

"As seen On Barrons.com, Apr. 21, 2018"

## Trump's Amazon Tweets Politicize U.S. Markets

By Vito J. Racanelli, April 21, 2018



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Almost a quarter-century ago, on arrival in Italy as the new bureau chief for AP-Dow Jones, I was in for a big surprise. It wasn't that billionaire businessman Silvio Berlusconi, a supposed nonpartisan who'd promised to clean up the country's ancient capital after a series of political scandals, became prime minister. What amazed me, instead, was the persistent political interference in Italy's businesses. I later learned this was common in continental Europe.

The parallels to the current U.S. political environment seem hard to avoid. With President Donald Trump, both politics and business appear personal. The Trump stock market rally comes with a risk: harm to the good governance and rule of law that make U.S. capital markets more attractive than other developed markets, or emerging ones. There's a reason that U.S. Treasury bonds are considered the universe's least risky asset.

While U.S. markets have been whipsawed by the administration's erratic trade and tariff positions, the federal government does have the statutory right to oversee foreign relations.

What of the president's critical tweets aimed at individual companies? There's no constitutional responsibility here. Before and after the election, he consistently aimed arrows at [Amazon.com](https://www.amazon.com) (ticker: AMZN), whose CEO is Jeff Bezos, and at the proposed acquisition

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of [Time Warner](#) (TWX) by [AT&T](#) (T). Time Warner's stock has suffered. The Department of Justice sued to block the deal last year.

The president once tweeted that Amazon's "stock would crash" if it ever had to pay fair taxes. On April 2, he tweeted that Amazon was taking advantage of the U.S. Postal Service, and "this will change." The stock fell 5%, or \$36 billion in market value. Both Time Warner and Bezos own news organizations—CNN and the Washington Post, respectively—that have been critical of Trump.

I am increasingly uneasy about these tweets, and investors should be, too. Does anyone think Amazon will be the last enterprise to feel the heat?

In the past, there have been rare occasions when a president criticized an entire industry in peacetime—think of John F. Kennedy's letter in 1961 to the steel industry about high prices. However, singling out a company for public censure, sometimes scornful, by tweets or otherwise, seems rarer still in history.

The market and stock movements are almost entirely tied to the whim of the White House, says Michael O'Rourke, chief market strategist at JonesTrading. The president goes on the offensive in the morning, and administration officials seek to put out the fires in the afternoon. "That is neither a reason nor an environment for investing. It is exactly the opposite," O'Rourke warns. Instead of making investment decisions based on a company's fundamentals, investors are responding to political propaganda, he adds.

The U.S. market's price/earnings ratio is about 17 times, higher than the 14 times that continental Europe is awarded, or the 12 to 13 times for emerging markets. The U.S. traditionally trades higher than those regions. Emerging markets, in particular, trade at a discount mainly for reasons of weak rule of law and poor governance. In Russia, industry and market rules can change overnight, and an investment there could plunge to zero if, for example, a publicly traded company or its CEO falls afoul of President Vladimir Putin.

Take it easy. We aren't suggesting that the U.S. is turning into an emerging market or becoming like continental Europe thanks to Trump's strident tweets.

Still, some veteran money managers think the president's tweeted criticisms of individual corporations, in particular, are negative not only for the immediate target but also, and more importantly, for the U.S. investing environment. "It's unusual and extraordinary... These tweets almost seem vindictive, that he's personalizing things that should just be business," says Charles Lieberman, chief investment officer of Advisors Capital Management.

**Emerging market stocks** trade at low valuations because the policy regime is uncertain, says another portfolio manager, who declined to be identified. "I grew up in an emerging market country where politics weren't about governing but settling scores," he adds. Investors are responding to policy tweets that have no coherence or regulatory direction. "How do we discount that?" he adds.

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Even if you assume Trump's tweets are mostly negotiating bluster, some investors have probably lost money in the process. That Amazon's shares have recovered from Trump's tweets is little consolation to those who sold.

The White House didn't respond to an emailed request for comment.

"I don't expect the president to be a cheerleader for U.S. commercial interests, but I don't expect him to berate companies and CEOs in public, either," says Daniel Kern, chief investment strategist at TFC Financial Management. It seems like something that happens in other countries, like Russia, he adds. "Maybe it fades, maybe it doesn't, but one risk is that, for example, people inside a government department like Justice take a presidential tweet against a company as a signal that it 'needs extra scrutiny.' That isn't a healthy development."

Peter Scholla, a partner at Global Investment Adviser, says the tweets could undermine trust—particularly among foreign investors—in U.S. institutions and the division of power here that differentiates the country from the rest of the world. Some clients worry, he adds, that the U.S. system is increasingly unpredictable and unreliable. "This is a new risk," he says.

The president isn't alone in singling out companies. During the 2016 election campaign, Democratic candidate Hillary Clinton took issue with [Mylan](#)'s (MYL) price increases for its EpiPen, calling them "outrageous" in a press statement. So maybe it's a sign of the times. But the rise of powerful social-media platforms is the key enabling factor.

This kernel of risk is growing with each tweet, and investors and even CEOs should be prepared because it won't be limited to this presidency. Politics is intruding on businesses as never before. How do you discount that?

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