ROSIE'S PROGNOSIS? NOT ROSY

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08/02/2019

The stars were aligned perfectly: second-quarter GDP data was released on the same day that Dave Rosenberg, chief economist and strategist at Gluskin Sheff and well-respected market guru, was making his inaugural appearance on "Behind the Markets," the podcast hosted by Jeremy Schwartz, our Director of Research.

I've known Rosenberg—known as "Rosie"— professionally for a few years, so I manned the microphone and braced for a duel between him and Wharton Professor Jeremy Siegel.

But they had a lot to agree on.

Rosie has strong views on Brexit, which is less than 100 days away. He isn't a fan of Boris Johnson, the new prime minister, and worries about the effect this issue could have on sentiment. Also disconcerting: Germany's manufacturing sector is in bad shape, though he said there is potential for fiscal stimulus there to alleviate the pain, given Germany's anomalous balanced budget.

Rosie can go deep on the micro granularities of the day but can also crush the generational stuff. I mentioned the parallel of wars waged between ancient Sparta and Athens as a warning for rising Sino-U.S. stresses. The thesis: an existing power feels threatened by the new kid on the block, with war often the result. Rosenberg properly identified this as the "Thucydides' Trap," and I think all good strategists need to read a book or 12 on this subject.

In discussing the trap, Rosie noted something that I opted not to challenge because I wasn't sure I was right. He said this is the first time in the period of U.S. hegemony that there is an *economic* power challenging its dominance. His view: yes, the USSR was a threat, but not economically, only militarily. Though Rosie and I know this to be largely true with the benefit of our 2019 eyes and now that the ink is dry on the systemic lies of the Soviet Union, I'm not sure this was as clear a half century or so ago.

In a somewhat related issue, I have been asserting that the shriveling up of Chinese capital in Melbourne, Sydney and Vancouver was a warning to homeowners along the California coast. Rosie is on the other side of the trade and pointed out that capital inflows into places like Vancouver could ratchet up again now that Beijing is threatening to send the People's Liberation Army into Hong Kong to crush dissent. Scared of mainland Chinese tyranny coming to Hong Kong? Let me show you a condo in Vancouver, where Cantonese or English work just fine.

Finally, I asked Rosie about his positive comments toward Japan, which he recently discussed at length in his morning newsletter, "Breakfast with Dave." He didn't want to get "too political," but it is clear that he feels Prime Minister Shinzo Abe's Abenomics and the attendant labor force participation initiative known as “womenomics” are setting Japan on a path to reform. Additionally, he is heartened by easing immigration restrictions and the nurturing of an equity culture for the first time in decades.

When I noted the sub-2% dividend yield on the S&P 500, which is now exceeded by Japanese equities, Rosenberg confirmed the relative appeal. It was here that he volunteered his overweight position to Japan in his international fund, where he has allocated 25% to the country.

Summarizing Dave Rosenberg

Extraordinary monetary stimulus looms, from the U.S. to Europe to Japan. In Europe specifically, German manufacturing is troubling, as is what looks like a clear “hard Brexit” from Prime Minister Johnson, though we didn’t go get into forecasting sterling.

Studying and thinking about Sino-U.S. relations will pay dividends, as the current conflicts are much bigger than just trade; this is a civilizational issue, a “long-game” concept. Because of these matters and others, Rosie is bullish on long bonds and gold.

Hong Kongers may attempt to get capital out of the island, and their destination of choice would be places like Vancouver, much to the relief of housing longs in that beleaguered city. Finally, the unloved stable country with not-as-bad-as-you-think economic growth is Japan. Valuations there are appealing, labor force dynamics are surprisingly improving and there is “Abephilia” in the halls of Gluskin Sheff, where Dave appears to be bulled up on the Japanese prime minister.

Unless otherwise stated, data source is Bloomberg as of July 24, 2019.

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DEFINITIONS

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Fiscal Stimulus : Using fiscal policy as a tool to provide economic growth.

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Bullish : a position that benefits when asset prices rise.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.