NATURAL
INVESTMENT NEWS

What's Up on Wall Street

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Stocks and bonds continued to perform well during the second quarter, in spite of an uncertain trade environment and worrying international tensions with Iran. For the quarter, the stocks of U.S. large companies were up 5.0%, U.S. small companies rose 2.4%, and foreign stocks rose 4.3%. U.S. bonds were up 3.0%.

While the markets ended higher over the three-month period, the rise was interrupted in May, when markets declined steeply after the president increased tariffs on Chinese goods. Reports of slowing global economic growth also contributed to the sell-off. The president likewise imposed tariffs on Mexico but suspended them before they took effect.

Intermittent stock market declines and reports of a slowing economy have caused the Fed to consider whether the president's trade policy will cause the economy to slow further, and whether this would warrant interest rate cuts later this year. The prospect of lower interest rates (considered a plus for stocks, since cuts are believed to stoke the economy) led to a strong rebound in the market in June, closing out the quarter with gains.

Economic conditions for working-class communities are deteriorating in tandem with the declining U.S. industrial base.

Most economists believe that global free trade is overall a positive for the U.S. economy, which has generated trillions of dollars during the postwar period of trade expansion. However, the benefits of trade have not been enjoyed evenly in the U.S.; corporations have benefited massively, while U.S. workers have lagged widely behind, suffering unemployment and stagnant wages. This dynamic has significantly contributed to income and wealth inequality in the U.S.

The waning U.S. industrial base and deteriorating economic conditions for working-class communities are also part of the fallout. This has fueled anger among American workers, making them more susceptible to populist messages that blame international trade partners, such as China and Mexico, for their plight. China has contributed to this perception with its own protectionist trade policies, which hinder U.S. tech and financial companies from competing fairly in that country.

It is important to note that inequality is not caused by trade, but by the uneven distribution of the economic benefits of trade. One of our Natural Investment fund managers, Green Alpha Advisors, has an interesting analysis: instead of erecting trade barriers, the U.S. should focus on strengthening our ability to compete in the international marketplace. On the government side, they suggest less focus on tax cuts, and more spending on research and infrastructure. On the corporate side, this would entail fewer share buybacks, more employee development for new fields of work, and more reinvestment into innovation. Such measures could advance U.S. productivity, create higher-paying jobs, and establish a more stable U.S. economic base with less reliance on cheap foreign labor.

In climate news, *Bloomberg* recently reported, "Global warming is getting increased attention from the world's central banks. Bank of England Governor Mark Carney and his French counterpart François Villeroy de Galhau warned in a joint article last month that policy makers cannot ignore the 'obvious risks' related to climate change, urging the financial industry and central bank to do more. The U.S. Federal Reserve is also reportedly looking into the issue." *Bloomberg* further noted that the transition to a low-carbon economy will affect some companies more than others and could lead to "fire-sale" prices on liquidations of carbon-intensive assets. This elevates the risk level of investments in fossil fuel-oriented companies and reaffirms the importance of sustainable investing strategies to control investment risk.