Investor Intelligence Report: Trump, the Market Gatsby?

Investor Intelligence December 2016

The “money chart” this month seems to us to be the second chart on page [5] which shows S&P Quarterly Earnings (USD$ Inflation Adjusted to current prices) and it’s impressive indeed. It look like lift-off time but then read in the context of other charts that are peaking or flatlining it is difficult to imagine a “to da moon, Alice” scenario here. If the new Zeitgeist is reempowering the white working class and the spinning-the-wheels middle class then the redistribution away from these groups since the 1980s has to be reversed, in part, and that mean taking away from the share of capital in the economy and redistributing the other means of production. And it took a billionaire to get us dusting off our copies of Marxist dialectic!

Infrastructure

For those that still smart at FDR’s New Deal (and its associated WPA) of the 1930s there might be some bitterness at the concept of a massive publicly funded infrastructure binge under the incoming Administration. Be that as it may, the new trend would dictate a change of direction for the US economy with greater investment into heavy capital goods and less into services and technology. How long has it been since big mining, metals, construction and other materials stocks ruled the roost in the US capital markets? The 1960s? Most of the mining sector has vaporized and only a few construction companies are household names anymore (Fluor, Bechtel). Who gets hot and bothered over producers of gravel, cement or asphalt. Brace yourself…

W(h)ither Housing?

That leaves an interesting question. With interest rates rising secularly after a long period of super-low levels, and the infrastructure ramp-up promising to put new demands upon credit markets, then where goes the US (and global) housing markets in an age of rising rates? Our charts on page [23} show an interesting trend. The area that has fared best since the 2007-8 swoon has been the Midwest. In Light of the new emphasis on the heartlands, maybe this outperformance will be even more pronounced. Is now the time to go Short Greenwich, CT and Palo Alto, CA and Long Louisville, KY and Akron, OH? Higher rates will crimp the highest priced and least affordable properties more than the more reasonably priced. Indeed the fact that the Midwest didn't take the same bath that the coastal markets took in the Great Recession just reinforces that it's all about affordability.

The global housing situation on page [24] shows that tapering off is the trend of the day, particularly in developing markets with Brazil looking very queasy showing what happens to those countries that go from boom to bust on a short timeline. The US economy will be sucking back capital to the mothership through a combination of rate rises and profits repatriation changes which will make developing markets the relative losers for the rest of the decade. Housing in those markets is the canary in the coalmine and the canary has stopped singing.

Trade Wars?

Just when China thought they were the Masters of the Universe along comes a new US president elect and throws decades of careful grooming of the US political class out the window. In fact he throws the US political class out of the window as well. The phone call from the Taiwanese president has had an electrifying effect upon the international trading community somewhat akin to the old chair at Sing Sing.

Despite the bravura of the Chinese response the boot still is on the US foot with the trade balance massively in China's favour and thus massively to their disadvantage in any sand-throwing competition. Moreover the US tends to buy a lot of "wants" rather than "needs" from China. However, it could be very bad news for those hyperdependent US corporates like Apple, who both source in China and have sizeable end demand in China. Householders might need to steel themselves for the Great Plastic Bucket shortage of 2017 but that will scarcely be the end of the world, except maybe for the US companies that offshored to China when the "going was good". If anything it will accelerate the trend for US corporates (and retailers like Walmart) to seek out the next "best and cheapest" producer as China in many categories was no longer fulling the "cheap" part of that equation anyway.

Resource Nationalism

With all of the trade talk on the airwaves and the mooted infrastructure boom, one should spare a thought for the implications for the metals sector. The US has been an almost static (i.e. low to no-growth) player in global metals markets for decades now. This should be no surprise with infrastructure spending and with China taking away all the incremental growth in manufacturing demand (and particularly eating everyone else's lunch in the steel industry). Any trend towards bringing back production from China or imposing punitive tariffs on dumping and predatory pricing should see a pickup in US demand for base metals, specialty metals and steel alloy metals.

In particular if there is to be a war on distortive behaviour as practiced by the Chinese then an obvious candidate for attention would be Rare Earths. This hot topic of five years ago faded from the front pages but is still a troublesome subject with the Chinese exercising a brutal grip on the pricing of these metals to maintain dominance in their trade and usage. We reached out to Ian Chalmers the CEO of Alkane Resources Ltd. (ASX: ALK | OTCQX: ANLKY), the Rare Earth developer and his comment was “Supply constraints will be further seriously exacerbated by the incoming US Administration’s rumoured tariffs on rare earth and rare metal products coming into the US from China. These Western companies may be forced to make a decision on whether they will accept Chinese dominance of downstream products (ie for electric motors, refrigeration, air-conditioning, wind turbines) or if they are prepared to pay the higher prices for materials sourced outside of China”.

Its early days yet, but a sign of seriousness would be restrictions on exporting strategic metal “scrap” to China.

The Coming Month

Usually transitions consist of announcements of dull cabinet secretaries, key ambassadors and minor flunkies and functionaries. This transition could best be described as “never a dull moment”. The message that is coming through though is somewhat akin to Calvin Coolidge’s dictum that “the business of America is business” with key positions going to business people and the few politicians in the mix must show their pro-business credentials to get past the guards. The interesting issue now is whether the US will manage to trigger a proper recession in China and if it does than will the rest of the world be able to avoid catching the same cold. Our PMI charts on page [27] seem to indicate that the West and developed economies are actually looking a lot better than the developed economies and that now it is time for the party that has raged for twenty years in the small houses in the neighbourhood to move back into the Big House and maybe Trump is the Gatsby to make it happen…to access the full report, view the below PDF or click here

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Investor Intelligence Report: fasten your seatbelts, it's gonna be a bumpy ride

Special Note from the Publisher: On this Canadian Thanksgiving weekend, we at InvestorIntel Corp. and Markethack Inc. are sharing a complimentary copy of Investor Intelligence Report: ***fasten your seatbelts, it's gonna be a bumpy ride***. Please note that the **Investor Intelligence Report** is an economic data report distributed monthly to over 50,000 investment advisors in North America and Australia. With a summary introduction written by Christopher Ecclestone, an economic data report prepared by Jim Laird and an interview I host with David Morgan on the market this month – we hope you enjoy the **Investor Intelligence Report** on this holiday weekend.

Investor Intelligence Report: *fasten your seatbelts, it's gonna be a bumpy ride*

Christopher Ecclestone – The last month has been a transitional quiet zone with the dog days of summer representing a kind of Phoney War before the heavy cannons start firing in the US presidential campaign over the next month and a bit. Truth may be the first casualty in war but in this battle, international free trade may have taken a bullet and may not live to fight another day.

Trade Takes a Bullet?

Bernie Sanders and Donald Trump nailed their colors to the mast early on as being inimical to the type of free trade deals that have characterized the international scene since the 1990s, but with Sanders exiting stage left, Hillary Clinton has had to mouth her own misgivings about the effect of unfettered free trade on American jobs and the trade balance. It is tempting to also see the Brexit vote in Britain as an indictment of free trade but in the aftermath, most of the rhetoric has focused on how Britain might be more diversified in its trade partners and more open to trade. All this comes against the background of the death foretold of the two big trade deals of these times, the TTIP and the TTP. In their wake the CETA deal between Canada and the EU isn't looking too healthy either. Therefore whoever wins as they say in the classics "things may never be the same again".

Irrational Exuberance All over Again?

Our statbook for this month has a hefty weighting towards housing data and well might we highlight this as it can be the canary in the goal mine for other problems in the economy. However having said that in many places housing prices are just getting back to 2008 levels and some areas still remain below the highs of that time. Considering the inflation (as per official stats or the inflation that people really feel is occurring) prices that are back at 2008 levels are actually down in real terms. *The Global Housing stats on page 24 provide some novel insights.* We all know New York and Vancouver are expensive but we seldom see what is happening in Mexico City or Santiago in Chile. Broadly the story is one of booming house prices, driven by low interest rates. Then again he who lives by the sword dies by the sword and any upturn in global interest rates makes a broad global housing downturn (with attendant capital destruction) into highly correlated events. Brazil, with its recent economic malaise, may be a forerunner. Indeed it may be coming out of its swoon just as many of these other markets start to decline. We should recall that the US has maybe immunized itself from a repeat of the 2008 debacle by having suffered a steep decline in prices at that time. Markets that did not see such strong retreats (or any retreat) such as Vancouver, Australian big city property or London) are exceptionally vulnerable. Indeed the Brexit vote (plus other measures) is projected to lop 8% off London valuations over the next year.

The decision to pass on an interest rate rise by the Fed promises to stoke the US housing market, or at least keep the ball in the air for longer. However as we can see from many of the credit metrics in our charts (particularly page 14) defaults may have bottomed and some stress could start to show (see page 13) if US households don’t rein in their purchases on credit (including cars) in the near future.

Metals – It’s all about the Base

Gold briefly flirted with going under the $1,300 per oz support level and bounced higher but not much. Silver at one point was off more than 10% from its recent highs and then managed to move slightly higher but seem to lack impetus. Those who wanted a breakout to the upside have been disappointed as neither the Fed nor inflationary tendencies have come to the party. In North America and other major international economies deflationary tendencies still dominate and our sentiment indicators (pages 18-20) show a mooted outlook in all categories which doesn’t augur for any inflationary surprises. Frankly some Central Banks (and certainly many commercial bankers) might hope to see a break to the deflationary trend as super-low interest rates are playing havoc with lending policy and creating great problems for the long-term pensions outlook.

Base metals have spent the last month doodling round, with Zinc in particular losing its former momentum, and falling back a few percentage points. It also bounced off the $1 per lb floor resistance. Copper though broke out of its lethargy and while not exactly soaring is at least starting to better reflect the tight supply situation and finally showing "benefits" from capacity closures and the lack of major new projects to replace production permanently closing.

Conclusion

With the U.S. Presidential election still somewhat in contention the debates promise a wild ride for economic operators. One debate might signal a candidate is heading for glory but then a second debate might tip matters back the other way. A major faux pas might end the aspirations of one (or at least would have in the past) but this time around we have seen that a big mistake can be swept under the rug and voters seem disposed to give second chances and keep their options open. Investors and their brokers and bankers would be excused for being a bit nerve-wracked if a clear leader doesn't appear soon. Internationally the US currency is riding high and perceptions are of sustained economic growth, which is more than one can say for too many other major economies. However outside investors, particularly the Chinese with their massive Treasury holdings will be watching the debates as fervently as any US householder for a sign on direction between now and the big day in November.

In short, *fasten your seatbelts, it's gonna be a bumpy ride…*to access the complete Investor Intelligence Report economic data, click here

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Investor Intelligence Report: Two global economic trends

surface from Brexit

InvestorIntel is pleased to announce that it has been given the rights to publish Markethack Inc.'s first edition of the **Investor Intelligence Report** titled *Two global economic trends surface from Brexit* for our audience this month. Created as an economic data report for investors and members of the professional investment community, the **Investor Intelligence Report** provides "level setting" data and a way of saying "we are here" in the economic cycle.

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