

# Politics and Markets: Investing in Unpredictable Times

## Manager Call with Canterbury Consulting and Capital Group

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*On June 28, 2017, Jeff Brown addressed the current political landscape and its impact on financial markets. From the U.S. to the U.K., policy reform will continue to have a significant impact on markets. The following Q&A session was hosted by Stuart Blair, Director of Research for Canterbury Consulting. The notes below provide a synopsis of the views and remarks made by the managers and do not necessarily reflect the opinions of Canterbury Consulting.*

### **Q: HOW WOULD YOU DESCRIBE THE CURRENT GEOPOLITICAL ENVIRONMENT (U.S. & EUROPE) RELATIVE TO PRIOR PERIODS IN HISTORY?**

- “The New Realism” is a good title to explain the current period. Politicians are not bound by foreign restraints and as a result, don’t want to be seen as “chumps.” Leaders who no longer value globalization or world issues will eventually be a problem for all of us.
- Underlying economies in the United States and Europe are strong. The normalization of monetary policy over the long run is the biggest question mark, but it isn’t the political risk that the press wants us to worry about.

### **Q: WHAT ARE SOME OF THE BIGGEST POLITICAL OPPORTUNITIES AND RISKS FOR MARKETS AND INVESTORS TODAY AND IN THE FUTURE?**

- Investors who thought the “Trump Trade” would pass were way over their skis. Active managers performed well as earnings and fundamentals were realized from the market. Investors don’t expect tax reform to happen this year, but the market has continued to price it in.
- The Fed has clearly announced that it will taper its balance sheet; however, markets seem unaffected.
- The United States needs to see deregulation and tax reform from Washington within the next two years. Full-blown tax reform will be difficult to implement, given the large number of interest groups and various disagreements among Republicans. Some reform will get done prior to the 2018 midterm election.
- The United States corporate tax rate will drop to 20% once reform is implemented. The boost to corporate profits should add 5–7% to S&P earnings.
- Most of the political risk in Europe has subsided. German Chancellor Angela Merkel should easily win her election. The large influx of immigrants and refugees is also leading to a large housing and construction boom in Germany. Both of these factors should benefit GDP growth and improve sentiment across the eurozone.
- French President Emmanuel Macron will have the best opportunity in recent history to bring massive reform to his country. Labor and economic reform will be top priorities for his administration.

### **Q: WHAT EFFECT WILL POTENTIAL DEREGULATION HAVE ON THE FINANCIAL SECTOR AND ALTERNATIVE LENDING?**

- Dodd-Frank won’t completely disappear, but regulations will ease for regional and small banks. Easing standards will allow small banks the ability to originate more commercial and residential loans and take back market share from alternative lenders.
- Big banks will continue to be heavily regulated. In general, we need banks to lend and take prudent risks to move the economy along.

- Wealth is created from the private sector and small businesses. Governments redistribute wealth on the margin, but they don't have the ability to create meaningful wealth or growth for the economy.

#### **Q: WHAT GEOPOLITICAL ISSUES DO YOU SEE ARISING IN ASIA?**

- China will continue to expand its influence. This scares its neighbors (i.e., Japan and South Korea) and will be a point of tension going forward. North Korea continues to be a major threat in the short run.
- Trump thinks that he can better negotiate with China directly than through a world order. He prides himself on being a master negotiator; however, he will most likely fall short.
- China has begun trade pact discussions with other Asian countries. This could be negative for United States exports in the long run, but most likely won't be an issue for Trump.

#### **Q: WHAT ARE YOUR VIEWS ON GROWTH IN THE TECHNOLOGY SECTOR?**

- First-generation immigrants have started some of the most successful companies in Silicon Valley. Keeping talented immigrants out of the United States is very short-sighted.
- The technology sector has driven a large part of GDP growth over the last few decades.

#### **Q: WHAT IS YOUR VIEW ON INTEREST RATES?**

- Capital Group remains in the lower-for-longer camp. Low inflation combined with modest growth can last for decades (as witnessed during the 1950s).
- The Fed is on track to raise rates once more this year and three times next year. The hikes won't have a huge impact on longer-term rates.

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#### **Jeff P. Brown, Capital Group**

Jeffrey P. Brown is a portfolio specialist at Capital Group Private Client Services, part of Capital Group. He has 41 years of investment industry experience and has been with Capital Group for 28 years. Prior to joining Capital Group, Jeff worked for two New York-based consulting firms. Before that, he was an assistant to the Governor of Wisconsin, and later worked on Capitol Hill in Washington, D.C. He holds a bachelor's degree in international relations from the University of Geneva and a bachelor's degree in political economy from the University of Wisconsin. Jeff is based in Los Angeles.

#### **Stuart Blair, Canterbury Consulting**

As the Director of Research, Mr. Blair is responsible for all functions related to research on investment managers, asset classes, and capital markets. Mr. Blair oversees the activities for all five of Canterbury's Asset Class Committees and the Capital Markets Committee. Prior to joining Canterbury, Mr. Blair was the Director of Public Equity and Research at Sobrato Capital, the securities investment platform of The Sobrato Organization. There his responsibilities included broad asset class research, manager due diligence on public and private assets, and tax optimization of both taxable investment pools and a large charitable foundation. Prior to Sobrato Capital, Mr. Blair was a Senior Analyst at Canterbury where he focused on asset allocation, manager research, and capital market assumptions. Mr. Blair holds a B.S. in Finance from California State University, Long Beach and is a Chartered Alternative Investment Analyst.