Weekly Market Review

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The Week Ending September, 2018

Big news on the trade front with the U.S., Canada, and Mexico reaching a new trade agreement, the USMCA (U.S.-Mexico-Canada Agreement), late Sunday evening. The deal is set to replace NAFTA, which has been in place since 1994. President Trump took to Twitter to celebrate the win tweeting, "It is a great deal for all three countries," adding "...deficiencies and mistakes in NAFTA, greatly opens markets to our Farmers and Manufacturers, reduce Trade Barriers to the U.S. and will bring all three Great Nations closer together in competition with the rest of the world." Highlights of the deal include Canada opening their restrictive dairy trade barriers, which was a vital win for the U.S., and the Chapter 19 trade dispute process from NAFTA will stay in place, which was a key win for Canada. Collectively, the three countries are banding together to solidify the North American auto industry to better compete with imports from overseas. Under NAFTA, 62.5% of a vehicle must be manufactured in North America to qualify for zero tariffs. However, under the new agreement, 75% will need to be made in North America to qualify, which is a substantial increase. Additionally, there is a new provision that 30% or more of the work done to manufacture a car must be completed by workers earning $16 per hour or more. This wage is three times the average pay for a Mexican autoworker, which means it will be the U.S. and Canadian autoworkers who benefit.

Also happening last week, the Fed met and without much surprise, voted to raise the fed funds rate by 0.25% to the new target of 2.25%. The Fed continues to project one more rate hike this year which will likely come at the December meetings. Another noteworthy detail about the press release was dropping the language, "the stance of monetary policy remains accommodative," affirming the Fed's commitment to normalize rates.

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