Investment Insight

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ARIA | CAPITAL

Blame the damn foreigners: *As long as 30 years ago, identifying the lack of competitiveness by many US industries in the international marketplace as a stumbling block for the USA in trade negotiations, the EC's Commissioner for External Relations and Trade Willy de Clercq observed that for the US it was "much easier to blame the damn foreigners." In the intervening period globalisation happened, intended to bring benefit to developed and developing countries alike. Now, stoked by such illustrious political cheerleaders as Marine Le Pen, Nigel Farage and Donald Trump, it's in reversal. Feeding perhaps on supressed or latent xenophobia, the political option to engage in some foreigner-fuelled rabble rousing is, for some, impossible to resist. But after the politics is finished, will the economic effects of Trump's anti-globalisation policies be positive for the US? In* ***The Inside Track*** *we look at the views of Nobel prize winning economist Joseph Stiglitz on the matter.*

All for one: *As Brexit discussions continue, the long-term viability of the Euro remains a talking point among investors. With Italian general elections taking place in May next year, the political environment is likely to continue to be a major consideration for asset allocators considering European equities. In* ***Pic of the Week*** *we share an encouraging survey provided by JPMorgan which suggests that the worst maybe behind us and, in a European context at least, we seem to be somewhat happier to be on the same team!*

Quoted...

"My brother Bob doesn't want to be in government – he promised Dad he'd go straight". – John F Kennedy

The Inside Track

Joseph Stiglitz is a Nobel prize winning economist who has commented on the flaws of globalisation economics for many years. However, he's questions whether Trump's current anti-globalisation policies will have the desired affect. The following are some of his views.

So how could something [globalisation] that was supposed to benefit all, in developed and developing countries alike, now be reviled almost everywhere? How can a trade agreement be unfair to all parties?

To those in developing countries, Trump's claims – like Trump himself – are laughable. The US basically wrote the rules and created the institutions of globalisation. In some of these institutions – for example, the International Monetary Fund – the US still has veto power, despite America's diminished role in the global economy (a role which Trump seems determined to diminish still further).

To someone like me, who has watched trade negotiations closely for more than a quarter-century, it is clear that US trade negotiators got most of what they wanted. The problem was with *what* they wanted. Their agenda was set, behind closed doors, by corporations. It was an agenda written by and for large multinational companies, at the expense of workers and ordinary citizens everywhere.

There are three responses to globalised discontent with globalisation. The first – call it the Las Vegas strategy – is to double down on the bet on globalisation *as it has been managed for the past quarter-century*. This bet, like all bets on proven policy failures (such as trickle-down economics) is based on the hope that somehow it will succeed in the future.

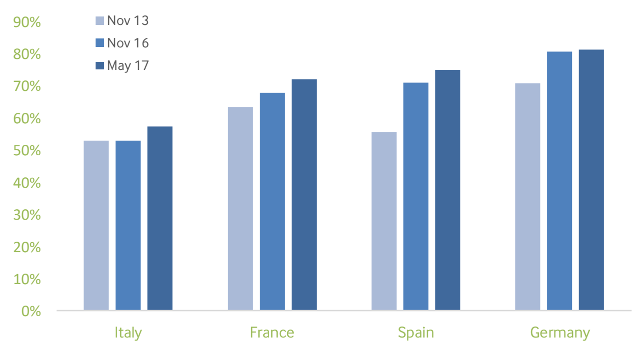
The second response is Trumpism: cut oneself off from globalisation, in the hope that doing so will somehow bring back a bygone world. But protectionism won't work. Globally, manufacturing jobs are on the decline, simply because productivity growth has outpaced growth in demand. Even if manufacturing were to come back, the jobs won't. Advanced manufacturing technology, including robots, means that the few jobs created will require higher skills and will be placed at different locations than the jobs that were lost. Like doubling down, this approach is doomed to fail, further increasing the discontent felt by those left behind.

There is a third approach: social protection without protectionism, the kind of approach that the small Nordic countries took. They knew that as small countries they had to remain open. But they also knew that remaining open would expose workers to risk. Thus, they had to have a social contract that helped workers move from old jobs to new and provide some help in the interim. The Nordic countries are deeply democratic societies, so they knew that unless most workers regarded globalisation as benefiting them, it wouldn't be sustained. And the wealthy in these countries recognised that if globalisation worked as it should, there would be enough benefits to go around.

American capitalism in recent years has been marked by unbridled greed – the 2008 financial crisis provides ample confirmation of that. But, as some countries have shown, a market economy can take forms that temper the excesses of both capitalism and globalisation, and deliver more sustainable growth and higher standards of living for most citizens. We can learn from such successes what to do, just as we can learn from past mistakes what not to do. As has become evident, if we do not manage globalisation so that it benefits all, the backlash – from the New Discontents in the North and the Old Discontents in the South – is at risk of intensifying.

Pic of the Week

Many forecast the Euro's doom during the Brexit campaign. However, always first and foremost a political rather than an economic project, it hasn't crumbled yet. In fact, as the chart illustrates, support for the Euro in various European countries has been growing over recent years. It will be interesting to see if, garnered by a "united against the Brexiteers" enthusiasm, the positive trajectory continues into JPMorgan's next survey.



Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)
Global equities	+0.5%	+12.2%	+7.7%
US equities	+0.7%	+11.4%	+6.5%
European equities	-0.5%	+14.6%	+9.8%
EM equities	-2.3%	+17.9%	+15.5%
Irish equities	+0.9%	+11.2%	+7.0%
Commodities	-3.1%	-2.8%	-16.8%
Hedge funds	-0.5%	+2.5%	+1.4%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.5%	0.0%	+7.2%
Germany	+0.3%	0.0%	+2.8%
USA	+2.3%	0.0%	+2.5%
China	+1.8%	0.0%	+6.8%

Week ahead: Key events

11/12 UK House Prices
12/12 Japan Retail Sales & UK Inflation
13/12 Eurostat Employment & Industrial Production
13/12 FOMC Rate Decision
14/12 Eurozone PMI & ECB Rate Decision
14/12 US PMI Data
15/12 US Manufacturing Data

Currencies	*Current*	*YTD Δ*
EUR:USD	1.1787	+12.1%
EUR:GBP	0.8783	+3.1%
EUR:CNY	7.7995	+6.8%
GBP:USD	1.3418	+8.7%
Bitcoin	12,899	+1255.4%

Commodities	*Current*	*YTD Δ*
Gold	1,252.20	+8.8%
Copper	6,540.00	+18.9%
Oil	61.19	+9.1%
Wheat	418.13	+2.2%

Central Bank rates	*Current*
Eurozone	0.00%
USA	1.25%
UK	0.25%

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