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JUNE 2019 INVESTMENT COMMENTARY

MARKETS REACT TO THE NEWS

INVESTORS FORM MOSAIC VIEW

At Seven Summits Capital, I have to process an unending gusher of information on a daily basis. I do this in order to maintain an ever fluid mosaic of future risk and opportunity. I began writing this commentary on May 31, 2019, and below are eleven headlines from the previous 36 hours:

- Concern Deepens in Turkey Over U.S. Sanctions for Russian Missile System (Reuters: May 31, 2019)
- Mexico Tariff Threat: Trump “Playing with Fire” (Forbes: May 31, 2019)
- Mueller News Conference Puts New Impeachment Pressure on Pelosi (Fox News: May 29, 2019)
- Major River Flooding, Outbreaks of Tornados, is This What Climate Change Looks Like (NPR: May 31, 2019)
- China Tariff Retaliation Kicks In as Trade War Ratchets Up (Bloomberg: May 30, 2019)
- Warning Lights are Flashing for Emerging Market Investors (Financial Times: May 30, 2019)
- Atlanta Fed Trims U.S. Second Quarter GDP Growth View to 1.2% (Investing.com: May 31, 2019)
- Justice Department Prepares to Probe Google Over Antitrust (Bloomberg: May 31, 2019)
- Trump to End Trade Privileges for India on June 5 (Reuters: May 31, 2019)
- U.S. Equities Extend Decline as Global Trade Tensions Worsen (The Washington Post: May 31, 2019)
- Tech Loses Half a trillion in Market Cap in a Month to Forget (Bloomberg: May 31, 2019)

Anyone who reads my monthly commentaries knows that I believe that we are currently in an unprecedented environment of uncertainty. I am not saying that today’s environment is equally perilous to the economic woes of the 1930s or civilization’s fight against fascism during WWII. What I am saying is that today’s uncertainty and danger emanates from a myriad of political, technological, economic and geopolitical factors intersecting in a way that both exacerbates and magnifies latent fears and anxieties. This environment fuels nationalism and hostility toward institutions.

Anyone who discounts the impact today’s uncertain environment has on the investing environment is not fully thinking through the implications of this unique set of circumstances. My biggest concern is the impact of today’s unique confluence of political, technological, economic, and geopolitical factors on the global standing of the United States. For the last 70 years, the United States has maintained a paramount economic and military superiority over every other nation. Our leaders have historically been cautious not to abuse

this superiority when negotiating with other nations, particularly those nations which are close allies. Over the last two years, this restraint has been shattered as our government has unleashed a series of economic weapons, such as tariffs, and military threats in order to bend other nations to our will. I have touched on these concerns in past commentaries.

World War II was won by the United States leading a coalition of allies. Today, we refer to the World War II generation as “the Greatest Generation.” In 1944, toward the end of the war the forty-four allied nations convened the Bretton Woods economic conference to design a post-war global economic architecture that promotes free trade and ends “economic nationalism.” This conference began the era of the modern U.S. centric global economy. This modern global economy has served the United States and the “Western” world very well over the last 70 years. The current U.S. President has rekindled the idea of Economic Nationalism. A similar movement is definitely afoot around the world. Self-proclaimed economic nationalists have driven the Brexit saga in Great Britain, and the growing political movements in Hungary, The Czech Republic, Poland, Austria, and Italy represent a trend that threatens the very economic world order that solidified the United States as the preeminent global economic superpower.

Not only is the aforementioned confluence of factors fostering today’s unprecedented level of uncertainty and increasing the risk of economic dislocations and distortions, but a return to greater economic nationalism can also elevate the risk of military conflict. One of the primary non-economic goals of the post-1945 modern global economy was to reduce to risk of war by creating closer economic ties and interdependencies. Should these interdependencies be weakened by a move away from multi-lateral economic agreements in favor of bilateral agreements, the world risks becoming more prone to economic conflicts escalating into military conflicts.

It is striking, but not surprising to me that the U.S. financial media outlets are not regularly discussing these subjects. Certain media outlets, such as Forbes, Financial Times, and The Economist have been publishing articles critical of current U.S. policies. Many of these articles focus on how the current backlash against the economic world order of the last 70 years threatens the long-term stature of the U.S. Dollar as the world’s reserve currency. On May 20, 2018, The Financial Times published an article written by Eswar Prasad, titled [America Beware: U.S. Dollar Dominance is not Forever](#). Two cogent paragraphs from this article are highlighted below:

“As it is, the falling cost of transacting in other currencies and the rise of emerging market currencies such as China’s renminbi are already reducing the dollar’s role in denominating and settling cross-border transactions. China and South Korea are conducting trade using their own currencies rather than relying on the dollar as a “vehicle currency.” The logic for denominating in dollars virtually all contracts for oil and other commodities is waning.”

“Other forces are at work. Under Mr. Trump, the US is increasingly seen as an unreliable partner in trade, military, and other agreements. This has damaged its international credibility and also sown fear that Mr. Trump could wield the dollar as a weapon of control over other countries. Consequently, China and Russia, among others, are setting up their own payment systems and channels that bypass the US.”

I do appreciate that a discussion of the reserve currency status of the U.S. Dollar and the dangers of economic nationalism are subject matter that will move the markets in the near-term. However, as a long-term professional investor, I must factor in such risks into mosaic which informs my outlook and allocations of investment capital.

From a July/August 2019 Foreign Policy magazine article titled "The Self-Destruction of American Power," in a section sub-titled The Final Blow, the author writes, "It (the United States) is uncoupling itself from its 70-year partnership with Europe. It has dealt with Latin America through the prism of either keeping immigrants out or winning votes in Florida. It has even managed to alienate Canadians (no mean feat). And it has subcontracted Middle East policy to Israel and Saudi Arabia." The author expertly articulates the stages of post WWII American Power and poses the very important question, which is essentially whether the Greatest Generation's sacrifices will have taken us as far as we can go. That question is this, "As American power wanes, the international system it sponsored—the rules, norms, and values—will survive. Or will America also watch the decline of its empire of ideas?"

This month's commentary is food for thought for the many people who tune the news out because they are suffering from information overload. Our world standing is at stake and nothing has greater implications on future investment decisions than the loss of U.S. global standing.



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