

Trump: Jekyll Or Hyde?

The only bigger surprise this week than Trump winning the U.S. election was the brevity of the selloff. The risk-off phase lasted several days after the Brexit surprise, but this week it only lasted several hours. Investment sentiment has changed since the summer, with investors less prone to the negative narrative. The less cautious behavior of investors is a sign of a more mature bull market and greater underlying economic conviction.

While mildly pro-growth in terms of our investment stance, including being long the stock/bond ratio, we have some offsets via a less aggressive sector and regional equity positioning. In particular, we are positioned to benefit from the temporarily pro-growth and domestically-focused aspects of some of the Trump policies by being overweight U.S. equities. Moreover, we are sticking with a neutral call on bonds, but have lowered our duration to neutral and downgraded the U.S. to underweight (see page 8), while maintaining overweights on credit (spread) products, within a fixed-income portfolio.

As updated below and discussed in the October 28 **MRB Weekly Macro Strategy Report**, there are budding inflation risks in the U.S., and a Republican controlled government will increase inflation uncertainty, if not actual inflation (over time). This, in turn, will impact Fed policy, as the FOMC has already acknowledged that inflation is creeping up, even though its favored core measure is still under 2%. We would downgrade bonds if it appears that Trump will deliver some stimulus and economic momentum improves, given the cyclical risks of higher U.S. interest rates and greater credit demand.

This Week's **MRB Wednesday Webcast**

[▶ Watch Now](#)

U.S. Election Earthquake: Now What? [8min:33sec]

- The Republican sweep in the U.S. election may increase the odds of better economic growth next year, *IF* intra-party cooperation develops and protectionist actions are not pursued.
- The surge in bond yields and equity prices this week is unsustainable in the very near run, but we are staying long the stock/bond ratio on a 6-12 month horizon.
- The breakout in the U.S. financials sector bodes well for overall global equity market performance.

Equity Sectors

[p.6](#)

- Trump's win will have a meaningful impact on a number of U.S. equity sectors.

Fixed Income

[p.8](#)

- Cut portfolio duration to neutral. Government bonds: downgrade the U.S. to underweight, and upgrade Japan and Switzerland to neutral.

Foreign Exchange

[p.10](#)

- The U.S. election outcome has positives for both the U.S. dollar and gold.

This Week's Reports

Long-Term Returns: The Inevitable Math

[p.12](#)

- Investors should expect middling returns from a balanced portfolio over the next decade.

Forced De-Globalization (Part I): Benefits And Costs Of Trade & Forced De-Globalization (Part II): Blame Technology Not Trade

[p.12](#)

- Investors should structurally underweight risk assets in countries implementing anti-trade policies, and favor those that create a flexible and dynamic workforce.

We have published substantial research in recent months on the potential impact of the U.S. election, especially with regards to U.S. equity sectors (see page 6). We updated our initial thoughts on a Trump presidency and Republican-controlled Congress in this week's **MRB Wednesday Webcast**¹. We have also examined a number of structural issues that will impact the U.S. and world economy, and the financial markets, over the long haul, especially those that have fostered the desire for (big) political change (**table 1**), including issues such as growing inequality, chronically weak growth, poor structural employment prospects for low-skilled workers in the developed world, and the threat of de-globalization and protectionism (a two-part report on this topic was published this week, see page 12). Needless-to-say, there is considerable uncertainty about the long-term outlook, although investors will likely focus their attention on the next 6-12 months, which is the time frame of our investment recommendations.

We had anticipated turning more pro-growth (and bond bearish) if Clinton had won the election, in the belief that the odds of stronger growth would have been improved, allowing the Fed to proceed and hike rates. However, the opposite strategy on a Trump win was not a given (i.e. to de-risk), although we had anticipated a period of heightened market uncertainty (indeed, we have maintained a positive stock/bond stance). Much depends on whether Trump continues his initial conciliatory tone, especially towards the large part of the Republican Party that did not support him (see also the discussion in last Friday's **MRB Asset Allocation Report**).

The key uncertainty is whether we will see the pro-growth Trump (significant infrastructural spending, lower taxes and deregulation), or the anti-free trade, increased tariffs and geopolitically hostile version of Trump. Until there is clarity on this critical issue and actual details on the programs that he will pursue, it is premature to turn more aggressive on risk assets, especially after this week's mini-rush to buy risk assets and dump government bonds. Be prepared for violent short-term market up/down moves in the near run given Trump's impulsive rhetoric. That said, we recommend maintaining an overweight in equities within a multi-asset portfolio, and overweight the U.S. within a global equity portfolio.

The backdrop was already conducive to being mildly pro-risk, with the global economy regaining a head of stream (**chart 1**). As noted, investors also have become less prone to bail at the first whiff of danger, in contrast with most of the post-2009 period. A close

Table 1 Forces Driving Political Instability

Large Intolerance Gap = Frustration
Excessive Income Inequality = Resentment
Lack Of Social Mobility = Desperation
Elite Overproduction = Battle For Power
Collectively = A Perfect Storm

MRB Partners Inc © 11/2016

Will we see the pro-growth Trump, or the anti-free trade and geopolitically hostile version?

¹ MRB Wednesday Webcast, "[U.S. Election Earthquake: Now What?](#)", November 9, 2016

monitoring of business and consumer sentiment in the next month or two is warranted, to see if confidence holds up, both in the U.S. and globally. No doubt there had been reduced economic risk-taking in the U.S. given the divisive election campaign, and some lift might be expected just because the 24/7 barrage of election scandals and insults have ended. If the pro-growth version of Trump, without the protectionist baggage, emerges and there is some cooperation with Congress, then U.S. economic momentum will strengthen (if the opposite political backdrop emerges, then we would expect sentiment to weaken significantly).

One consequence of continued economic resilience and the potential for meaningful fiscal stimulus is that the Treasury market (and by extension all major global government bond markets) have been hit hard this week. Investors, correctly in our opinion, are discounting a greater risk of higher policy rates in the coming years, because of the increased risk of higher inflation and more inflation uncertainty (the sharp drop in inflation uncertainty had contributed to an undershoot in government bond yields in recent years).

Chart 2 shows one of the consequences of the tightening in the U.S. labor market: wage gains have strengthened (as confirmed by this week’s NFIB survey), which will put upward pressure on core inflation. The latter had been held down by the powerful rise in the dollar in 2015, paralleling the divergence between core inflation and wages during the last period when the dollar soared in the second half of the 1990s. While we expect the dollar to stay firm (see page 10), it is unlikely to duplicate the huge upmove from mid-2014 until early this year. Thus, there are greater odds that core CPI will creep higher as long as economic momentum stays positive.

Chart 3 highlights that the undershoot in Treasury yields and long-term inflation expectations had been unwinding since oil prices troughed earlier this year. Interestingly, the recent further rise in yields has not coincided with stronger oil prices, underscoring that the link between oil prices and long-term economic and inflation expectations is

Chart 1 Global Growth Has Regained Momentum

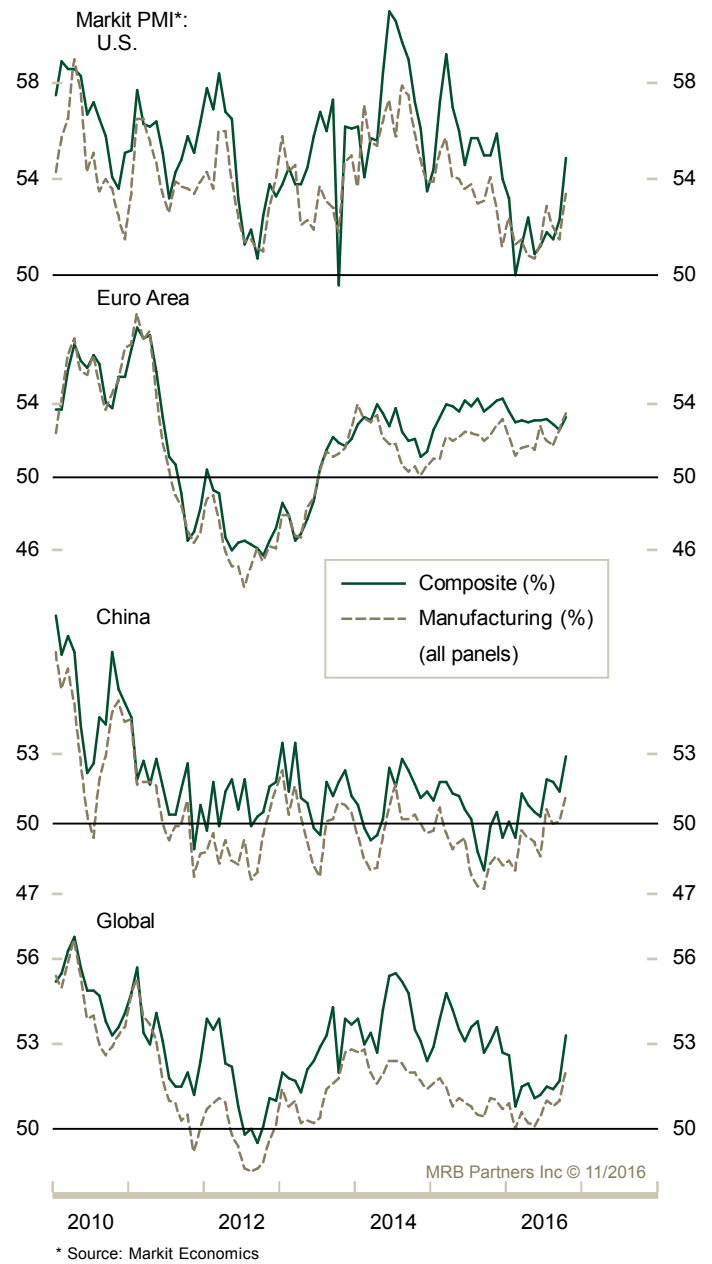
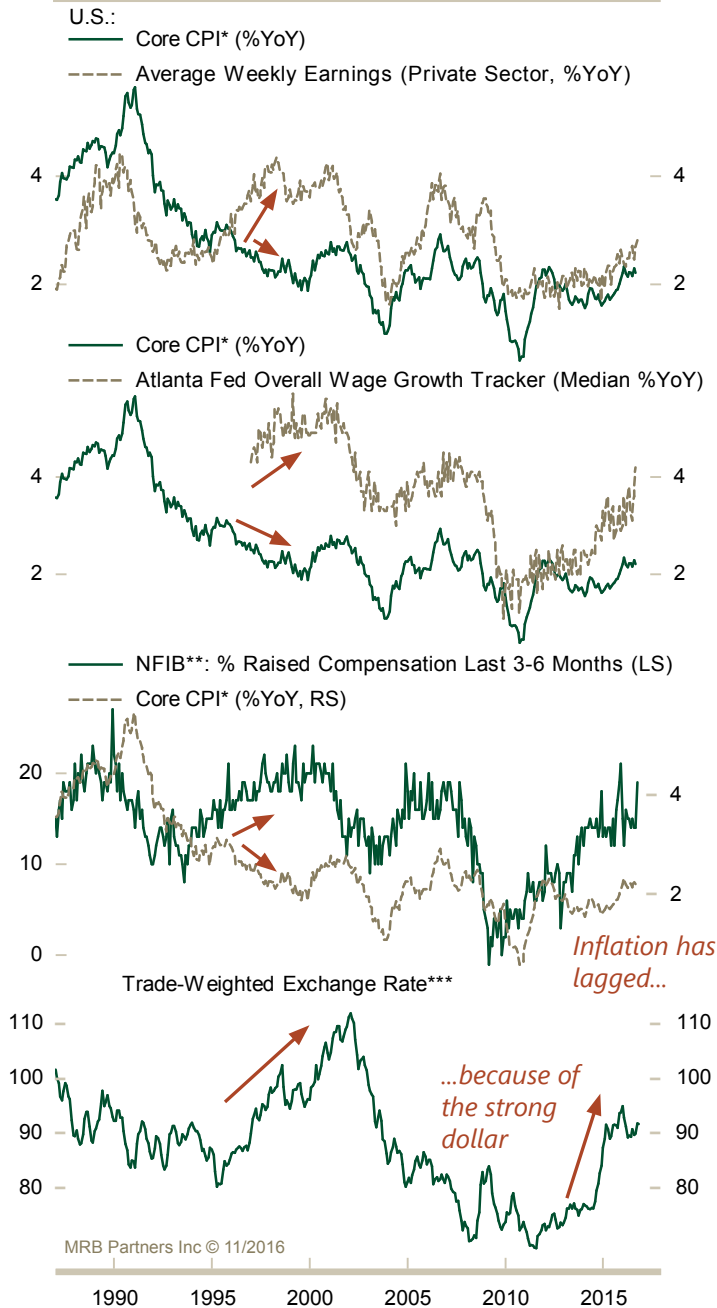
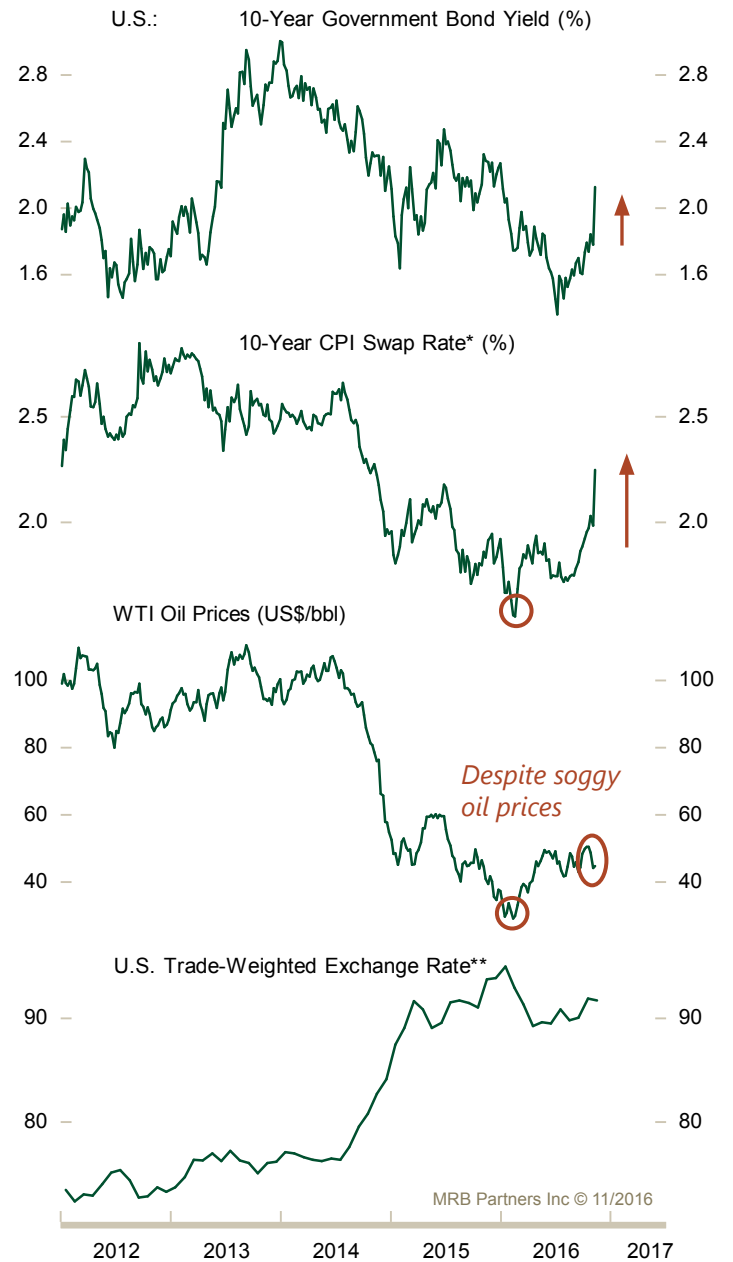


Chart 2 U.S. Wage Pressures Are Rising, Is Core CPI Next?



* Excludes food & energy
 ** Source: National Federation of Independent Business
 *** Source: Federal Reserve

Chart 3 Bond Yields And Inflation Expectations/Uncertainty Break Out



* Source: Bloomberg
 ** Source: Federal Reserve

returning to normal. Treasuries are reacting to the chances of a Trump-led bout of fiscal stimulus, which will both boost economic growth and rekindle longer-term worries about the trend in the government debt/GDP ratio.

Rising bond yields and a resumption in the Fed’s rate cycle next month (with at least two more hikes next year) need not be negative for equities provided it occurs against a positive earnings backdrop, as we expect. Corporate profits and top-line

growth had already been improving in the U.S. and we expect steady improvement ahead, albeit the winning/losing sectors may now shift. Until end-of-cycle bond/monetary conditions are in sight, rising earnings will provide support under stocks. The speed of the rise in bond yields this week cannot continue or it will undermine economic confidence. A levelling off in yields is probable once investors calm down and the Fed confirms that it will pay attention to heightened inflation risks, while only hiking rates at a gradual pace.

Interestingly one clear winner from a Trump win, the U.S. financials equity sector, had already been signaling recovery ahead (chart 4). The divergence between financials and the S&P 500 was notable, and reflected the rising likelihood of better growth, a steeper yield curve and rising interest rates. Credit demand will remain robust, as confirmed with this week’s Fed Senior Bank Loan Officer survey, where only commercial mortgage lending standards have tightened; most other sectors are still enjoying easy/easing bank lending standards (albeit in a 2010s’ context, not by pre-bubble standards).

Chart 5 shows that global financials have also demonstrated a positive response to the improving economic backdrop and likelihood that negative policy rates will be a temporary phenomenon. Prospects for financials and equities in general are upbeat assuming the U.S. economy maintains its leadership and a world of free(ish) trade persists.

Despite our confidence in an improving economic outlook, we acknowledge that there is still considerable uncertainty, especially in terms of global politics and (now) U.S. fiscal policy. U.S. import demand remains atypically weak relative to U.S. consumption, and global trade is going to have a hard time gaining momentum, especially if the tone in the U.S. is to buy local. A theme of domestically-driven growth is probable around the world, which will impact sector and regional equity performance.

Chart 4 U.S. Financials Heralded The Rebound

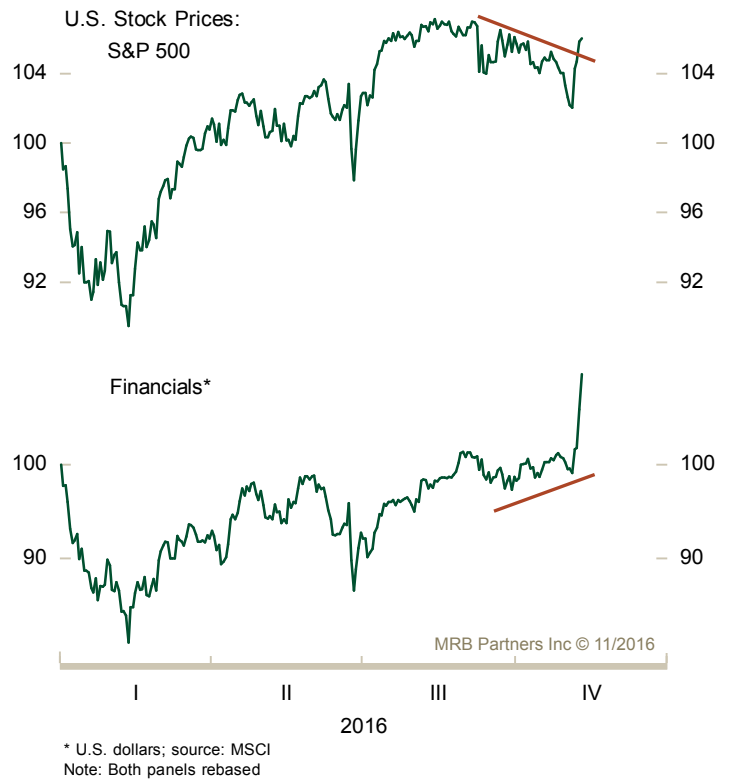
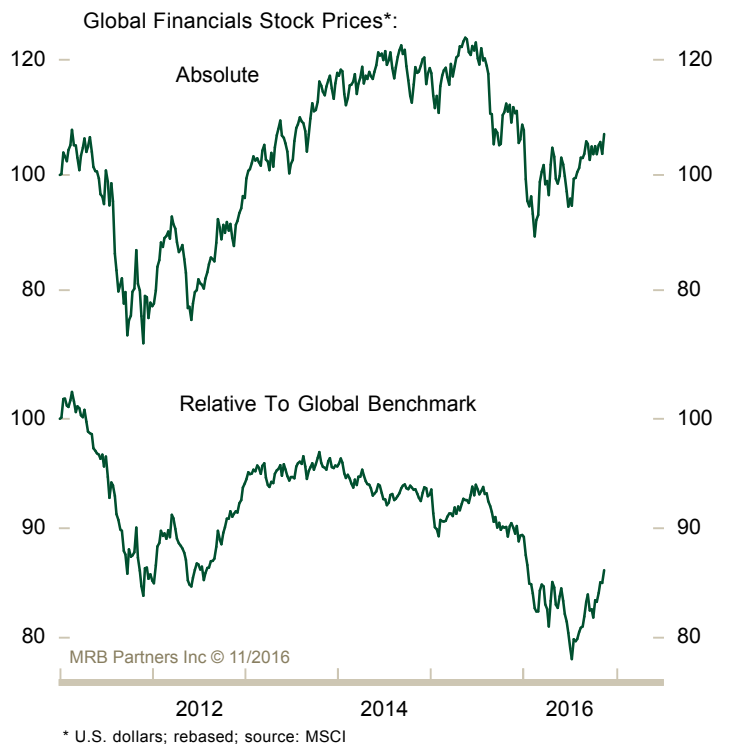


Chart 5 Global Financials Catch A Bid

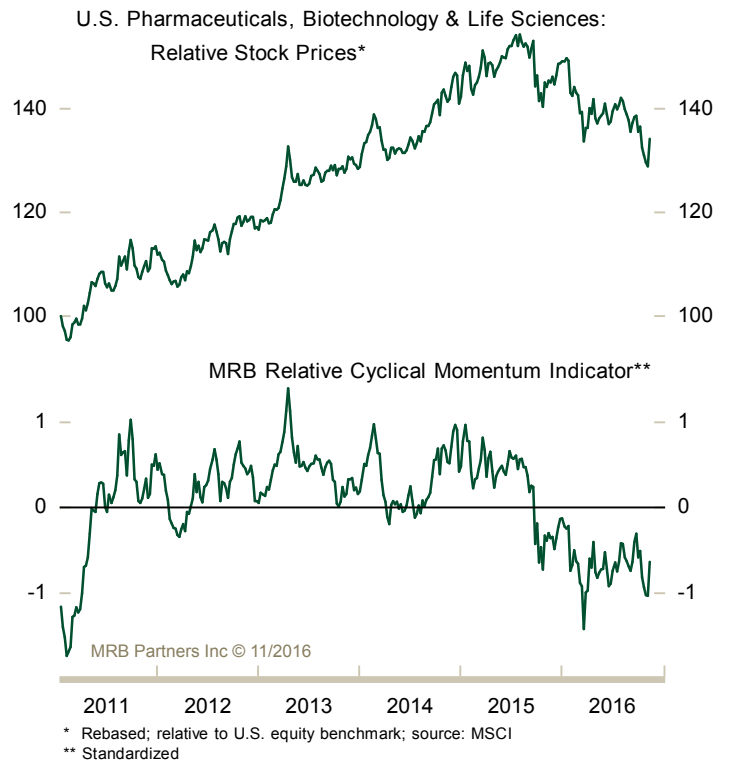


We still recommend staying long the U.S. dollar, while holding gold for insurance purposes. Gold prices will be hurt by a firm dollar and rising bond yields. However, gold provides some insurance against heightened political uncertainty, and the potential for policies that might eventually undermine the U.S. dollar's reserve currency status and/or trigger protectionism.

In sum, while there are good odds that recent economic momentum in the major economies will persist (U.S., the euro area and China), some clarity on U.S. fiscal and geopolitical policies is needed to decide whether to add to risk positions or to de-risk.

Final Word: *We are staying with a mildly pro-growth investment stance, while making some modest changes in some fixed-income positions. We are not yet willing to underweight bonds given heightened policy and political uncertainty, stay tuned. In the very near run, the spike in bond yields and equity prices should calm.*

Chart 6 U.S. Drug Stocks Are Oversold



Equity Sectors

What Trump's Victory Means For U.S. Equity Sectors

Trump's unexpected victory has implications for a variety of U.S. equity sectors and industry sub-groups. We examined the potential impact of the president-elect's policy prescriptions in a series of reports leading up to the election². Given this week's surprise election outcome, we are providing an update of our conclusions for the following key sectors:

Health Care

The Trump win is a net positive for the health care sector. Nearly 60% of the U.S. sector's market capitalization is comprised of pharmaceutical and biotechnology stocks. These stocks had been significantly weighed down in the past year by fears of increased scrutiny of drug pricing under an expected Clinton victory (chart 6). With Trump as president, drug makers will likely face fewer threats to their pricing power, consistent

The Trump win is a net positive for the health care sector

² MRB Equity Sectors Research Highlights, "[U.S. Health Care Stocks: Campaign Rhetoric Vs Political Realities](#)", September 27, 2016, "[U.S. Energy And Utility Stocks: The Politics Of Climate Change](#)", October 11, 2016, "[Clinton Vs Trump: How The Candidates Would Regulate Wall Street](#)", October 24, 2016 and "[U.S. Industrial Stocks: The Politics Of Better Infrastructure And Defense](#)", November 1, 2016

with the Republican party's orthodoxy to protect market-based pricing. The defeat of Proposition 61, a ballot measure in California that sought to lower prescription drug prices, should also help improve sentiment towards the sector.

Health care utilization plays will fare less well under Trump. His desire to overturn the Affordable Care Act (ACA or Obamacare) will slow enrollee and patient growth for managed care companies and hospitals. A full repeal of the ACA is unlikely given that the program is already well entrenched. The more probable outcome is that Obamacare will be rebranded and modified by devolving Medicaid to the states through a block grant program, eliminating the individual mandate, and promoting health savings accounts. Nevertheless, until the details of a substitute program become known, health care insurers and hospital stocks will likely be under a cloud of uncertainty, although their earnings should remain relatively resilient.

Financials

Financial stocks will benefit from Trump's victory, provided his actions do not undermine investor risk appetite. Trump may find it difficult to deliver on his pledge to scale back or dismantle the Dodd-Frank Act given the complexity of the legislation and bi-partisan support for the financial regulatory framework that has been put in place post-crisis. However, a moratorium on new financial regulation would still be beneficial to the sector as it would remove the threat of additional regulatory burdens on large banks, insurers, bulge-bracket broker-dealers, and credit card issuers. Furthermore, to the extent that Trump moves forward with a pro-growth domestic agenda, and the yield curve continues to steepen in anticipation of stronger economic activity, spread revenue for the various financial sub-groups will improve.

Energy

Trump's plans to roll back environmental regulations and his goal to promote more fossil fuel extraction is a marginal positive for oil & gas companies, coal miners, and utilities. Despite these policy tailwinds, the performance of energy stocks and utilities will continue to be primarily driven by oil prices and bond yields, respectively. Beyond a near-term improvement in sentiment, we doubt that Trump's policies will be able to reinvigorate the coal industry. The struggles of coal miners in recent years have been mostly due to the influx of cheaper and cleaner-burning natural gas, not regulation. On the flip side, renewable energy plays such as solar and wind companies will face headwinds given Trump's hostility towards climate change regulation.

Infrastructure Plays

Infrastructure-related stocks have reacted euphorically to Trump's victory. We caution against expecting an immediate boost to the earnings of these companies from

A full repeal of Obamacare is unlikely

A moratorium on new financial regulation would benefit financials by removing a major overhanging threat

The performance of energy stocks and utilities will continue to be primarily driven by oil prices and bond yields, respectively

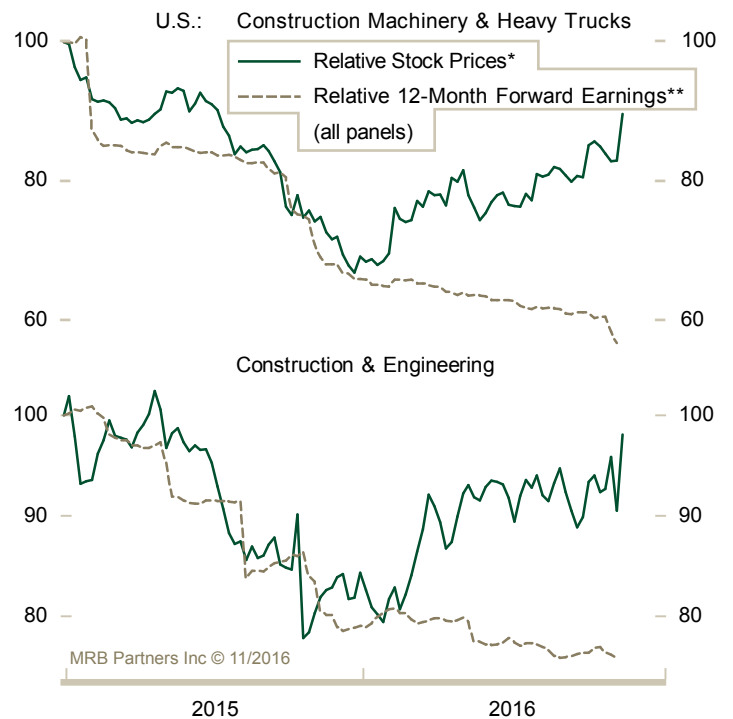
an increase in infrastructure investment. Assuming funding for an infrastructure plan can be obtained, there are a limited number of shovel-ready projects in place. Large projects require planning and take years to implement, underscoring that they do not quickly translate into stronger revenue and earnings growth for infrastructure-related companies. In addition, outside of construction material stocks, pure plays on infrastructure investment are difficult to find. Other sub-groups leveraged to the infrastructure theme such as machinery and construction & engineering companies also have exposure to commodity end-markets, which are likely to continue hampering their relative earnings over the long haul (chart 7).

Defense

Trump’s proposal for a large buildup of the military is inconsistent with his foreign policy objectives, which call for disentangling the U.S. from foreign commitments. Nevertheless, military outlays are poised to increase given the Republican Party’s desire to protect defense spending. Single-party control of both the presidency and the Congress will also make it easier for Trump to increase funding for defense in the coming years. An expansion of the defense budget should provide tailwinds to the earnings of the defense sub-group, but elevated valuations imply that a significant amount of good news has already been priced (chart 8).

Final Word: *Trump’s victory is positive for drug (i.e. pharma and biotechnology), fossil fuel, financials, and defense stocks. Conversely, health care utilization plays (i.e. managed care and hospital companies) and renewable energy firms will face headwinds to their growth. Benefits from a potential increase in infrastructure investment under Trump will take time to flow through to the earnings of construction material, machinery, and engineering stocks.*

Chart 7 U.S. Machinery And Engineering Stocks Are Risky Given Weak Earnings



* Rebased; relative to U.S. equity benchmark; source: Standard & Poor's
 ** Rebased; smoothed; relative to U.S. equity benchmark; source: Thomson Financial / IBES

Trump’s proposal for a large buildup of the military is inconsistent with his foreign policy objectives

Fixed Income

Cut Portfolio Duration To Neutral

We noted in the November **MRB Global Fixed Income Report** that the near-term implication of a Trump victory was likely to include elevated financial market volatility and possibly a temporary paring of risky asset exposure. The basis for this view was the fact that Trump’s policy proposals have been incomplete and in some cases at odds with the stated positions of the Republican Party, suggesting that a Trump victory would, for a time, result in increased policy uncertainty.

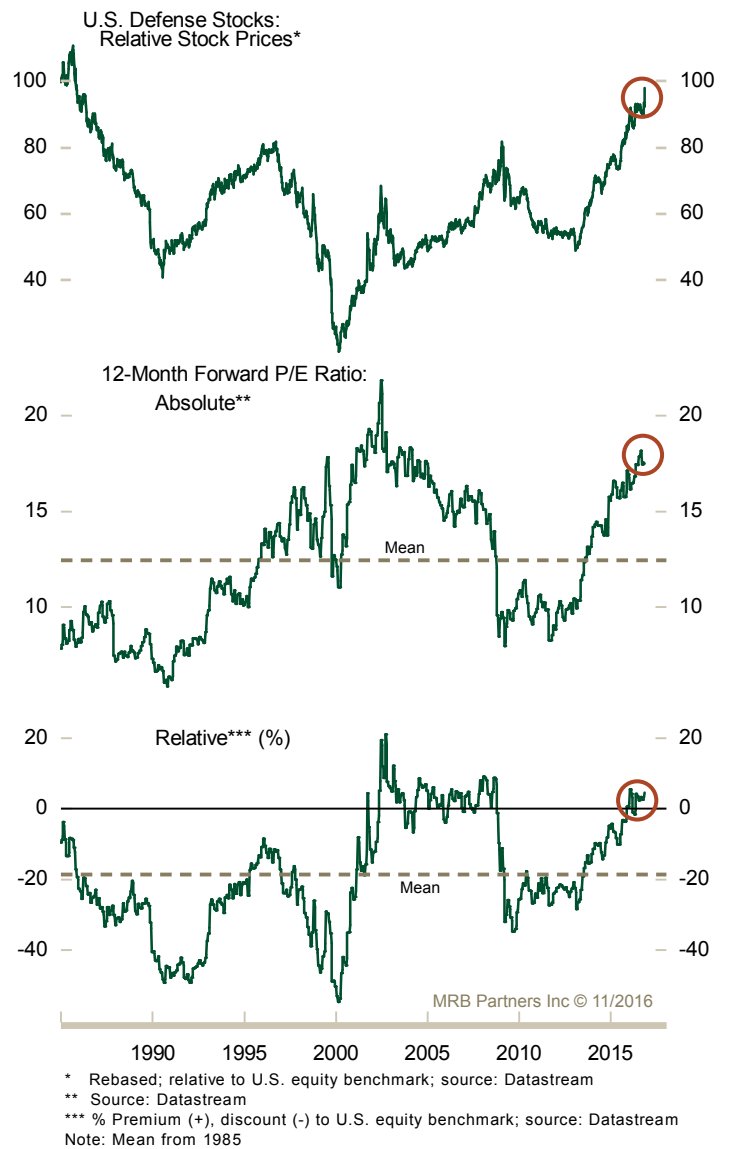
But the conciliatory nature of Trump’s victory speech (especially his comments directed towards Republicans who did not support him), in combination with the President’s reassurance of a smooth transition, have led investors to conclude that the President-elect will be able to move forward with a pro-growth domestic agenda.

Our view is that this conclusion may be premature. Trump’s message of unity is important, but his relationship with Congressional Republicans has been rocky at best and could deteriorate at any point over the coming days, weeks, or months. A schism could emerge even before the inauguration, depending on what legislative priorities Trump will pursue. Signs of party infighting, especially if accompanied by erratic statements or actions on the part of the President-elect, would likely weigh on business sentiment and risky asset prices.

In addition, much of the pro-growth focus of the market has been directed towards Trump’s promise of US\$1 trillion in infrastructure spending, and it would be hasty to conclude that he will be able to achieve this. We noted in a report earlier this month³ that Trump has provided few details about his infrastructure plan, and serious fiscal and political constraints would limit the ability of *either* candidate to oversee a significant expansion of infrastructure spending (even given Republican control of Congress, in Trump’s case).

To be sure, the fundamental outlook for 10-year Treasuries does suggest that there is room for yields to rise: **chart 9** highlights that the 10-year Treasury term premium has been deeply negative and increased significantly following the election. We also noted in a recent three-part report last month⁴ that equilibrium interest rates may end up higher than many investors and (even the FOMC) currently expect, meaning that the underlying fundamental backdrop is skewed towards higher yields. Absent an immediate breakdown in business confidence, a continued rally in risky

Chart 8 U.S. Defense Stocks: Valuations
Already Discount A Lot Of Good News



³ MRB Equity Sectors Research Highlight, "[U.S. Industrial Stocks: The Politics Of Better Infrastructure And Defense](#)", November 1, 2016

⁴ MRB Theme Reports, "[The Long-Term Rate Outlook \(Part I\): Secular Stagnation Versus MRB's 'Aftershock' Theory](#)", October 18, 2016, "[The Long-Term Rate Outlook \(Part II\): Navigating The Fed's 'Crisis Of Faith'](#)", October 20, 2016 and "[The Long-Term Rate Outlook \(Part III\): Future Aftershocks Vs Potential Stabilizers](#)", October 27, 2016

asset prices would also very likely solidify a rate hike from the Fed next month, further adding fuel to a selloff in government bonds.

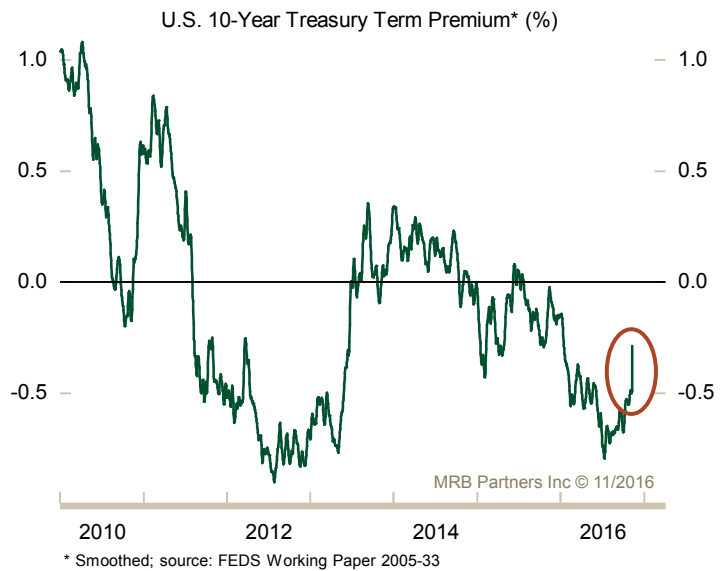
There remains sufficient policy and behavioral uncertainty that we are reluctant to recommend moving to a short-duration position within a global hedged fixed-income portfolio. But the inherent upside risks to yields, combined with Trump’s initial conciliatory statements and pro-growth signals, warrant the following changes to our fixed-income investment recommendations:

- Cut global fixed-income portfolio duration to neutral.
- Within a developed market government bond allocation, downgrade U.S. government bonds from neutral to underweight, and upgrade Japanese and Swiss government bonds from underweight to neutral.

The recommended changes to our regional positioning reflect the fact that the U.S. is the epicenter of the pro-growth trade (thus warranting a downgrade), and the low-beta nature of the Japanese and Swiss government bond markets.

Final Word: *The recent rise in government bond yields reflects the expectation that the U.S. President-elect will be able to move forward with a strongly pro-growth domestic agenda. This conclusion may be premature, but the potential for yields to move even higher over the near term warrants a shift in our duration stance. Cut global fixed-income portfolio duration to neutral, downgrade U.S. government bonds from neutral to underweight, and upgrade Japanese and Swiss government bonds from underweight to neutral within a hedged global fixed-income portfolio.*

Chart 9 The U.S. Term Premium Has Room To Rise Further



A Fed rate hike looms next month absent an immediate breakdown in business confidence

Foreign Exchange

**The Dilemma:
Buy The U.S. Dollar Or Gold?**

We highlighted in the October 28 **MRB Weekly Macro Strategy Report** that the U.S. dollar would be a win/win bet from the U.S. election on a 6-12 month horizon. In the case of a Trump victory, the rally would in part be the flipside of deflationary forces elsewhere, given potential U.S. trade restrictions. Trump creates a tremendous amount of uncertainty on several fronts, and may make foreign investors less eager to hold U.S. assets. However, if Trump pushes ahead with his anti-trade policies, it will likely lead to

a sharp deterioration in the outlook for export-oriented economies, causing their currencies to depreciate (as seen this week with the Mexican peso).

Thus the initial tailwinds for the U.S. dollar could persist on a one-year horizon assuming Trump focuses on fiscal spending (rather than just tax cuts) ensuring that recent economic momentum persists (or even improves). This, in turn, will add to pressure on the Fed to hike rates (**chart 10**).

In this environment, adding gold to a multi-asset portfolio should be considered largely insurance against policy uncertainty. A firmer U.S. dollar and higher interest rates will be a drag on gold prices. However, gold could benefit from heightened political uncertainty and geopolitical risks. Also, many of Trump's policy initiatives will push up inflation expectations, which will support the precious metal.

Over the long term, Trump's proposed policies (if passed by Congress) would be structurally bearish for the U.S. dollar. Tax cuts will stimulate limited growth and largely end up in wider budget deficits. This, combined with debt-fueled infrastructure spending, could set the country on a path for an eventual sovereign debt crisis.

At the same time, his anti-immigration and anti-trade policies, *if enacted*, are bearish over the long haul for the currency. While his plan may temporarily protect a few low skilled jobs, it effectively would use taxpayer dollars and/or sap consumer discretionary incomes to subsidize and protect inefficient industries. This would ultimately be stagflationary. The erosion of competitiveness of the nation and long-term potential growth will make the U.S. dollar less attractive.

In this backdrop, we would expect the world to accelerate its evolution away from using the U.S. dollar as the world reserve currency and towards a basket of the majors (including gold) as part of a new monetary regime.

Final Word: *We remain overweight the U.S. dollar for now, and will await further clarification on Trump's economic policies to time our exit strategy. Gold should be regarded as an insurance policy for now, but could eventually have longer-term appeal, depending on how much of Trump's plans for anti-trade and debt-financed growth Congress approves. Stay tuned.*

Chart 10 Upward Pressure For
The U.S. Dollar And Gold



This Week's Reports

Report Highlight *Long-Term Returns Report*
The Inevitable Math

To access the full report – [click here](#)

While the markets continue to digest the results of Tuesday’s election, it is important to keep the longer-term outlook for capital markets in mind. In a report on Tuesday we updated our long-term returns analysis, which reiterated that investors should expect middling returns over the next decade on a balanced portfolio of equities, bonds, commodities and cash. The primary drag on performance will stem from low returns on bonds. Managing around this reality will be the biggest challenge for most investors in the coming years.

Highlights of our 10-year projections and analysis included:

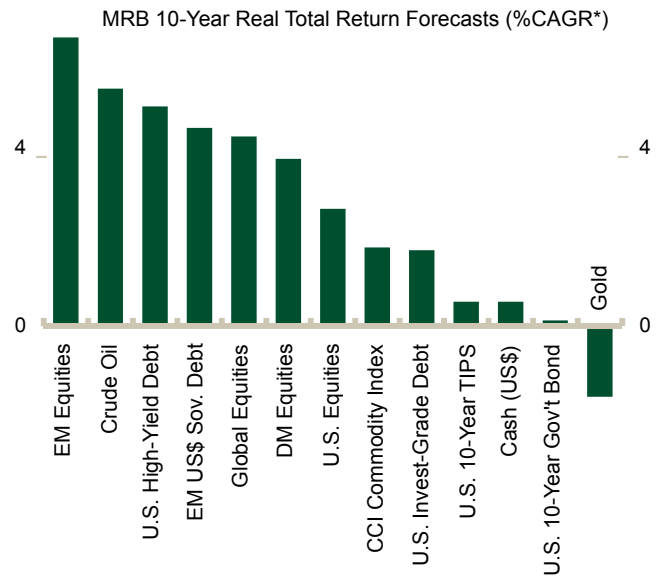
- A G7 10-year government bond portfolio will produce near 0% real returns over the period (**chart 11**). Credit products will fare considerably better.
- Global equity returns will be moderate, bolstered by solid dividends and reasonable earnings growth. EM equities will perform best, while the U.S. market will lag.
- The outlook for commodities is mixed. They will outperform bonds, but lag other risk assets.
- Portfolio returns will be poorer in the next several years as interest rates slowly normalize.

Report Highlight *Theme Report*
Forced De-Globalization (Part I): Benefits And Costs Of Trade
Forced De-Globalization (Part II): Blame Technology Not Trade

To access the full report – [Part I & Part II](#)

The highly rewarding era of increased globalization and global trade is coming to an end. The U.K. will begin Brexit negotiations next year, and the U.S. voted this week for a new President with an anti-trade mandate. Other European nations will also hold elections over the next year and face strong populous pressures for protectionism. Assessing whether globalization is merely cresting or will be forcefully unwound will be paramount for investment strategy. This week we published a two-part **MRB Theme Report** on the consequences of “forced de-globalization”.

Chart 11 EM Equities Are The Best Asset Class Over The Next Decade



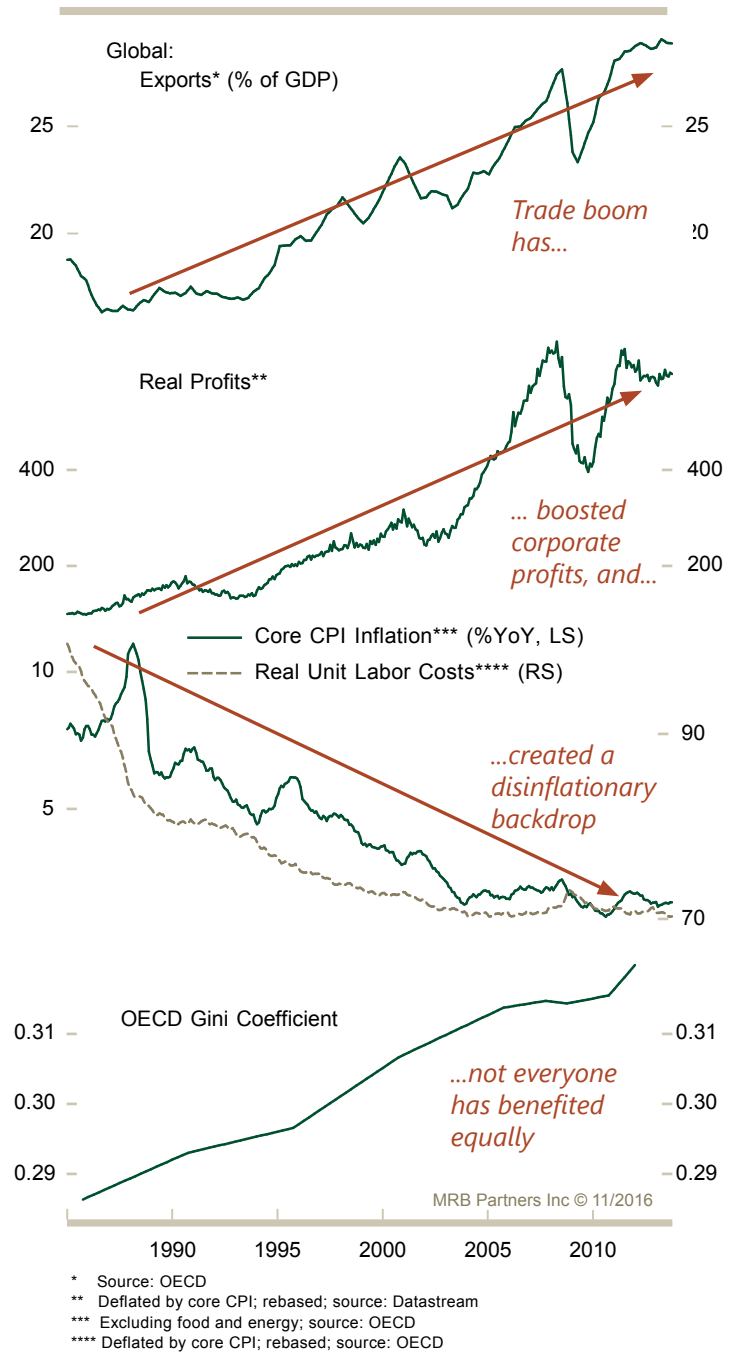
* Compound annual growth rate from 2016 to 2026

MRB Partners Inc © 11/2016

Part I (published on Tuesday) outlined the major economic benefits and consequences of increased global trade. In short, increased global trade has created tremendous benefits over the past couple of decades, in terms of economic/profit growth, disinflation and lower borrowing rates (**chart 12**). However, the adjustment process was poorly managed. Gains have not been equitably distributed and low-skilled workers in the developed world face chronically poor job prospects, which has fueled social unrest and political pressure to forcefully curtail global trade. Politicians in the U.S. and Europe are now appealing to the populous, but adopting anti-trade policies would be a mistake with painful economic and wealth consequences:

- Politicians that fixate on the negatives and believe the answer is in adopting protectionist policies are naïve. Efforts to curb global trade give up the net benefits associated with it, and risk creating a self-reinforcing downward economic cycle.
- Protecting uncompetitive domestic industries comes at a hefty and persistent cost to taxpayers and/or consumers. Also, retaliation from trading partners could crush corporate profits in domestic industries that are competitive, costing more wealth and job losses than those salvaged by anti-trade policies.
- Instead, the focus needs to be on enhancing and creating domestic comparative advantages to effectively compete in a globalized world. If such steps were taken, then globalization would not be something to fear, but rather embrace.
- For the developed countries, this means educating their workforce and moving a greater proportion up the global value chain, rather than competing in the production of low-skilled products. The focus needs to be on producing higher-skilled goods and services, as well as leading innovation in various industries.

Chart 12 Increased Global Trade Has Been Beneficial

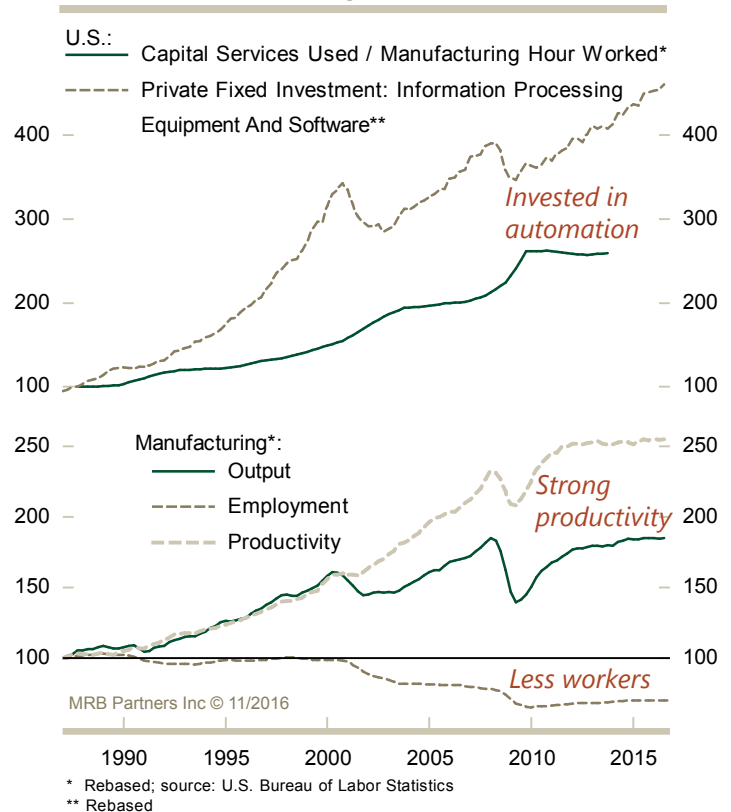


* Source: OECD
 ** Deflated by core CPI; rebased; source: Datastream
 *** Excluding food and energy; source: OECD
 **** Deflated by core CPI; rebased; source: OECD

Part II (published yesterday) pointed out that increased global trade has taken an unfair amount of the blame for manufacturing job losses. Technology advancements have also played a major role around the world (**chart 13**):

- The invention of new technologies can permanently displace the workforce of an entire industry. This was the case for agriculture, and now for manufacturing. Politicians cannot stop this trend.
- The labor market impact of innovations is now shifting to the service sector, a trend that will likely accelerate over the next decade. Higher-skilled jobs are better protected, but not immune.
- Fixating on anti-trade or protectionism is a mistake that will cause more economic damage and loss of more jobs than it will salvage. Developing an educated and flexible workforce is the only defense against structural under-employment caused by technological advancements.

Chart 13 Technology Has Displaced Manufacturing Workers



Final Word: *Investors should structurally underweight risk assets of any country implementing anti-trade policies. Conversely, structurally favor assets in economies where the government is focused on creating a flexible and dynamic workforce. This theme will be a focus in future research reports.*

MRB – The Macro Research Board is a privately-owned independent research firm providing integrated, global, multi-asset investment strategy as well as actionable, absolute-return ideas. Our views incorporate a long-term outlook based on in-depth theme research, together with rigorous forecasting models and indicators that drive 6-12 month asset market performance. MRB's team of analysts and strategists leverage the firm's robust research engine and their extensive experience to ensure that investment strategy is developed and articulated in an integrated, coherent and client-friendly manner.

For more information, please contact:

Client Relations

clientrelations@mrbpartners.com

London Token House
12 Tokenhouse Yard
London, EC2R 7AS
United Kingdom
Tel+44 (0) 20 7073 2792

Montreal 2001, boul. Robert-Bourassa
Suite 810
Montreal, Quebec
Canada H3A 2A6
Tel+1 514 558 1515

New York 122 East 42nd Street
Suite 2310,
New York, NY 10168
USA
Tel+1 212 390 1148

www.mrbpartners.com

Copyright 2016©, MRB Partners Inc. All rights reserved.

The information, recommendations and other materials presented in this document are provided for information purposes only and should not be considered as an offer or solicitation to sell or buy securities or other financial instruments or products, nor to constitute any advice or recommendation with respect to such securities or financial instruments or products. This document is produced for general circulation and as such represents the general views of MRB Partners Inc., and does not constitute recommendations or advice for any specific person or entity receiving it.

This document is the property of MRB Partners Inc. and should not be circulated without the express authorization of MRB Partners Inc. Any use of graphs, text or other material from this report by the recipient must acknowledge MRB Partners Inc. as the source and requires advance authorization.

MRB Partners Inc. relies on a variety of data providers for economic and financial market information. The data used in this report are judged to be reliable, but MRB Partners Inc. cannot be held accountable for the accuracy of data used herein.

Recent *Research Reports*

[Forced De-Globalization \(Part II\):
Blame Technology Not Trade](#)

[Long-Term Returns Report](#)

[Forced De-Globalization \(Part I\):
Benefits And Costs Of Trade](#)

[Global Fixed Income Report](#)

[OPEC's Fairy Tale: A \(Very\) Short Story](#)

[Currency Volatility Still Drives Returns](#)

[U.S. Industrial Stocks:
The Politics Of Better Infrastructure And Defense](#)

[The Long-Term Rate Outlook \(Part III\):
Future Aftershocks Vs Potential Stabilizers](#)

[Global Inflation-Linked Bonds:
Stay Overweight, But Favor The U.S.](#)

[Clinton Vs Trump:
How The Candidates Would Regulate Wall Street](#)

[The Long-Term Rate Outlook \(Part II\):
Navigating The Fed's "Crisis Of Faith"](#)

[The Long-Term Rate Outlook \(Part I\):
Secular Stagnation Versus MRB's "Aftershock" Theory](#)

[Implications Of A "Hard" Brexit On U.K. Equities](#)

[How China's Property Boom Goes Bust \(Again\)](#)

For copies of all our previous research, please [click here](#) (www.mrbpartners.com/my_mrb) or [contact client relations](#).