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# US Economy v US Market

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**We need to separate US economy from US market as they are two very different things.**

The US economy is currently one of the strongest economies in the world. Rising inflation, extremely low unemployment, strong retail sales, heightened consumer confidence and sentiment, reasonable business conditions, and solid housing market. All that is reflected in the US central bank's policy action over the last year or so which has been to raise rates - ie. raising rates is a sign the economy is strong enough to withstand them.

**Recent concerns in the US economy have centred around:**

1. Some slowing in housing sector data due to the impact of higher rates and hence higher mortgage rates
2. The effect / impact of trade wars
3. Government debt levels, which are clearly too high and beginning to constrain economic growth

The US government shut-down is concern but is usually solved reasonably quickly. We've had multiple shut-downs over the last 5 or so years, but this one has persisted the longest as Trump's presidency comes under greater strain. There are bills / motions before US parliament to begin to curb the few powers a sitting US president has (ie. trade, foreign policy, immigration/border).

Coming back to the 3 current issues listed above, we're not concerned about the housing market as it remains under supplied and unemployment remains extremely low. Trade wars and US government debt levels are more serious problems, which will result in US economic growth coming back down to closer to historically levels of 1.5-2% annually (currently 3.5-4.5%). The expected slowdown in economic growth and the more recent lacklustre inflation readings has forced the US central bank to slow the pace at which they raise rates over the next 1-2 years, whilst they continue to reduce the size of their balance sheet (ie. remove dollars from the system).

## Coming around to markets, the biggest concerns for investors right now are:

1. Trade wars
2. US central bank policy
3. Chinese growth
4. Brexit (mainly a Europe issue)

We're hopeful most of the trade wars issues get resolved in the 1st half of this year, hopefully the 1st quarter. Both Trump and President Xi of China now clearly understand what is at stake with both economies experience declining economic growth and both equity markets under pressure. Extremely difficult to get re-elected / maintain grip on power when both are declining / falling.

US central bank policy has largely been sorted in that the central bank has indicated they will likely pause rate rises soon enough and any rate movements from here will be solely data dependent (ie. no set plan/trajectory to get rates higher).

Chinese growth is a problem as it currently appears to be declining at an escalating pace. Whilst the decline is rational and expected, the pace of decline is the main concern. We think the Chinese government is already employing measures to slow the pace and these measures are likely to increase from here.

Brexit right now is really up in the air. There is little to no chance that the UK parliament signs off on the current exit deal. That means the following can occur:

1. Extension of deadline - largely delays the inevitable
2. Hard exit - would kill off the UK economy for some time
3. A 2nd referendum on Brexit
4. Early election with Labor win, which would be bad for UK economy and markets

The firming favourite right now is a 2nd referendum, which is extraordinary in that this had a zero probability chance only 6 months or so ago.

**Putting all that aside, if we look at equity valuations right now across the globe, valuations are back within fair value territory in most countries and regions, with Asian and Emerging Markets looking the most attractive.**