2017 GINSGLOBAL ECONOMIC OUTLOOK

RADICALLY CHANGED LANDSCAPE PRESENTS OPPORTUNITIES AND RISKS

But steady global growth will continue, fueled largely by the United States.

The year ahead will be materially impacted by the 2 significant electoral upsets in 2016: Brexit and Trumpism. Many believe that the former will be beneficial to Britain because the solution to the low price of Sterling is in fact the low price of Sterling: Imports become more expensive and exports are more competitively priced, stimulating the British economy. The likely fallout however will be to impose even greater strain on the Eurozone economies and on the Euro, where the full price for this exit will be paid.

The Trump election victory will spur the domestic US economy in 4 key ways: Firstly the proposed reduction of corporate taxes to be on par with other leading developed countries will encourage more onshoring of economic activity; secondly the reduction of taxes on repatriation of funds presently held abroad by corporations will encourage around $5 Billion to move back to the USA where it can be put to productive use; thirdly the proposed rebuilding of infrastructure will create thousands of new jobs and fourth: the repeal or modification of Dodd-Frank will ease banking restrictions and allow banks to lend more freely. Currently the lending volume is historically low and banks have been constrained. The changes and controls imposed by Sarbanes-Oxley are deemed adequate by many to ensure that another Global Financial Collapse triggered by a failure of the banking system will not recur.

There will be much related stimulus and we can expect a ripple effect throughout the economy. Furthermore the continued strength of the labor market, expanded consumer spending and an unusually large increase in real household income not only bodes well for ongoing spending but also helps to reverse the rise in income inequality. The rises in stock markets and the value of the US Dollar have already reflected some of this in the repricing that has taken place post the election.

We do not foresee a global protectionist movement emerging and expect that the threats in this direction will, as many others already have been, be backtracked. This article deals purely with what we believe to be the likely macro-economic implications, but quite obviously there will be very material societal and geopolitical impacts.

For investors therefore, the US equity market continues to present compelling relative value. Corporate profits are strong and growing, balance sheets are healthy, and corporate America has successfully deleveraged. However more than ever, portfolio design is critical because the benefits of Trumpism will not be evenly spread. Bonds remain unattractive because interest rates remain low, even when taking into account the recent uptick, and expectations that Yellen & Co will raise rates further. As rates rise, the values of bonds decline and for bond fund investors the losses in value they incur will never be recouped - because unlike actual bonds, funds have no maturity date on which the face amount will be repaid. For those seeking income, a group of diversified dividend paying stocks may present an attractive alternative approach. The famous investor John Templeton has said: “Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria”. We still see much skepticism, and no euphoria.

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profits are strong and growing, balance sheets are healthy, and corporate America has successfully deleveraged."

This past year has been an exhausting one for many investors: In addition to Brexit and Trumpism, China started rebalancing, the Fed failed to raise rates, Europe, tensions rose in Ukraine and the Middle East, and Italy suffered an election upset whose implications cannot yet be determined. Surprisingly, while any one of these events could have caused a serious market setback, they kept plugging along valiantly – albeit with bouts of volatility – even as global growth stayed slow.

Six months after the decision of the United Kingdom's electorate to leave the European Union, the fog around what Brexit exactly means for the Eurozone and the European Union has not disappeared. The direct economic effects have been limited so far, as financial markets, helped by central banks' decisions, remained relatively calm. Politics has been more affected than economics, as European leaders try to figure out how they can react and what sort of strategy they should adopt in the upcoming negotiations with the United Kingdom. These political decisions will have substantial repercussions on the European economy, especially regarding the future form of the European Union and the future relationship with the United Kingdom. While the shock to the financial markets has not happened, the effects on the real economy are likely to materialize in a less spectacular, yet very palpable way.

The immediate reactions to Brexit It was widely feared that the biggest immediate effect of Brexit would play out on the financial markets, sending shock waves through the global financial system. Given the problems in the Eurozone's banking system, this would have affected the Eurozone in a very big way. However, the shock to the financial markets failed to materialize. After a brief period of volatile financial markets, European stock prices rebounded, and the Euro Stoxx 50 reached its pre-referendum value in late July.

Politics has been more affected than economics, as European leaders try to figure out how they can react and what sort of strategy they should adopt in the upcoming negotiations with the United Kingdom. Unfortunately there are incompatible negotiating positions of the United Kingdom and the European Union, rendering likely a period of uncertainty. The negotiations will probably dominate the agenda of EU leaders in the next few years. A close economic relationship between the two is seen as optimal, but differences over immigration policy could undermine such relations

The global economy has lately been characterized by relatively slow growth, weak business investment, persistent deflationary pressures, and slow growth of cross-border trade in goods and services. These issues have led to concerns that the current policy mix in major economies is not up to the task of fueling faster growth. Indeed, in the major developed economies, monetary policy seems to be the only game in town, with few countries focused on fiscal or structural actions.

For their part, central banks all but exhausted themselves this year with their extreme monetary policies, prompting a renewed focus on fiscal expansion as one of the few remaining ways governments can hope to stimulate much-needed growth.

"We see none of the euphoria that typically accompanies the end of a bull market. Ignore the doom-and-gloomers: Even a broken clock gets it right twice daily"

Moreover, economies around the world are still grappling with monumental levels of excess debt that are only serviceable at record-low interest-rate levels. Within the USA , we expect 2017 to be a year of nominal growth and low returns as our long-running thesis of financial repression remains in full effect.

Investment themes to understand in 2017

As the markets close the books on one year and turn their attention to the next, investors looking to make informed decisions need to understand what's driving markets and economies. Here are the core themes to watch in the coming year.

- **Global economic growth: Still low, slow and dull with the US expected to be the bright spot, followed by the UK** Investors should expect continued steady growth as the US enters its late-cycle period although it should be kept in mind that bull markets don't die of old age - and we have seen none of the euphoria that typically accompanies the end of a bull market, Japan struggles with its ageing population and Europe suffers from Brexitosis. Although the Indian economy faces some headwinds, new legislation involving tax and bankruptcy reforms could set the stage for an acceleration of growth. Moreover, these reforms are likely to embolden the government in attempting to enact labor market reforms. Such action would ease the cost of doing business, promote more employment, and stimulate more inbound foreign investment.

- **Central banks: Rates "lower for longer" overall**

  We expect the US Federal Reserve to modestly increase rates, prompting central banks in emerging markets to lower their rates as inflation falls. The European Central Bank and Bank of Japan should maintain their loose monetary policies. We have passed peak global liquidity as central banks have pushed past negative interest-rate policies to begin supporting government spending.

- **Oil sees demand and supply fall into balance**

  It is unlikely that oil prices will stay too low for too long, and we are already seeing this position being validated. These very same low oil prices have led to receding industrial capital expenditures, and have helped demand and supply fall into balance. We believe a slightly rising oil price in 2017 should boost oil investment and global inflation, but it will not ignite a new shale boom in the US. Supply will still be pressured by a fraught geopolitical situation in the Middle East, Latin America and Africa.

- **A change in political trends is underway**

  The tides of de-regulation continued shifting in 2016, and nationalism and populism gained ground: Brexit, the Walloons, Bernie Sanders and Donald Trump all played a part. Given the significant elections looming in Europe in 2017, politics should remain a key investment consideration – though some investors may simply stay away from certain markets despite attractive valuations. Monetary policy will also become more political as it becomes subsumed by explicit government policies of fiscal domination. As to where governments will spend the money their central banks print, we believe domestic infrastructure and defense spending will be the focus of many countries in the coming years.

- **Diversify, don't herd**
  Strategic diversification is the closest thing to a free lunch for the savvy investor. Asset correlations and volatility are high, which could cause different asset classes to swing wildly in the same direction. Extreme monetary policy measures from central banks – such as negative interest-rate policies and quantitative easing – have also herded many investors into the same positions, which may reduce returns. Look for strategies that offer risk-mitigation and diversification potential.

- **Volatility is unavoidable, but manageable**
  Markets are increasingly susceptible to volatility as politics, geopolitics, divergent monetary policies and internal market structures all converge and evolve. Navigating this sea of uncertainty requires a clear direction and adherence to a bullet proof financial plan that responds to the needs of the individual investor for growth, safety and income – and disregards the headlines and the doom-and-gloomers. After all even a broken clock gets it right twice a day.

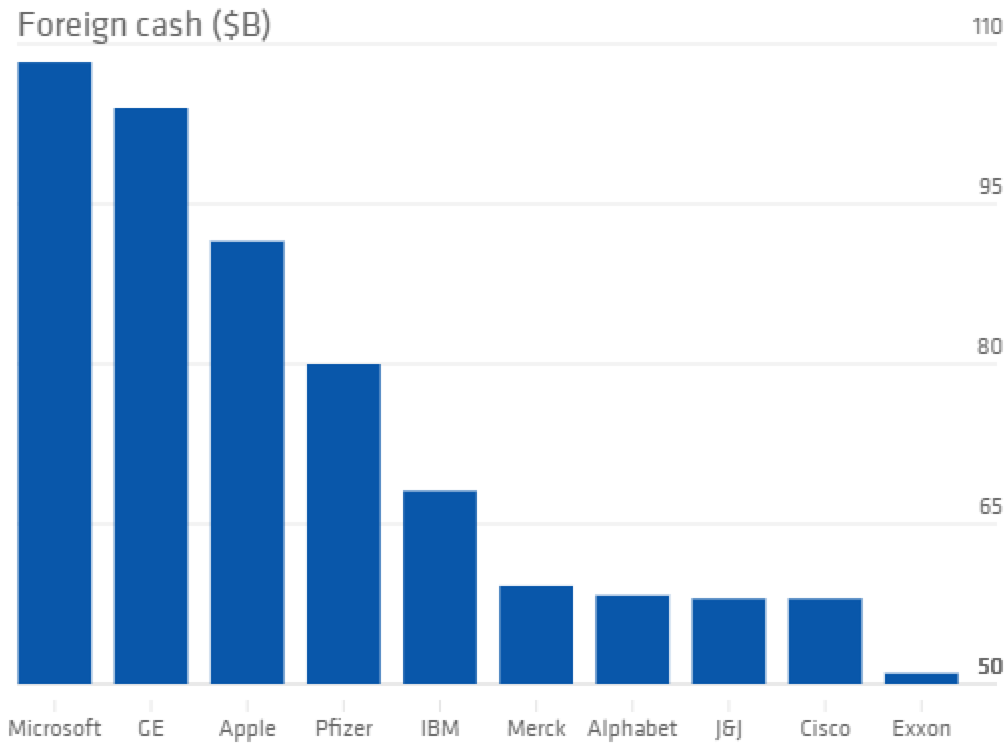
<u>Around the World: China is still the big story, with Asia attractive overall</u>

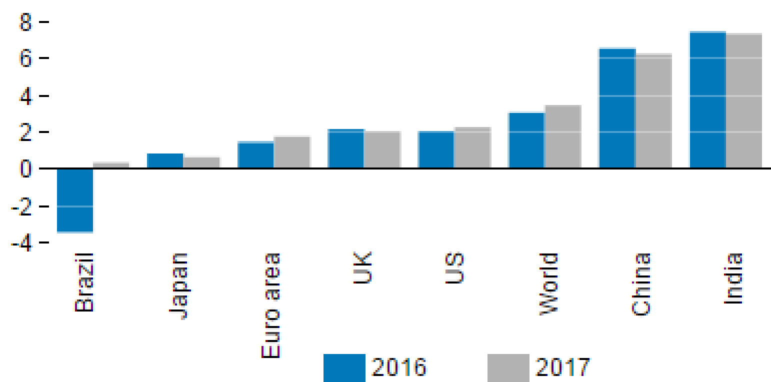
- The biggest contributor to global growth is still China, which is requiring fewer industrial commodities and more oil and soft commodities as it urbanizes rapidly. Concerns remain over its capital position, but its "one belt, one road" policy for expanding trade and investment may be the new Marshall Plan the world needs after the Global Financial Crisis. A recent study from the Bank for International Settlements suggests that China's debt relative to GDP is extremely high and that credit creation is accelerating, particularly in the household sector. While this has been intentional on the part of policy makers who are keen to avoid a deeper economic slowdown, it exacerbates longer term problems especially with a shadow banking system that is largely unregulated and heavily over-leveraged. However given the demonstrated power of the centralized government, it is likely that any slowdown will be carefully choreographed and we do not expect a crash landing. With India and Indonesia now making significant reform progress, Asia offers an interesting balance of growth and investment.
- Canada is experiencing continued economic weakness. Despite a weak currency, non-oil exports have failed to revive sufficiently to drive growth. Moreover, the central bank is not yet comfortable with easing monetary policy, given continued relatively high inflation. On the other hand, the potential fiscal stimulus planned by the government could help to boost growth going forward. Beyond the short-term economic outlook, the planned free-trade agreement between Canada and the European Union could open a new chapter.
- Brazil, the country that hosted the recent Olympic Games continues to suffer from one of its worst downturns in modern times. With inflation remaining high and gross fiscal mismanagement over the past year, the central bank has been compelled to keep monetary policy tight, thereby inhibiting an economic recovery. Yet, with the currency having risen, there is reason to expect a deceleration of inflation and the basis for a rebound appears to be developing.
- The Russian economy is showing signs that the period of declining activity may be coming to an end, and that the economy might have hit bottom, aided by a stable currency, slowing inflation, an easing of monetary policy, and a revival in oil production. Headwinds which Russia faces include continued Western sanctions, which are having a chilling effect on inbound investment in the energy sector and weak foreign investment which inhibits the diversification of Russia's economy that is so badly needed. In addition there is continuing weakness of income growth and consumer spending.

THE BOTTOM LINE: In the first half of 2017, economists anticipate that the global recovery will continue and strengthen, with a projection of 2.8% growth in that period. This reflects a pickup in the U.S. economy, due to the expected stimulatory first effects of Trump's policy platform, and a recovery in global trade and commodity prices, which will prompt faster growth in many emerging economies. We expect that this continued global economic growth will spur stock markets to continue their long bumpy road upwards and we anticipate that handsome rewards await those who can withstand market turbulence. Given the volatility we anticipate and the adjustments needed to adapt to a radically altered economic landscape, investment portfolios should be designed to ensure that full advantage is taken of the most attractive opportunities and that they are responsive to the specifics of each individual's situation.

SLIDES

CASH BEING HELD OVERSEAS BY US CORPORATIONS





2017 outlook by region

US: Escape velocity elusive as Fed tries to raise rates – yet consumers see little wage growth, and health-care costs start to rise. Trump boosts infrastructure and defence spending, pushes for return of cash held overseas. US dollar could weaken.

Europe: Investors grow nervous about cloudy outlook from elections and triggering of Article 50. Euro-zone financials weaken, hurt by ECB's moves toward tapering. Equities look attractive and high-yielding in a marketplace distorted by QE and NIRP. Growth should slow.

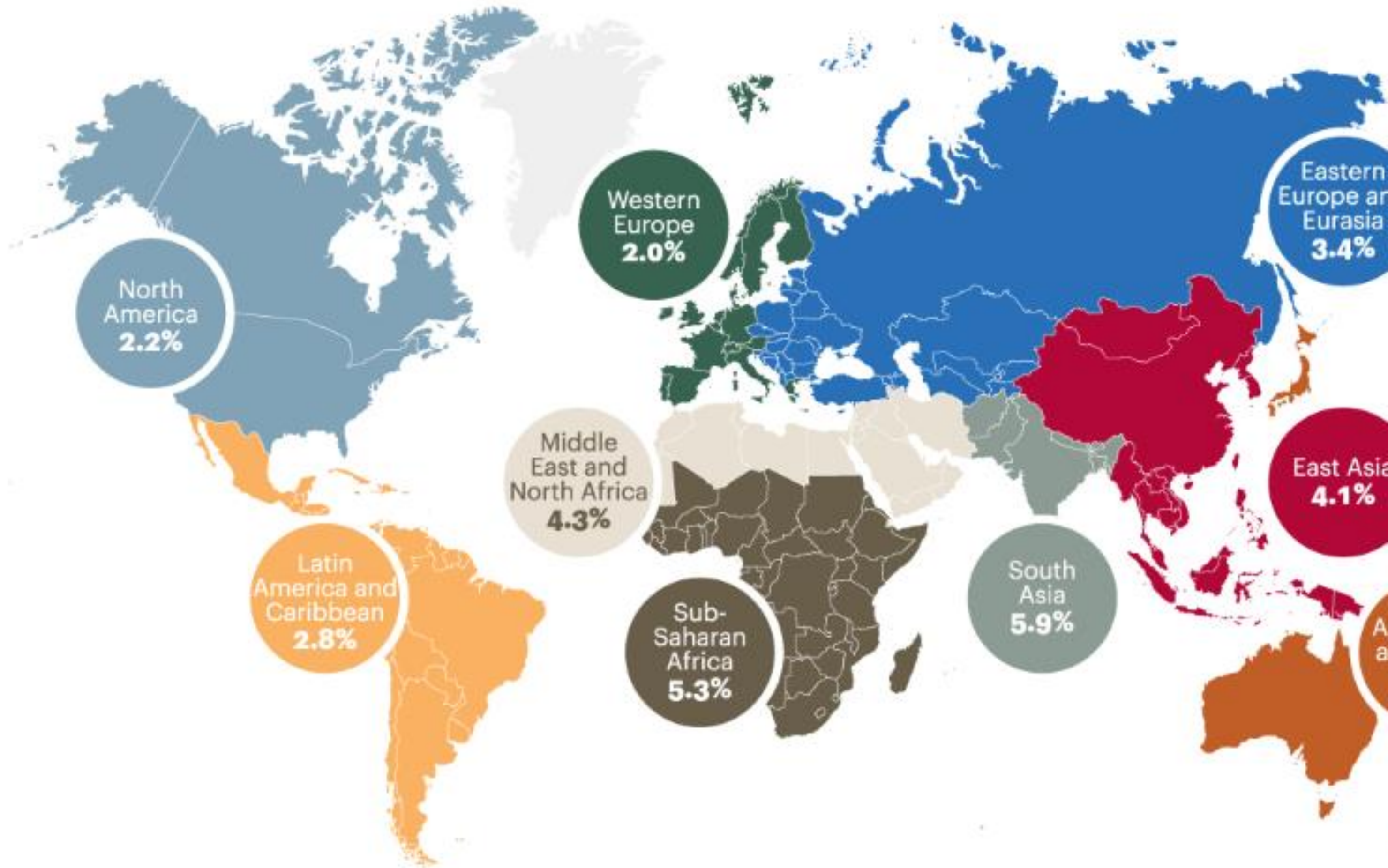
Asia and EM: Fundamental economic restructuring in China, India and Indonesia offset stronger USD and slower global trade momentum. Rising global protectionism boosts regional development, spurring local consumer spending. Commodity outlook changes with China's shift to oil and softs.

Japan: Economic growth still very fragile as demographics and policy uncertainty affect confidence. New fiscal dominance allows Abe (with BOJ support) to legislate for inflation, which boosts domestic activity at yen's expense.

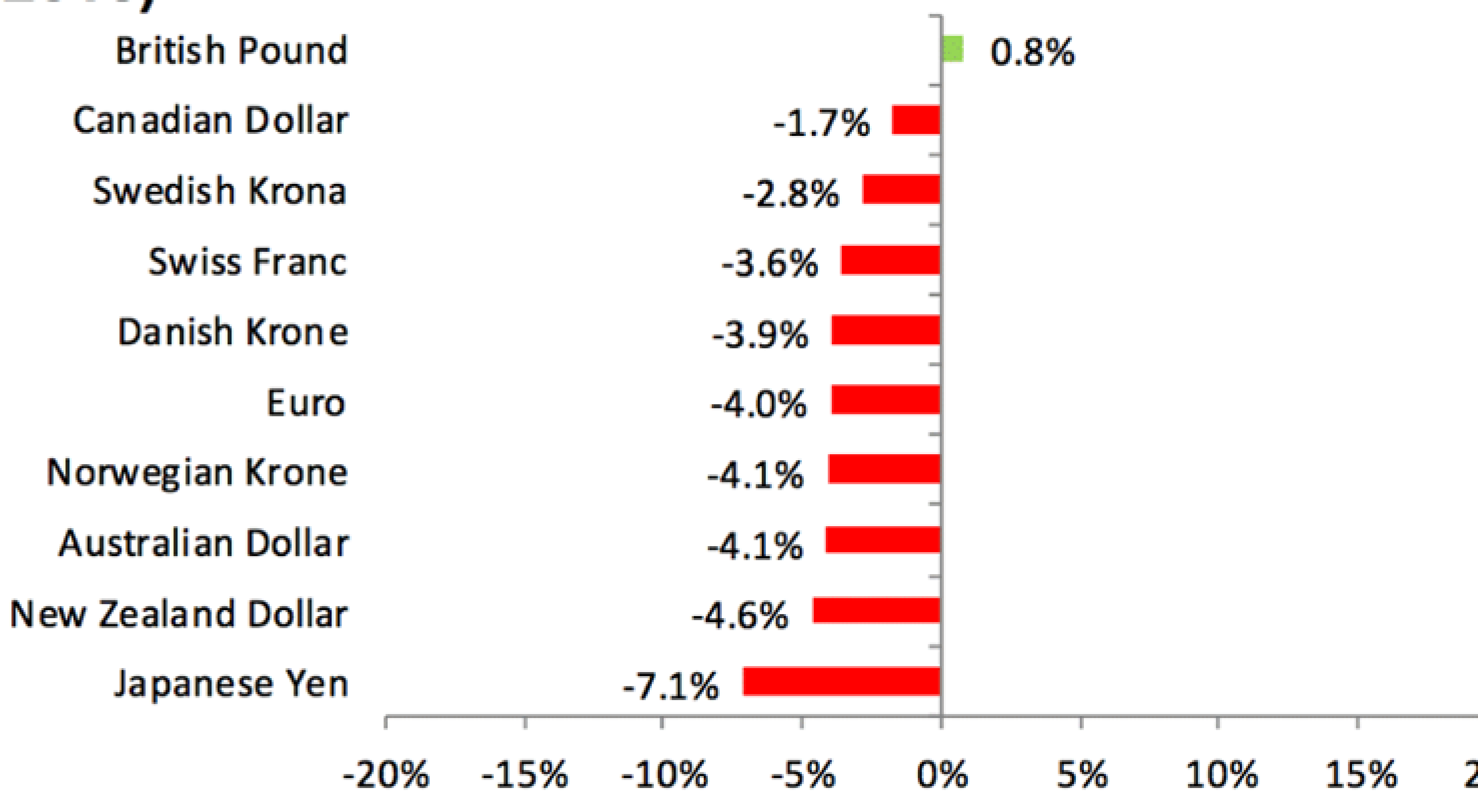
Regional growth rates vary, with South Asia and Sub-Saharan Africa leading the pac

Real GDP growth

%, 2016–2020 annual average

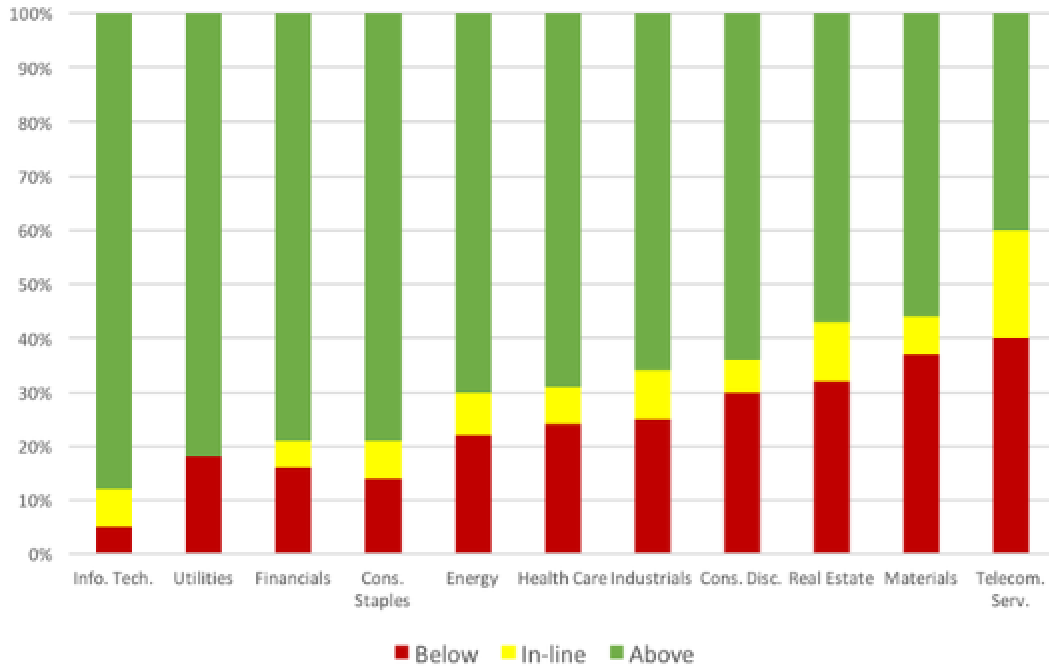


STRENGTH OF THE US DOLLAR POST-ELECTION:



CORPORATE AMERICA CONTINUES TO DELIVER

Proportion of S&P500 companies with announced earnings above, below or in-line with market estimates:



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