

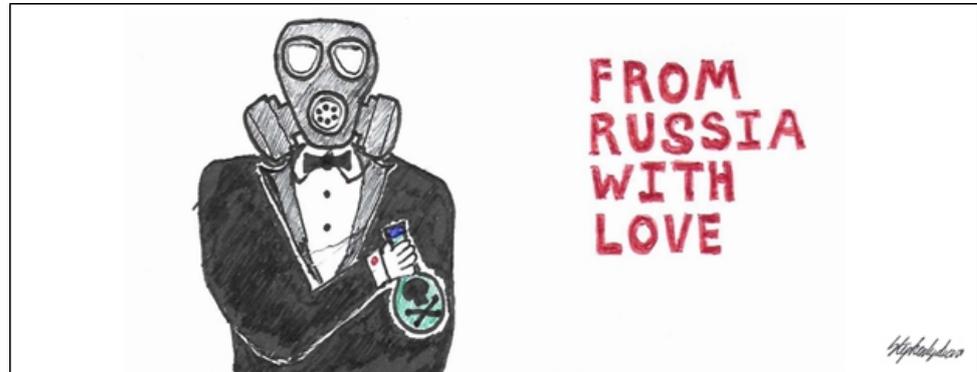


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MVAM Newsletter

'Russian exports to thrive even as trade barriers rise?'

April 2018



As the world's leaders fall apart over trade, they seem to club together in their efforts to maintain power. Putin, with his reach stretching from the Crimea to Caracas and Syria to Salisbury, seems to be successfully exporting the benefits of dictatorship. China's leader, Xi Jinping, changes the rules to allow him to be top dog for as long as he likes. Power corrupts and all that...this time even the West is joining in. Donald Trump's tweet - speculating on following China's lead on removing fixed terms in office - surely betraying more than a poor sense of humour?

So, it pains this author to say this there is something in what Donald Trump is tweeting about when it comes to trade. Globalisation led by US liberalism has been the dynamo to all that is good that has happened in the world over the last 70 years. Unprecedented change. And as we have said before change generally for the better. This US liberalism has without doubt been the key behind investment returns. Profitable growth through innovation is the liberalism that has helped us "all".

But Donald Trump's tweets, and indeed his election, point to the fact that the US has not handled globalisation that well recently. This year's US government budget deficit will exceed 1 trillion dollars, taking its total debt to over 14 trillion. Relative to the size of its economy the US is set to have a bigger debt than Italy by 2022! Couple this with a trade deficit, the US is set to import \$500 billion more of goods than it exports this year. The US has been "hollowed" out by this imbalance over the last two decades.

Low interest rates have enabled the US to ignore the debt and pay for the import imbalance. But now interest rates are rising, the cost of that debt is rising. To keep its head above water the US will have to start pedaling and pedaling fast. The only real solution is for the US to start importing less and exporting more. Trump's trade wars are just a symptom of this malaise. But a change to the US's terms of trade is a must. Without it the US economy and its currency will simply implode, and Russia's export of illiberalism and dictatorship will thrive.

The 1987 stock market crash was triggered by rising interest rates against a background of these dual deficits in the US. We have the same background. But remember history never repeats but merely rhymes. So, before you run for the spade to hide all your assets in the back garden and revive the mantra of "better red than dead" the stock market still delivered a positive return in 1987, it wasn't until three years later that the markets really retreated.

No doubt the ducks are aligning, the canaries are dying (see January newsletter), the gloom around geopolitics is there, but after the recent correction we contend we may well have a crack up boom to give us the last hurrah, something that probably shouldn't be missed **to be continued next month....**

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