



Investment Insight

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A load of cowfefe. The Trump administration's 3% growth forecast for the US is seen by many as unrealistic and founded on little more than idle rhetoric. With Trump struggling to enact much of what he proposed during the campaign trail, many are beginning to question where US growth goes from here.

Are the Tump expectations realistic or, to use Trump's term/typo... just a load of "cowfefe"? Larry Summers "short" CV includes former Vice President of Development Economics and Chief Economist of the World Bank, former US Treasury Secretary, former Director of the National Economic Council, former President of Harvard University and current professor and director of the Mossavar-Rahmani Center for Business and Government at Harvard's Kennedy School of Government. So he has, to say the least, pedigree. In **The Inside Track**, we share the famed economist's thoughts on Trump's forecasts.

Revolution: In last week's Investment Insight we looked at the geographical evolution of global stock markets. Mankind has experience a wave of transformative innovation dating from the Industrial Revolution, continuing through the Golden Age of Invention in the late 19th century, and extending into today's information revolution. These transformations have given rise to entire new industries whose rise to prominence has led to the decline of others such as makers of horse-drawn carriages and wagons, canal boats, steam locomotives, candles, etc. In this **Week's Pic of the Week** we look at how the stock market constituents have reflected these changes over the last 100+ years.

Quoted...

"Pay attention to the fine print. It's far more important than the selling price." – **Frank Underwood**

The Inside Track

Larry Summers has some clear views on Donald Trump's 3% growth forecast for the USA. In summary: unlikely, but not inconceivable. The follow extracts from his regular blog explain why.

At the risk of beating a dead horse, here are some thoughts on the Trump administration's 3% growth forecast. Zero interest rates seemed inconceivable 15 years ago, and yet they happened. Almost no one forecast the productivity boom that took place in the United States between 1995 and 2005 or the magnitude of the 2008 financial crisis. So any statement that a given forecast is inconceivable is unwarranted. [However,] I do not see how any examination of U.S. history could possibly support the Trump forecast as a reasonable expectation.

In thinking about growth, it is only logical to focus on the record of growth in domestic product per adult, since if the adult population of a country rises more rapidly one should expect its GDP to rise more rapidly without any improvement in productivity. The future will lack the substantial population growth tail wind that the American economy has enjoyed historically. Moreover, GDP growth in the earlier period [1961-2000] was supported by a tail wind from changing societal attitudes toward's women's work – particularly married women. The labor force participation rate for married women rose from 33% in 1960 to 62% in 2000 and has been roughly constant since then. So the arithmetic of demography implies that growth should be substantially slower than has been observed historically.

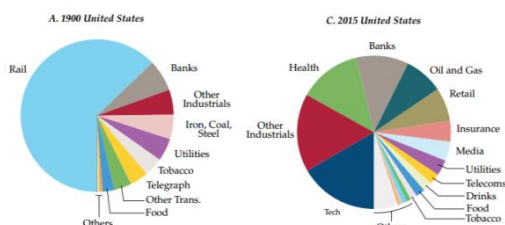
Second, the Trump administration forecast of growth of 3% for seven years between 2021 and 2027 is the equivalent of 2.8% growth per U.S. adult. In the past 56 years, U.S. growth has never exceeded this figure for more than three consecutive years. Even if the economy's underlying growth rate increased to 3%, is it really plausible that there will be no recession between now and 2027?

Third, there are occasions during the 1960s, 1980s and 1990s when growth averaged 2.8% or a little bit more over a seven-year period. But each of these eras involved substantial cyclical recovery with the unemployment rate falling by 2.0, 4.1 and 2.9% over the respective periods. In contrast, the Trump administration predicts that unemployment in 2021 will be 4.8%. A decline of 2+ % from 4.8% seems highly implausible. There have been no periods with growth remotely comparable to Trump's forecasts that did not involve substantial cyclical tail winds.

The Trump economic team has not engaged in serious analysis or been in dialogue with those who are capable of it so they have had nothing to say in defense of their forecast except extravagant claims for their policies...A business trying to sell stock on the basis of a document half as hype-filled as the Trump budget would be a joke. No reputable investment bank would underwrite their offering. A great mystery here is why the experienced investment bankers in senior positions in the Trump administration hold the budget of the United States to so much lower standards of integrity than they applied in their earlier lives.

Pic of the Week

Over the last century there have been profound changes in what is produced, how it is made, and the way in which people live and work. The two charts show the constituents of the US stock market at the beginning of 1900 and the beginning of 2015. Markets in 1900 were dominated by railroads which accounted for 63% of US stock market value. Today railroads represent less than 1% of the market. Of the US firms listed in 1900, more than 80% of their value was in industries that are small or extinct today.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.3%	+15.6%	+7.7%	+11.5%
US equities	+0.7%	+15.3%	+8.2%	+13.6%
European equities	-0.5%	+13.7%	+7.4%	+10.1%
EM equities	-0.9%	+24.5%	+16.6%	+2.4%
Irish equities	+1.2%	+9.7%	+8.3%	+18.5%
Commodities	-2.3%	+4.2%	-5.7%	-8.2%
Hedge funds	-0.2%	+5.9%	+2.3%	+1.8%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.8%	+0.9%	+7.2%
Germany	+0.3%	+1.5%	+1.7%
USA	+2.2%	+2.2%	+2.0%
China	+3.6%	+1.2%	+6.9%

Week ahead: Key events

05/06 Japan & Eurozone Services PMI
05/06 US Services PMI
06/06 UK Retail Sales Data & Eurozone Retail PMI
07/06 China Foreign Exchange Reserves & UK House Prices
08/06 China Trade Data & Germany Industrial Production Data
08/06 Eurostat GDP & ECB Rate Decision
08/06 US Initial Jobless Claims
09/06 China CPI & UK Manufacturing Data

Currencies	<i>Current</i>	<i>YTD Δ</i>
EUR:USD	1.12	+6.6%
EUR:GBP	0.87	+1.9%
EUR:CNY	7.64	+4.1%
GBP:USD	1.29	+4.4%
Bitcoin	2,363.15	+148.2%

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,263.71	+9.7%
Copper	5,657.75	+2.4%
Oil	51.16	-13.0%
Wheat	421.50	-2.9%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	1.00%
UK	0.25%

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