years.

Today's missive, however, will go counter to that conventional wisdom and predict the opposite.

I hope you enjoy today's perspective.

Signed, Your-Is-Anyone-Watching-What's-Happening-To-Mortgage-Applications?-They-Are-At-18-Year-Lows-Hmmmmm Financial Advisor,

Greg

KKOB 11.09.2018 Gridlock...Not So Fast

Bob: So, Greg, before the election, you refrained from making any predictions about the outcome and the markets. But, now, you want to make some predictions that are out of step with most of us are hearing. Is that right?

Greg: It is. I'm going to run counter to many of my colleagues...which may not be too bright...because there are lots of smart people out there. But, I'll do it anyway. Bob, as you know, most Wall Street types are predicting gridlock and saying this is good for business, right?

Bob: Right. Gridlock means government will leave business alone—and Wall Street likes that.

Greg: Right. And, here is a quick review of their thinking. Gridlock means:

- **No major tax changes—or, at least taxes won't go up.**
- **Spending is likely to increase at least a little, mostly because of healthcare.**
- **We might get an infrastructure deal, but that could stall mostly based on how it would be done (union friendly or not) and what districts would get the priority (urban or rural—red or blue) that kind of thing. Next...**

- The regulatory agenda won't change much...but, President Trump already helped us there. And...
- We'll be back to drama-filled fiscal deadlines—but, continuing resolutions will keep government money flowing.

So, Bob, what is the common denominator in everything I just mentioned? Or, better said, what did I ignore?

Bob: I don't know. Everything you said happens within our borders. I mean you didn't mention anything about foreign affairs. In fact---as I think about it---no one has said much about the election and our relations with the rest of the world.

Greg: Exactly. And, in my humble opinion, this is where the gridlock argument breaks down. So, let's expand on this thought.

Suppose you are in leadership in Russia, China, Iran, even Europe...does, President Trump's position gets weaker or stronger based on Tuesday's results?

Bob: I'd say weaker. Because of the election, he'll be forced to deal with all kinds of issues & distractions he didn't have to deal with before. Plus, everyone is already gearing up for the 2020 election...including him. So, that will divert his focus as well.

Greg: That's my take, too. So, again, thinking like a foreign competitor,

what are some things you could you expect? Here are some possibilities:

- China will accelerate its claims and posturing in the South China Sea. Playing on regional fears, Beijing will then reach out to Tokyo and Taiwan...at eh expense of the US.
- Next, Russia will attempt to further build its presence in Syria and the Middle East. They'll strengthen ties with both Iran and Turkey.
- Knowing this, Iran will try to lever Chinese and Russian help to bypass US sanctions. Thus, don't expect Iran's nuclear ambitions to wane. The Middle East will tremble, and Israel will have its hands full.
- European leaders, who are already mad at Trump, will become increasingly stubborn and resist any of Trump's NATO initiatives.
- And, weaving its way through all this will be the ongoing subversion of the Petro-dollar....that 1970's deal that essentially backs the dollar with oil.

I could keep going, but I think we should start watching for what I would call probing actions. If I were a foreign rival, that's what I'd do....start small and see what I could get away with.

Oh, and don't limit your analysis to what I just said, watch things like trade, immigration, even low-level proxy wars. View the world through those lenses and I believe you'll conclude anything but gridlock is coming.

Therefore, I expect the markets to be far more sensitive to politics than they otherwise might be. That means investment opportunities—but don't think it will be business as usual.

Bob: I get all that. I can see all this “outside stuff” affecting our currency, debt, military spending, trade agreements, even our alliances. And, if there is anything I’ve learned from these business reports, that old-adage is true...follow the money. How do people reach you?

Greg: I agree—my number is 508-5550, 508-triple 5 zero or go to my website at zanettifinancial.com

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