

Clear as Mud

As North American equity markets generally made their way higher in 2019 (with hiccups in May and August), it was against headwinds of caution and uncertainty. Geopolitical market risks were elevated with many examples making headlines throughout the year. Front and center were the Brexit delays and negotiations, and a lingering UK election (for the third time in five years). Tense ongoing trade negotiations between the US and China consistently sat in focus. This past week, however, provided a little more certainty for investors. It also leaves a lingering question of, what's next?

In a busy week, we look to finally see the finish line for the CUSMA, which is the trade deal to replace NAFTA. As to US trade with China, there is an agreement in principle being cheered by the US President that avoids the costly tariffs that were set to directly impact American consumers. And across the Atlantic, it looks like the UK Tories were delivered their mandate to put an end to Brexit. In summary, some of the headline risks to the year have moved on to the next chapter.

Spend any time watching business news on CNBC or Bloomberg, the way to avoid any questions on the outlook for the markets is the link to uncertainty or unknowns. As we move forward, a modicum of that market uncertainty was definitively removed this week. With the UK election a textbook market reaction ensued. The Tories received their strongest show of support since the 1980's, and the weakest result for Labour since World War II. Friday, the British Pound Sterling was as much as two

and a half percent higher against the US dollar, with similar gains against the euro.

This move in the currency markets put the pound at its highest level against the US dollar in 19 months and its highest against the euro since the Brexit referendum back in 2016. In a quick digression, it was then we recall the pound fell 8 percent against the US dollar for the biggest one day move in a major currency since the end of Bretton Woods.

In the next chapter of uncertainties, we have the UK pending divorce and trade negotiations with the European Union over the next 11 months. Also, in focus could be a forthcoming trade deal with the United States in a global environment that sees a continued trend of deglobalization associated with declining global trade volumes. The other obvious uncertainty of course is the next phase of negotiations to take place between the United States and China.

With regards to the United States and China, shortly following the announcement of Phase 1 of a deal are reports of skepticism and calls for details of which trade barriers will be removed. The overzealous reaction in the risk and commodity markets was pared back as it seems the details that have come forward are clear as mud.

There is the angle that this past week may give the equity markets a strong footing into the year-end, but skepticism also lingers for what lies ahead.

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