

To: Ermes Monaco (e.monaco@holliswealth.com)
Subject: VALUED CLIENT MAIL LIST: Economic Outlook - A New Global Economic Wind

HollisWealth^W MonacoAdvisorTeam

THE PENDULUM SWINGS



Source: Google Images

With the changing of the political guard in Washington, the policies being indicated by the incoming administration represent a number of political and economic reversals of direction. The proposed import tariffs and unwinding of international trade agreements, for example, are indicative of a [swing back to protectionist policies](#) previously unwound by past U.S. administrations over the previous several decades in favour of more open global markets. Instead, all intents indicate it is the new administration's attempt to manage globalization.

As we've discussed in previous newsletters, change is inevitable. However, we've also recognized that it is the way we respond that affects our success in the process. In the financial markets we refer to the "oddlotters" as a sign that a trend has run its course. The oddlotters will make investment choices on a reactive basis based on conditions that were previously opportunistic but which have since changed. As a consequence they tend to buy at the highest prices and sell at the lowest prices. It's a bit like closing the stable door after the horse has bolted.



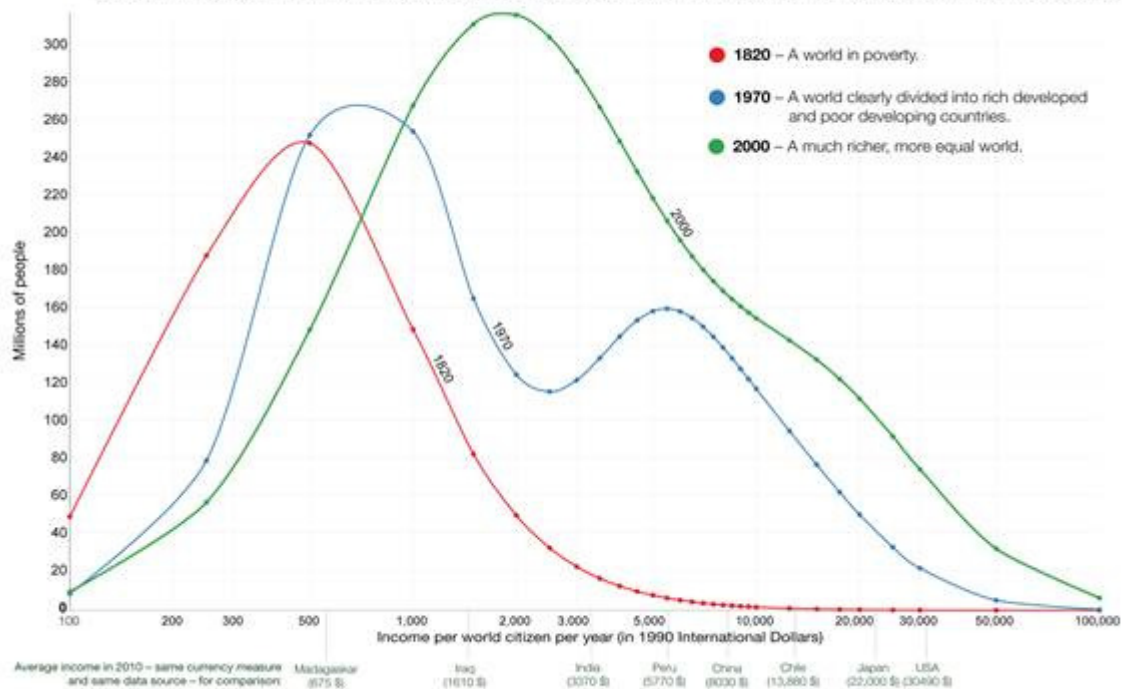
Source: Google Images

In this case, the economic horse is globalization and a strategy of applying new import duties, tearing up trade agreements and building border walls is like installing a new lock on the barn door so that the door doesn't open on its own, after the horse has escaped. The reality is that globalization is now so thoroughly entrenched in the global economy that any attempt to block it will cause a chain of economic consequence with the potential to trigger another recession.

Globalization has allowed a greater distribution of economic value around the world that has contributed to a higher global standard of wealth and living. It has also contributed greatly to the quality of life in the west due to the lower cost of production for imported goods, making those TV sets, cell phones and other desirable goods more affordable. Even the price of goods manufactured in the west benefit due the lower cost of the imported components used in the manufacture of domestic made goods.

The World Income Distribution in 1820, 1970 and 2000 – by Max Roser

The yearly income of all world citizens is measured in International Dollars. This is a currency that would buy a comparable amount of goods and services a U.S. dollar would buy in the United States in 1990. Therefore incomes are comparable across countries and across time.



Data source: www.dlo-ethz.ch/vivian.zanden@ethz.ch (2014) – How Rich Live? OECD.

The interactive data visualization is available at OurWorldInData.org. There you find the raw data and more visualisations on this topic.

Licensed under CC-BY-SA by the author Max Roser

Source: OurWorldData.org; OECD data

Not all change requires dramatic response and sometimes it's more a matter of refinement than replacement. Rather than inhibiting globalization, the reciprocation of capital received by the exporting nations through increased trade spending with the importing nations would greatly improve the balance of payments and the demand for debt to support living standards. This would involve a greater exchange of global goods for western services which could be effectively achieved through stronger trade agreements.

However, in the U.S. context, some of the risks to the incoming administration's proposed policies include:

- An increase in the cost of imported goods contributing to inflation
- The cost of re-shoring industries domestically to avoid import taxes would be costly and result in higher costs of goods because of higher domestic wages
- Alternatively, higher domestic wages would spur the expansion of automated robotic production and lead to further unemployment
- Inflation would trigger higher interest rates and slow economic growth
- Trading relationships and balances amongst nations would be disrupted leading to economic and political instability in the export markets for all countries

It is naïve to think that nations around the world will flatly accept a newly dictated economic order. Instead, new trading alliances, not including the U.S., are already being developed such that reliance on exports to the U.S. could gradually decline. China is actively establishing expanded trading relationships beyond the U.S. as witnessed by the fact that it's exports to the U.S. have declined by -10% from a high in September 2015 while it's GDP has otherwise grown annually by an average 6.7% during this same time. It's trading activities have concurrently grown with India, South America and Africa (statistical source: www.tradingeconomics.com). Canada similarly is seeking renewed partnerships with Europe, the U.K. and Asian countries through its recent trade agreements with these regions.

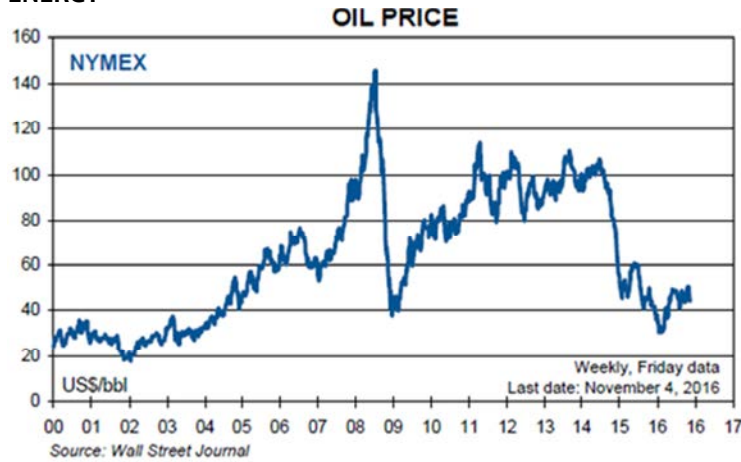
Ultimately this new U.S. posture could trigger a diminishment of its global economic leadership role which could also injure its political profile around the world. However, as water always finds its course, global

Canada											
Treasury Bill (91-day)	0.46	0.52	0.52	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45
Government Bond (10-yr)	1.20	1.33	1.02	1.38	1.35	1.30	1.35	1.38	1.50	1.55	1.65
Prime	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70

the possibility of a weakening loonie.

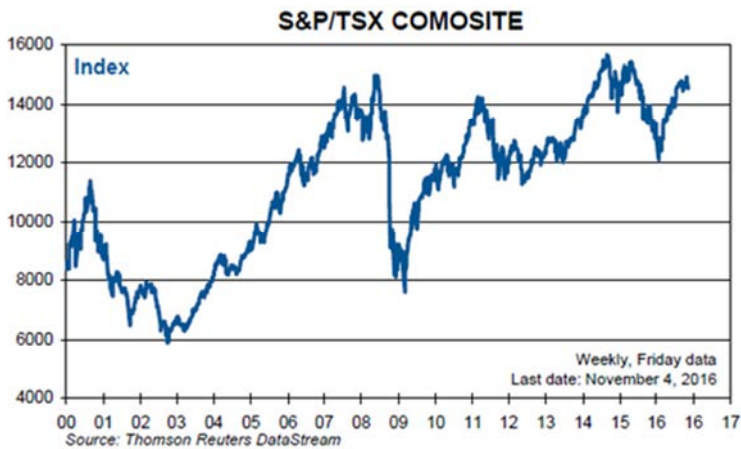
KEY SECTORS

ENERGY



Oil prices have found recent strength which will be dependent on the level of production should the U.S. follow through with its plans to increase production despite OPEC having signalled a production hold at this time.

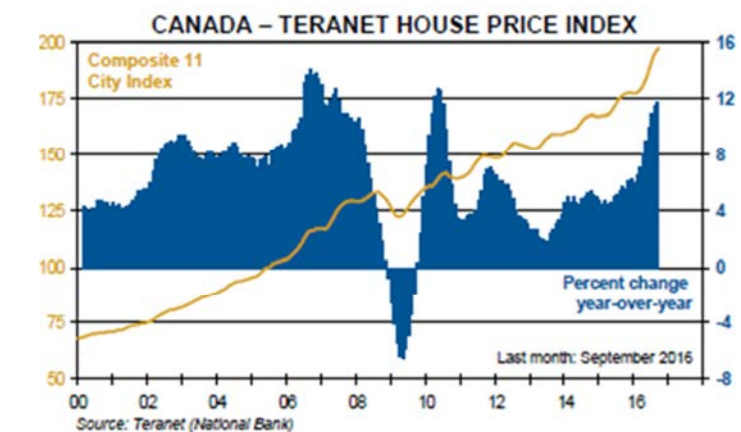
FINANCIAL MARKETS



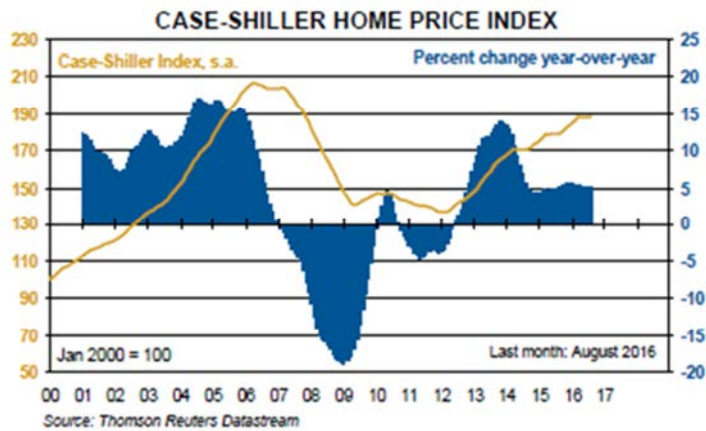
Post-election market gains have been driven by an amount of idle capital returning to the risk markets on the strength of expectation. However, this has moderated recently based on a wait and see shift in attitude.

In the meantime, market uncertainty remains high and substantial capital remains un-invested in the risk sectors.

REAL ESTATE

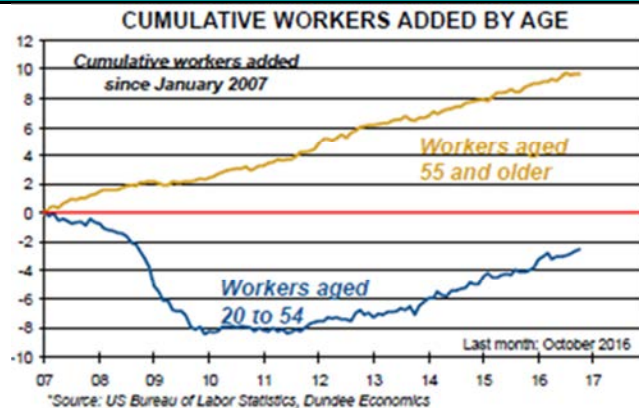


Current trends in Canada and the U.S. remain although some slight moderation is being noted.



TIMELY ITEMS

Trend of Workers Nearing Retirement Age Returning to the Workforce By Choice or by Necessity



QUOTES FROM THIS MONTH'S MONITOR

On U.S. Political Authority to Affect Global Trade

Clearly, the President has significant, independent powers in the arena of foreign trade!

On Canadian Economic Indicator Expectations

- 2. ► The **BANK OF CANADA** to stand pat on interest rates this year and next;
- 3. ► **BOND YIELDS** in the US and Canada to rise on the back of significant fiscal expansion in the US, and higher inflation resulting from increased trade protectionism;
- 4. ► The **CANADIAN DOLLAR** to trend sideways/ downwards;

On U.S. Economic Indicator Expectations

So what might we conclude at this stage on the economic front:

- The US budget deficit will rise significantly ... independent estimates suggest Trump policies will add \$5-7 trillion to the national debt over the next 10 years
- US Inflation is likely to rise somewhat faster
- The US dollar will decline – against overseas currencies – once new trade initiatives are introduced
- US long-term yields will rise under budget and inflation pressures ...

Regards
 Ermes Monaco, CIM
 Investment Advisor
 Portfolio Manager
 HollisWealth, a division of Scotia Capital Inc.
 416-412-4254

MonacoAdvisorTeam

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