"TINA" GOES GLOBAL

Jeremy Schwartz – Global Chief Investment Officer
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This week Professor Siegel and I chatted with Jason Trennert, Managing Partner at Strategas Investment Partners. Our conversation focused on the outlook for the U.S. and global markets. **There Is No Alternative ("TINA"): A Global Phenomena** Jason sees the present situation of the developed economies as a foolish consistency. He characterized the global equity environment from a framework he calls "TINA: There Is No Alternative," a slogan first used by Margaret Thatcher in the late 1970s in reference to economic liberalism. In an environment of incredibly low interest rates, the quest for income should include equities. In one word, **TINA**. One powerful example is Germany, where bund yields are 10 basis points (bps) and all stocks in the DAX Index are currently yielding above that level. Jason pointed out that the same is true for Japan. **Institutions Still Underinvested in Japan** Speaking about Japan, Jason believes the rotation into equity markets is a result of abnormally low global bond yields. He believes fund flows may be in the early innings in some of the global markets, where Japanese equities still are relatively underowned, whereas Europe has seen much more interest from institutions. The trepidation toward Japan may be historical; many have been burned too many times and prefer not to play the region. **Valuations of U.S. Equity Markets** Jason points to stock prices being a function of earnings and interest rates. Because interest rates are so low and earnings are holding in, he continues to be (cautiously) bullish. He is not particularly worried about valuations for the S&P 500 and thinks that profit margins are not going to regress to some 50-year average, given that technology and the geographical makeup are considerably different from the past and should be supportive of higher margins. Professor Siegel calculates that from a price-to earnings (P/E) perspective, the S&P 500 over the past 60 years has had a 16x earnings multiple, and today that multiple is trading closer to 18x. Relative to interest rates, we are still about 10% below what he considers fair value. **Opportunities in Global Markets** In the emerging markets space, Jason sees India as the lone star among the BRIC countries. Indian prime minister Narendra Modi's reform agenda and the improvement in its economic figures have been very encouraging for the investor community. While he does not see the environment for a hard landing in China, he finds that the easy policies of the government in trying to spread the excesses around might be worrisome. In the U.S., both Professor Siegel and Jason believe that there is too much cash on balance sheets, which is going to spur a lot of companies to look for investment targets and buyout opportunities. Jason particularly focuses on a mid-cap buyout basket, where companies with low return on equity but above-average sales make for attractive acquisitions. **Green Shoots** The present environment appears to suggest that consumer loans have taken a jump, and so has money supply data. Jason is encouraged by both new orders that have been stronger and the slower supply of deliveries, which suggest that manufacturing activity has picked up recently. In helping to restore confidence in the financial markets, it is important that volatility settle down. He believes that the re-pricing of oil happened so quickly that consumers have not been able to discount it into their spending plans. There is additional concern that these prices may be transitory, and according to the permanent income hypothesis, it is tough for consumers to permanently increase their spending. Additionally, Jason notes that people are starting to spend on experiences—going out to restaurants or travel—rather than goods and durable products that require longer-term confidence. **What to Make of General Electric**

Deal Activist investors are hesitant to repatriate cash due to punitive corporate taxes. One exception to the rule is General Electric (GE), which decided to repatriate $36 billion in cash held overseas[1]. This is an exception, not a rule. One interpretation of the GE repatriation is that the company will ultimately invest the money in the U.S. However, Jason notes that this view might be too optimistic. The market today appears to be rewarding immediate use of cash, such as share repurchase and M&A, while capital expenditure (capex) is less rewarded. His team believes that GE also has some of the best tax lobbyists in Washington and that the mere fact it has chosen to repatriate and pay taxes indicates that corporate tax reform is dead for the next two years or more.

Read the Conversations with Professor Siegel Series here. [1]GE announced its decision to repatriate $36 billion on 4/10/15.

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