



Swine Fever and the Gold Price or, Forecasts for 2020

A succinct, but thoughtful, outlook. While not macro-investors, we believe that the 'non-cycle' is likely to continue, and that this favours quality, dividend-growing equities in North America.

For the somewhat aged students of Samuelson text books, market behaviour will continue to be unfamiliar. Blame it all on the internet?!

Enjoy the read. Comments or questions always welcome.

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Investment Outlook

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There seems to be a degree of complacency in the market, after an almost 30% rise in the S&P 500 in 2019, that the benign trend will continue in 2020, that President Trump will get re-elected, the dollar will stay strong, inflation will be subdued, and there will be no rise in interest rates.

My own view is different. The conclusion of Phase One of the US/China trade deal has released a lot of tension and anxiety in business circles, capital spending and trade are likely to recover in the coming months. This is especially good news for Taiwan, Korea, and the Asian Emerging Markets. The dollar has peaked, and in the past month has already fallen 2% on its trade weighted index. There are distinct signs of rising prices in several areas of the commodity complex, including gold, silver, and energy prices. Some foodstuffs will also be in short supply and demand will strengthen as China ramps up its agricultural purchases from the US.

In China itself, there is a definite slowdown towards 5%, and perhaps lower, despite continuous support from the authorities and a recent injection of US\$120 billion into the financial system, by lowering bank reserve ratios. The real challenge for the Chinese leadership is the dramatic impact of the swine fever, which has meant that 60% of China's pigs have had to be slaughtered, pork prices have more than doubled, and the consumer price index was recently rising at 4.5%. There is no doubt that inflation will be a problem in China, in the coming year.

Globally, with unemployment at its lowest level for more than a decade, wages are likely to rise, and inflation will finally respond to the central bankers' wishes, and rise clearly above 2% in Europe and the US. What will happen to negative interest rates in Europe and Japan, and



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the 10-year US Treasury below 2%? We expect that 2020 will see the end of this monetary experiment.

Emerging Markets have now underperformed developed markets, for more than 10 years. In 2020, this will decisively reverse. A clear recovery in the technology cycle will favour Korea, Taiwan, and China, which constitute 57% of the Emerging Market Index. For the rest, strengthening commodity prices will boost returns from Russia, Brazil, and other Asian nations.

We remain, however, somewhat cautious about the situation in Hong Kong, which is, depressingly, continuing to be fraught with daily and weekly violent demonstrations, and lack of dialogue between the authorities and the protestors. We make no forecast here about what may happen in the next 6 months, but business conditions are, to say the least, not propitious; and many companies are looking for alternative locations.

In India, meanwhile, Mr. Modi's decision to support a new citizenship law, and a national register for citizens under Home Minister Amit Shah, has raised alarm among the Muslim population of India, which has grown from 9.8% at Independence in 1947, to 15% of the total population today, or over 200 million citizens. The surprise for those who have studied Indian history, is that there has not been more intercommunal violence, during the first Modi term of office. We continue to believe that Mr. Modi is a pro-business reformer, who has passed important tax and banking reforms, which will support the Indian capital markets over time, with significant improvements in profit margins and share prices.

We have diversified our risks in our broad Asian portfolio to include Korea and Taiwan (together almost 20%), as well as Southeast Asia, where the 3 major growth economies are Vietnam, Philippines, and Indonesia. All 3 countries present challenges in terms of selecting good shares, without foreign premiums, or corporate governance issues. But there is no doubt that, with the lifting of the trade war worries, these markets should outperform in the coming year; and the same is true of India.



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So, coming back to the gold price – which, at the time of writing, has risen close to US\$1,600/ounce following the surprise US drone strike in Baghdad, which killed the leading Iranian general Soleimani, commander of the “Quds” force. We expect a confluence of forces will support gold and silver in 2020. Many nations in Europe and Asia, especially China and Russia, have been consistently buying more gold for their central bank reserves, as a reaction to Washington’s increasingly aggressive use of economic sanctions (using the dollar as a weapon), against both enemies and allies.

China is reputedly ready to launch its own crypto currency (and we can confirm from personal meetings in Beijing that they have been studying block chain technology at the highest government levels for several years). The Renminbi (RMB) is likely to be stable. But the key will be to follow closely any weakness in the US dollar, which, in the past, has been a clear leading indicator of market weakness.

Robert Lloyd George
13 January 2020
Hong Kong

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