



Investment Insight

Friday, 3 March 2017

Hell no! In GMO's recent Quarterly Letter, Ben Inker discusses the Hell or Purgatory scenarios facing investors who are undecided as to the potential outcome of President Trump's fiscal stimulus plans.

Ben sees the new administration's plan for a large fiscal stimulus as being "...poorly designed, oddly timed, and very unlikely to produce the sustained strong growth that Trump claims he will provide." This week's **Inside Track** shares further thoughts from his commentary.

Take a bite: Berkshire Hathaway recently reported that it had almost quadrupled its Apple stake to 57.4 million shares as of December last. Then this Monday, Warren Buffet said he had taken a further bite, more than doubling his holdings this year.

Buffett now owns \$17 billion worth of the stock which makes him a top 5 holder of the stock. Apple is now one of Berkshire Hathaway's largest holdings, second only to Coca-Cola. In this week's **Pic of the Week** we take a look at growth in Berkshire Hathaway's ownership of Apple shares in recent times.

Quoted...

"No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant." – Warren Buffet

The Inside Track

Ben Inker serves as the Co-Head of Asset Allocation team and Investment Director at Grantham, Mayo, Van Otterloo & Co. LLC (GMO). The following are some extracts from his recent note, "Is Trump a Get Out of Hell Free Card?"

The new administration's plan for a large fiscal stimulus seems poorly designed, oddly timed, and very unlikely to produce the sustained strong growth that Trump claims he will provide. Even in the unlikely possibility that we do achieve the growth Trump is calling for, it is not obvious that it would be the boon to the stock market that investors seem to think. The fiscal stimulus does, however, seem likely to lead to tighter monetary policy and has a reasonable chance of leading to rising inflation. How the economy responds to these two potential outcomes will tell us a good deal about whether the Hell or Purgatory scenario is correct, which will be helpful to investors even if the policies themselves prove not to be.

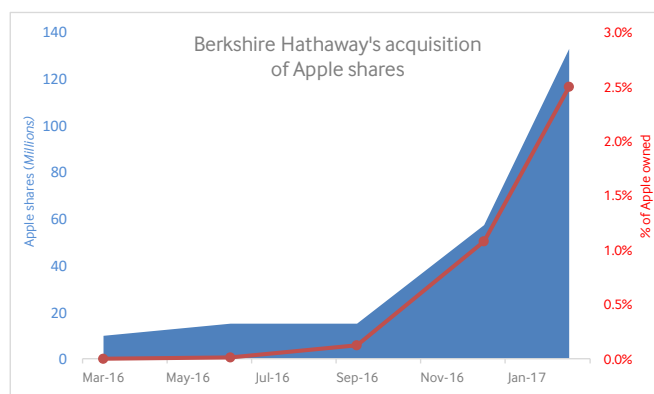
If Trump's policies work or if they otherwise demonstrate that we are not stuck in secular stagnation, it's bad for stocks and bonds and good for the economy. If we wind up back in recession, it's good for bonds and not necessarily terrible for stocks because valuations can stay high, buoyed by low cash and bond rates. It is hard to be particularly hopeful about the prospects of the incoming administration's economic policies. Certainly, if they are predicated on an actual belief that the US economy can sustainably grow at 4%, they are more likely to lead to accelerating inflation than anything else. But there is a meaningful plus side to what Trump is doing. Whether he succeeds or fails, we are likely to learn some useful things about the economy and therefore where valuations will wind up in the coming years.

While neither Hell nor Purgatory are particularly happy outcomes for investors, either one is arguably better than our current stay in Limbo, where it is difficult to even prepare for whichever future awaits us. We are still putting the higher probability on the Purgatory outcome, which implies that rising rates will not kill the economy. But our collective confidence in that outcome is not close to high enough that it makes sense for that to be the only scenario we should be preparing our portfolios for. For now, we are still in Limbo and are focusing on making the best we can out of an uncertain investment landscape, building a portfolio that can survive either scenario. This means focusing first and foremost on those areas where we believe either leads to decent outcomes. Emerging market value stocks are first on that list, followed by alternatives such as merger arbitrage. After those come EAFE value stocks and US high quality stocks.

At current yields, TIPS are a reasonable holding in multi-asset portfolios whether we are in Purgatory or Hell, although they do look a good deal better in Hell. Credit, while less exciting than it was a year ago by a good margin, fills out the list of assets that seem worth holding in either scenario. Other assets, such as broad US equities or developed market government bonds, seem hard to love in either of the plausible scenarios, and are consequently hard for us to want to hold.

Pic of the Week

The Berkshire Hathaway CEO said that a book by Philip Fisher called "Common Stocks and Uncommon Profits" encouraged him to research how consumers feel about Apple products. "He talks about something called the 'scuttlebutt method,' which made a big impression on me at the time, and I used it a lot," Buffett said. "[It's] essentially going out and finding out as much as you can about how people feel about the products that they [use.]" It is interesting that although he has researched the product extensively and now owns c. 2.5% of the company, he does not own an iPhone!



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+0.7%	+18.0%	+5.6%	+8.7%
US equities	+0.9%	+20.1%	+6.5%	+11.7%
European equities	+0.8%	+10.6%	+3.8%	+6.6%
EM equities	-1.4%	+22.0%	+8.8%	-2.8%
Irish equities	+2.2%	+4.6%	+2.4%	+15.4%
Commodities	-0.3%	-0.6%	-0.4%	-10.0%
Hedge funds	-0.1%	+7.5%	+1.6%	+1.3%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.0%	+0.3%	+6.9%
Germany	+0.3%	+2.2%	+1.7%
USA	+2.5%	+2.5%	+1.9%
China	+3.3%	+2.5%	+6.8%

Currencies	Current	YTD Δ
EUR:USD	1.05	-0.1%
EUR:GBP	0.86	+0.4%
EUR:CNY	7.24	-1.3%
GBP:USD	1.23	-0.6%
Bitcoin	1,273.08	+33.7%

Week ahead: Key events

06/03 Australia Inflation & Retail Sales
06/03 Eurozone Retail PMI & US Durable Goods
07/03 UK House Prices & Eurozone GDP
07/03 Japan GDP
08/03 US Employment & Non-Farm Productivity
08/03 China CPI
09/03 US Jobless Claims
10/03 Germany Trade Balance & Labour Costs

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,232.65	+7.0%
Copper	6,003.00	+8.7%
Oil	55.22	-4.9%
Wheat	454.00	+8.0%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	0.75%
UK	0.25%

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