



Thoughtful, as always, from Hong Kong perspective and research.

“A World Remade” gives us much to think about. One man – one week! Uncertainty now exponential.

Georgian Capital believes in cash flow consistency and growth – and North America.

Enjoy the read. Comments welcome.

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## LLOYD GEORGE ADVISORY

**November 2016**

### **Investment Outlook**

#### **A World Remade**

The “Chief business - of the American people is business” as Calvin Coolidge said in 1925. The consequence was the election of a successful businessman, Herbert Hoover, as President in November 1928. We know what happened during his four year term as President, marked as it was in June 1930 by the Smoot Hawley Tariff, followed by the Great Depression. Markets in the US and around the world have greeted the election of Donald Trump as good for business. The consequences of Trump’s election are not yet clear, although for domestic investors it may prove positive to see reflation, more fiscal spending and tax cuts, with large deficits and a declining bond market. The US dollar is strengthening, and the business sector is rejoicing. But if Trump truly responds to the populist surge which elected him, he may be tempted (as he has said) to repeal NAFTA and certainly to drop plans for the TTIP (Europe Free Trade) and TTP (Pacific Free Trade), and to impose some restrictions, if not tariffs, on imports, notably from China.

The market euphoria will soon wear off if the consequences of a trade war become apparent, affecting not only major US multinationals with shrinking global sales, but US consumers with higher supermarket prices. For all these reasons we remain cautious about the outlook in 2017 and 2018 for China and the Asian markets generally. As Brexit has shown, the popular vote to limit immigration and restrict trade, has immediate consequences for currencies and for growth.

“America First” as a slogan does not have a very good provenance in the 1930s and 1940s. Isolationism in international relations as well as trade will have dire consequences for Europe



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as well as Asia. We are praying that sensible and moderate advisors with some knowledge of history and economics will temper the populist slogans of the campaign.

I spent last week in India and Pakistan respectively visiting companies and assessing political risk. As Pakistan moves in May 2017 from Frontier to Emerging Markets, it will progressively be re-rated from its current low PE multiple below 10x. Companies in the cement, energy, banking, healthcare and automobile sectors (just as in India) are experiencing strong sales and earnings growth, and China's US\$50 billion commitment to infrastructure and power will have a fairly dramatic effect on Pakistan's economy over the next 5 to 10 years if fully implemented.

The outlook for political stability seems to have improved somewhat. The government is business friendly and the currency has been stable at about Rs.105 to the dollar for the last 42 months. Although liquidity is still thin, it will improve in the coming year.

In India the immediate impact of the government's latest crackdown on corruption was long lines at the banks, as many people tried to trade in their 500 and 1000 Rupee notes for new currency. About US\$250 billion of notes in circulation has been demonetised, 86% of the value of currency in circulation. There will be an immediate slowdown in consumer spending and real estate will also be negatively effected by the crackdown on "black money" which accounts for an average of 30% of payments for re-sale property. On the positive side, government finances will improve, inflation will come down, and the Reserve Bank of India will probably cut rates in December.

Prime Minister Modi has taken a courageous step which is not universally popular within the business sector or with those in the black economy, but one leading Mumbai businessman described Modi to us as "the greatest Prime Minister that India has ever had". We are still confident that the outlook for this huge domestic economy is for strong growth of 7 to 8%, and a growing list of opportunities in mid-cap and small-cap stocks which cater to the industrial and consumer sectors.



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We visited, for example, one small industrial concern, Technocraft, which specialises in drum closures, scaffolding and textile yarn equipment, selling on a PE of 5x with over 90% of its sales to export markets. The depth of India's engineering and technological knowhow is impressive and the wealth of India which can be traced both historically and in the present boom, is also based on the great educational foundations of the IIT (Indian Institute of Technology) and the IIM (Indian Institute of Management). Silicon Valley has been a beneficiary of this exported talent but we believe it will also have a big impact on the Indian domestic market.

The clean-up of corruption and the streamlining of bureaucracy started by Modi will put India in a much more competitive and attractive position for foreign, notably US investors. And finally India does not suffer from Trump's policies because it has little exposure to foreign trade outside the software sector.

Other markets in Asia have reacted to the US election in different ways; gold has fallen and most currencies including the Japanese Yen and the Chinese Renminbi have weakened against the US dollar. The energy sector may be one of the beneficiaries of less environmental constraints but we do not expect oil and commodity prices to show a strong recovery now. Iran has quadrupled its oil production four times over the past two years. There is a plentiful supply and this is also true in coal, where Chinese speculators have driven up the price in the short term, and copper, which has been recovering. Even if the US embarks on a major infrastructure programme, steel, copper and cement supplies are plentiful and prices should not be unduly affected.

A handwritten signature in dark ink, reading "R. Lloyd George". The signature is written in a cursive, flowing style.

Robert Lloyd George  
16<sup>th</sup> November 2016  
Hong Kong



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