Written by **Bob Adelmann** on December 5, 2018

Tuesday's Wall Street Selloff Triggered by Trump, Not the Economy

It was President Trump's tweets that set Wall Street's teeth on edge on Tuesday, with the popular averages losing more than three percent by the close of business. On Monday it was the president's assurance not only that a "truce" had been declared in the tariff war between the United States and China, but that the Chinese had 90 days to come to terms with the president, or else.

The Dow gained 300 points on Monday over the perceived good news.

And then the president appeared to backtrack slightly on Tuesday, letting a lot of air out of Wall Street's balloon:

> The negotiations with China have already started. Unless extended, they will end 90 days from [now…. Our negotiators will see] whether or not a REAL deal with China is actually possible.
>
> If it is, we will get it done….
>
> But if not, remember I am the Tariff Man. When people or countries come in to raid the great wealth of our Nation, I want them to pay for the privilege of doing so….
>
> But if a fair deal is able to be made with China, one that does all of the many things we know must be finally done, I will happily sign [it].

The message was one Wall Street didn't want to hear: 1) Trump might extend the 90-day drop dead deal date; or 2) If the Chinese don't do the deal, Trump will put in place those tariffs he put on hold for the duration.

Commentators went apoplectic trying to find other causes for the selloff besides the mixed message delivered by the president: The economy is slowing, the troubles in Europe (Brexit and fiery protests in France) are mounting, the upcoming OPEC cartel meeting on Saturday might result in higher oil and gas prices, the escalation of threats between Russia and Trump over his threat to withdraw from the arms control treaty signed back in 1987, the increase in interest rates about to take place by the Federal Reserve, etc., etc.

On Thursday, reality is likely to take over the trading floors as futures at the opening are currently pointing higher. That reality is 1) The Fed has backed off from its hurried attempt to slow the economy, with just one more rate hike to take place this year, and perhaps one more next year; 2) The fundamentals of the U.S. economy remain sound; and 3) The trade war between the United States and China is likely to take months, if not years, to be resolved, as suggested by The New American on Tuesday.

Stocks tend to reflect future expectations of economic performance, and so the news from consumers and the Institute for Supply Management (ISM) should be especially comforting come the market open on Thursday. Black Friday and Cyber Monday sales exceeded expectations, with forecasts that holiday spending (from November 1 through December 24) will increase by five percent or more compared to the same period a year ago.

The ISM's Manufacturing Index rose to 59.3 percent in November from 57.7 percent in October, the 27th consecutive month in which it stood above the 50-percent level between expansion and contraction. Its new orders index, its employment index, and its production index each notched gains in November over October as well. Wrote Richard Moody, chief economist for Regions Financial Corporation, after reviewing ISM's numbers: "The bottom line is that the factory sector continues to benefit from solid growth in demand, and still-rising backlogs of unfilled orders … support our view [that] ongoing growth in demand will sustain growth in employment and output in the manufacturing sector over the coming months."

Some called Tuesday's sharp decline a "capitulation" based on volume spikes in shares traded. It was more of a move by investors to stay out of stocks during Wednesday's holiday for fear of another surprise occurring when they couldn't respond until Thursday. Once the dust has settled, the market on Thursday should bounce nicely, reflecting reality and not fear of further declines. If the market does decline, investors should listen to Steven Dudash, president of IHT Wealth Management: The selloff on Tuesday makes "this [market] a screaming buy!"

Image: Nikada via iStock / Getty Images Plus

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*

Related articles:

[Improvements in China Trade Relations to Happen "Very Quickly" Says Top Trump Official]

[Two Words From the Fed, and Wall Street Jumps More Than Two Percent]

[Shoppers Set Records on Black Friday; Cyber Monday Records Likely As Well]

[Wall Street Worries? Blame the Fed]