



# Week In Review

May 24, 2019

## **China**

The trade conflict intensified as both U.S. and China appeared to harden their negotiating positions and the U.S. increased the number of Chinese firms on the Entity List. Chinese state-run media ramped up its criticism of the U.S. and the Trump administration, indicating that the Chinese government is preparing their population for a protracted conflict. Risk assets continued to decline in response to these developments.

**Our Take:** Market participants are moving away from a view of a lengthy and perhaps escalated trade conflict as a tail risk and toward that situation as a base case. If the conflict is not de-escalated soon it is likely to impact growth in ways that will begin to show up in economic data.

## **Brexit**

May announced that she will step down as Conservative party leader on June 7 as it became clear that the party would force her out otherwise. The contest is now on to replace her as party leader and form a government to lead the UK through the resolution of Brexit. Currently, Boris Johnson is the favorite. Johnson would be much more likely to lead the UK to a no-deal Brexit if the EU is unwilling to make changes to the current exit agreement. Separately, exit polls indicate that Nigel Farage's Brexit party won the largest number of UK seats in the next European Parliament.

**Our Take:** Brexit is still no closer to resolution. The outcome of the European Parliament elections and the Conservative Party leadership contest will set the context for how the UK and the EU proceed from here.

## **Municipals**

Kansas Democratic Governor Laura Kelly vetoed a portion of the 2020 fiscal year budget that would have allowed a one-time contribution of \$51 million to the Kansas Public Employees Retirement System. Governor Kelly indicated that she was concerned about additional spending in the state's general fund. Kansas Senate President Susan Wagle, a Republican, stated that Kansas should proceed with the unscheduled payment to make up for a skipped payment in years past.

**Our Take:** There is a chance that there could be a vote to override the veto. Other lawmakers indicated that the one-time payment should be made to improve the state's funding ratio. Kansas has taken steps to improve its fiscal health over the last few years but there is still work to be done. Even if the one-time payment does not occur, Kansas should continue to work to improve the funding levels of its pensions.

—There is no additional Week In Review detail for this page.—

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