“There are decades when nothing happens, and there are weeks when decades happen.”

Vladimir Lenin

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STEP Presentation
15 August, 2016
Five thoughts about Brexit

…for Britain

1. Globalization and its Discontents
   - *Stop the world, we want to get off!*
2. The EU is NOT our Hotel California
   - *We can check in… and we can leave*
3. Anti-Establishmentarian Populism
   - *Rural, older, poorer, less well educated*
4. Splendid Isolation
   - *Will the UK be Norwegian or Swiss?*
5. The Rebellious Scots and Northern Irish
   - *Still wanting what Brussels sprouts!*

The leaders of all 4 major political parties were on the losing side
Five thoughts about Brexit
…for the Rest of the World

1. Globalization and its Discontents
   - Brexit “Trumped” by the US in November?
2. The end of sovereignty pooling
   - The high water mark of multi-lateralism?
3. If the EU is NOT Hotel California…
   - …then who’s next? Czech out time? Quitaly?
4. Anti-establishmentarianism in the EU
   - Tearing up the “ever closer union” rule-book
5. Britain’s FIFO
   - From ruling the waves to waiving the rules?

Who is the big loser? Germany. And the big winner? China
Five thoughts about the US
...as seen from within

1. The Revenge of the Anti-Establishment Voters
   - *Will the DC elite suffer a bloody nose?*

2. The Reformation of the Republican Right
   - *Isolationist, populist, nationalist, anti-intellectual?*

3. Can the Right capture all four centres of power?
   - *President, Senate, Reps, Supreme Court?*

4. Could the Central Bank lose its independence?
   - *Trump favours a Federal Reserve audit*

5. Will the US National Debt explode?
   - *Both sides have ambitious fiscal spending plans*

November 2016: An historic election which ever way you look at it
Five thoughts about the US …as seen from the Rest of the World

1. Is the US turning in on itself?
   - Will even a Clinton White House be less global?
2. Will the US be less in favour of Free Trade?
   - Trump anti-WTO & NAFTA; Clinton anti-TPP
3. No more “Bring me your troubled masses”
   - Trump anti-immigrant; Clinton “tighter controls”
4. No more global policeman?
   - Trump anti-Nato; Clinton much more guarded
5. Washington “lack of consensus”
   - Is the old macro-economic rulebook history?

Guess who will move into the vacuum created globally by a retreating US?
Five thoughts about China
Like the 19th century US: a bumpy ride to No 1.

1. Overcapacity haunts the global supply-side
   ✓ Unprofitable production e.g. steel, cement

2. Overleveraged SOEs threaten the banks
   ✓ …yet the private sector is far healthier

3. Property: location, location, location
   ✓ Tier 1 & 2 cities vs tier 3 & 4 cities

4. Relaxation of Chinese capital controls
   ✓ How much ‘hot’ money wants to leave?

5. Chinese cheques
   ✓ China Inc’s capital goes global

China’s ascendancy will be more rapid if the dream of a United Europe falters
The Saviour of the Universe?
From production-led to consumption-led China

1. The law of the BFNs
   ➢ From theory to practice?
2. Coming to a beach near you…
   ➢ 1 million Chinese Tourists
3. Ali Baba reinvents shopping
   ➢ Missing out mall, straight to mobile
4. The rise of the Chinese brand
   ➢ Xiaomi and Huawei eat Apple
5. Luxury redefined
   ➢ Status and Chinese culture

Can Chinese aggregate demand fill the gap left by lacklustre Western demand?
Five thoughts about the EU  
…as seen from the Rest of the World

1. Has the EU lost its mojo?
   - *Will Brexit clip the EU’s wings globally?*

2. The financial clout of the EU
   - *Hamlet without the City of London Prince?*

3. What if an Austria or a Netherlands were to leave?
   - *Could the Euro be a compromised currency?*

4. Will Euro-sclerosis intensify?
   - *Worsening demographics, falling productivity*

5. Fiddling whilst the Treaty of Rome burns?
   - *Can the Brussels Bureaucrats save themselves?*

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The pressure is now on the EU to prove that it can work
Five thoughts about Emerging Markets
One aggregate term...many different sub-groups

1. Latin America
   - The Good, the Bad and the Ugly
2. The Rise of the Three Indo’s
   - Indochina, Indonesia, the Indian Subcontinent
3. The Great Divide: Commodities vs. Manufactures
   - Deflation galore but whose pricing power is stronger?
4. How current is your currency?
   - The great value destroyer...or creator
5. The Death of Old Energy
   - Sunset on oil; sunrise on solar

Emerging Markets: more varied today than even developed markets
Five Profound Implications
Challenging conventional wisdom of global finance?

1. A fundamental departure from the post-1989 consensus
   - Is the capitalist democracy model the end of the line?
2. When two worlds collide
   - Asian middle classes hollows out Western ones
3. Ricardo and comparative advantage under siege
   - Free flow of trade, labour, capital questioned
4. Washington “lack of consensus”
   - Is the old macro-economic rulebook history?
5. Davos Man endangered?
   - The end of billionaires telling millionaires what the middle classes think?

Have the Global Elite – the 1% – been thwarted?
Five Market Thoughts
Positioning yourself for the 21st Century

1. Quality shines through
   - *Diversified geographically, embedded sectorally*

2. Capital preservation in sovereign bonds…
   - *But how low can you go? How negative can you go?*

3. Property Hotspots and the Rise of World Cities
   - *Some are more “immune” than others*

4. How current is the currency?
   - *Devaluation often the biggest source of capital loss*

5. What will the rich do?
   - *The rise and rise of family offices and private equity*

“Investing in a Low Growth World” requires much tighter disciplines
Thank you

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