► On Target

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Major Issues Face America's Democrats

Truth is, America's mainstream news media and their allies the social media giants are rarely guilty of distributing fake news… but they are adept at hiding things that don't suit their political agendas.

A blatant example is their refusal to allow the public to realize that the man they chose to fell Donald Trump and implement a whole raft of Leftist objectives, Joe Biden, is dangerously unsuited to be a president with untrammelled power to launch nuclear weapons.

He seems to be a much nicer guy than Trump. But he's clearly suffering from dementia. On a visit to Houston earlier this month he was so confused about what was happening that he muttered: "What am I doing here?" At a later event in Washington he showed obvious mental deterioration. He couldn't remember the name of the Pentagon, or of his defence minister Lloyd Austin… "the guy who runs that outfit."

The ruling elite seemingly won't allow him any freedom beyond tightly controlled, scripted exposures to the public. Dozy Joe can smoothly deliver speeches crafted by his excellent speechwriters, using teleprompters, but can't be risked to handle any extempore questions. At the first hint that could be about to happen, his handlers cut live transmission.

It's a situation that is starting to alarm Washington observers. A bipartisan group of senators have initiated legislation to strip the president of his power to launch military operations without first seeking congressional approval.

That's an over-the-top reaction. It's extremely unlikely that Biden, a moderate and a renowned compromiser, would be tempted to start pressing nuclear buttons. Or that military chiefs would allow that to happen.

But the president's deteriorating mental health raises the risks of embarrassing public blunders, making it likely that the ruling elite will soon force him into early retirement on grounds of ill-health to be replaced by vice-president Kamala Harris, who was clearly chosen for the role of president-in-waiting. She is already taking what the *Washington Post* describes as an "unusually large role" in shaping

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government policy.

When Harris takes command, the Speaker of the House of Representatives, Nancy Pelosi, will become vice-president with tie-breaking power in the Senate.

Before that happens the Democrats may wish to keep Biden in office long enough to resolve two major issues – another enormous spending package, this time on infrastructure; and a reform of the Senate to scrap the Republicans' blocking power.

Both parties recognize the need to repair, upgrade or replace many old structures such as dams, bridges and water supply systems. The American Civil Society of Engineers rates the US infrastructure as no better than C-grade and calls for major spending on roads and railways. Carbonatics want vast projects using wind and solar to replace coal, natural gas and oil.

Enormous federal packages to compensate for pandemic damage have got Americans used to the idea of spending on a scale never seen before except in wartime. Politicians reckon that won't be a major issue as the benefits of rebuilding and expanding infrastructure will be so apparent and widespread – although there will be deep differences over priorities, and how it's all going to be paid for.

The stimulus coming from these spending packages is going to be mind-boggling. The $1.9 trillion voted through Congress is equivalent to about 9 per cent of GDP (the entire annual output of the US economy). Adding a second round for infrastructure will take total fiscal stimulus to anything from 14 to 19 per cent of GDP.

By the time the Mid-term elections come around in November next year we should see unemployment back to pre-pandemic/Trumpian levels, businesses largely recovered to those levels, and probably most voters feeling happy. Normally parties in power lose seats in the Mid-terms, but next time things could be different.

The Republicans' blocking power

Well before that, we can expect to see a big, nasty fight over Senate reform.

The Democrats have a wafer-thin control of the chamber – it's split 50/50, but the vice-president has a tie-breaking casting vote. Trouble is, because of so-called Filibuster rules, they can only use that control to force through budgetary laws. All others require 60 votes – the support of at least ten Republicans. When the members are divided on party lines, as they usually are, that never happens.

When the new administration asked the Senate to approve the $1.9 trillion stimulus package it tried to slip through a clause that would introduce a national minimum wage of $15 an hour. The official who rules on such matters vetoed the clause on the grounds that it wasn't a budgetary matter, so it was removed from the bill.

Let me be clear about the situation, which I never see reported… The Democrats face the situation that many of the big policy issues they want to implement such as the $15 minimum wage, citizenship for millions of undocumented immigrants, statehood for Puerto Rico and the District of Columbia, cannot be implemented because they will not meet the 60-vote rules.

They are furious and there is a mounting campaign to scrap the Filibuster rules so only 50 plus one votes will be needed to pass the Senate.

It is not likely to succeed, as a handful of Democrat senators won't agree to ending Filibuster, for various reasons. Centrists don't want to lose the power, from the importance of even a single vote that they enjoy in current circumstances, to block their party's proposals that they consider too progressive. Others fear that scrapping Filibuster would abandon their defence against future Republican administrations.

The elephant in the room is Donald Trump. Few Democrats dare to think it, but he could run again in 2024, and win.

Understanding the Basics of Investing Your Money

All investments fall into particular categories. If you're going to design a moneycraft to maximize your wealth it's important to understand the differences…

► Fixed income and fixed capital. When you make a fixed deposit with a bank, for example at 3 per cent, you know that you will get 3 per cent – not a cent more, nor a cent less – and that if you invest $1,000 you will get back exactly $1,000 at the end of the period for which the deposit is fixed (plus $30 interest for the final year).

► Fixed income but varying capital. When you buy a loan stock or debenture, you can count on receiving the same amount of interest each year. But if you decide to sell the security, the price you realize is unlikely to be the same as you paid for it. If interest rates in the economy generally have moved up, you should get less; if interest rates have fallen, you should get more.

The value of an asset moves in a direction opposite to that of the rate of return.

► Fixed capital but varying income. With certain bank investments you can be certain of getting back exactly the same amount when you redeem them, but the rate of income you receive from them is likely to fluctuate during the period you hold them.

► Varying income and varying capital. Neither dividend rates nor the capital values of investments such as ordinary shares and mutual fund/investment trust units are fixed, though their capital values tend to increase over the long term.

► No income and varying capital. Collectables and precious metals yield no income (although they can be used as collateral to earn income). Their capital values do tend to increase over the long term.

► Income but no capital. Annuities are the only investment in this category. Capital invested in them can never be clawed back, but buys an income, usually for the life of the annuitant/s, or sometimes a fixed period of years, whichever is longer.

To forecast the real rate of return you can expect to receive on any investment you must work out the rate of income (interest, dividend or rent) you can expect, add or deduct any capital gain or loss that is likely, and deduct the expected rate of inflation over the period you are considering. An investment adviser will find from the futures market the inflation rate the market is expecting for the period.

In forecasting capital gain, remember that the past is not necessarily a valid guide to future performance. Each asset should be studied separately. However, it is generally a better rule for the long term to invest in those where prices are depressed and the outlook seems gloomy than in those where prices are buoyant and the outlook seems bright.

If the inflation rate does accelerate, growth assets such as shares, mutual fund/unit trust units, real estate, precious metals and collectables can, over the long term, be expected to adjust to it. To a lesser extent insurance products partially linked to growth assets will also adjust to it.

As a higher inflation rate means higher nominal interest rates in the long run, all fixed-income investments would be left behind. Those with varying capital values would be most hurt.

Finally, remember when looking at the prospective rate of return on an investment that it cannot be considered in isolation. It must be related to other factors such as risk and liquidity.

Top Pick in the Frontier Markets

HSBC bank says Vietnam is its “most preferred” frontier market. A frontier market is one that is more developed than least developed countries, but too small, risky, or illiquid to be classified as an “emerging market” economy.

HSBC says the Southeast Asian nation is “more investable than many think.” Its positive factors including an accelerating inflow of foreign investment, a government focus on infrastructure development, structurally increasing purchasing power, and strengthening banks.

“Profitability, attractive valuations, strong balance sheets and market reforms point to the likelihood of a multi-year bull run.” Inflation is low, the currency is stable and corporate earnings are healthy.

HSBC disagrees with the common perception that Vietnam’s equity market is too small, pointing out that it now has 11 stocks with a market cap of more than $5 billion. It had only two in 2015. Trading now runs close to $1 billion a day.

The government has passed new laws that should reduce restrictions on foreign investors and put Vietnam in line for upgrading to emerging-market status. Covered warrants and other developments are helping overseas investors gain exposure to companies at their foreign ownership limits.

The potential for elevation from frontier to emerging-market class will make Vietnam much more of an investment play for international funds. Saudi Arabia was so reclassified early in 2018. Investors began pricing in that upgrade well ahead of the announcement.

Vietnam's stockmarket is on the cusp of breaking out to new all-time highs. It has been consolidating below its 2018 and 2007 peaks for the last couple of months and retested the highs a few days ago.

Investing in Europe

There are four reasons why international fund managers' pessimism about Europe could be wrong, argues JP Morgan's chief market strategist for the region, Karen Ward:

► When Covid-19 vaccines have been rolled out everywhere, the global recovery is likely to be strong. Governments' stimulus plans have stoked household savings. When pandemic restrictions are removed, consumer demand is likely to soar. Export-dependent economies are likely to be the main beneficiaries. Europe's should benefit disproportionately since recovery is expected to be dominated by spending on luxury items and capital goods, where it is well represented.

► Increased global momentum towards tackling climate change may lead to a race towards renewables. Many of Europe's companies are already ahead of the curve: three-quarters of global wind assets have company headquarters in Europe.

► At some point the US Federal Reserve will have to signal its inclination to taper its asset purchasing. When the prospect of deeper negative interest rates recedes "I would expect financials to outperform technology and therefore value stocks to outperform growth companies." This rotation should favour Europe, which has relatively more financials in its indexes, relatively fewer tech stocks.

► The pandemic has strengthened Europe's institutional architecture. The European recovery fund has gone a long way towards fixing the flaw of a single currency without a fiscal union.

"While certain segments of the global market look incredibly frothy, Europe still seems to be suffering from a case of excessive pessimism."

Where to Find the Opportunities

Ark Investments, a specialist in high-growth technologies, say the five main platforms of innovation that it expects to transform the global economy are DNA sequencing, robotics, energy storage, artificial intelligence and blockchain. These involve 14 technologies that include gene therapies, 3D printing, cloud computing, big-data analytics and cryptocurrencies.

Chief executive Cathie Wood says transport is one of the industries most at risk from disintermediation (cutting out of intermediate processes). Road transportation, railways and airlines are likely to capitulate to the convergence of several technologies and deliver a collapse in their cost structures.

According to Ark's estimates, electric vehicle sales will increase 20-fold globally during the next five years from 2 million and about 2½ per cent of the market to 40 million and about 45 per cent in 2025.

Traditional healthcare is also likely to give way to convergence of next-generation technologies.

We are going to see disruptive dislocation of industries "the likes of which we have not seen since the telephone, electricity and the automobile burst on the scene in the Roaring Twenties."

The Place to Find Rebound Opportunities

Japan's companies are the ones most geared to benefit from the world's powerful rebound in economic growth, according to a new report by Jefferies.

The Atlanta Federal Reserve predicts 10 per cent growth for the US economy in the current quarter driven by unprecedented demand as it emerges from the pandemic. As Americans were forced to spend less due to lockdowns their personal savings ballooned – more than 20 per cent of disposable income. They have accumulated a huge pool of cash and borrowing potential which they are starting to spend. Similar build-ups of spending power have evolved elsewhere: latest figures are for household savings rates of 25 per cent in the Eurozone, 22 per cent in Japan.

Good news for corporate profits.

Jefferies forecasts that the best boosts to operating leverage will be in Japan. It's the global market that I reckon is most underestimated by international investors. Currently my personal holdings are the optical products giant Hoya, the e-commerce distributor MonotaRO, the staffing agency business Recruit Holdings, semiconductor equipment manufacturer Tokyo Electron Ltd, and robotic systems maker Yaskawa Electric.

Three Big Reasons Why Capital Will Lose Share

Labour's share of national income – what's paid out to workers in wages and benefits – has been falling in the US and many other developed economies since the 1980s, while capital has gained share. There are three big reasons why this is about to change, says Rana Faroohar:

► The Biden administration has invoked the Defense Production Act to force the private sector to speed up vaccine production and distribution. This will immediately create more demand for jobs – a trend that could continue beyond the pandemic as there are calls to strengthen domestic supply chains for other pharmaceutical products, and for food.

► There is a trend towards increased unionization, particularly in high-growth industries such as technology.

► Global demographic trends that have disadvantaged workers are finally reversing. Birth rates in most countries are falling. Geopolitical and economic shifts have led some countries to create more independent supply chains. Baby boomers are ageing – making the healthcare industry a huge job creator. Six of the ten jobs that the US government expects to grow fastest in the next decade are in nursing, therapy and care services.

Why There’s a Boom in Property

There’s a gathering momentum in residential real estate. In New Zealand home prices in January were 13 per cent up over 12 months. “This is a familiar story from all over the world,” Eoin Treacy says in *FullerTreacyMoney*.

There is low supply because many people are worried about moving during a pandemic. At the same time there is increased demand because other people feel they have more cash and need to move because of personal circumstances. So prices are rising, fuelled by record low interest rates for mortgage loans.

As the global economy picks up, supply and demand should come back into some form of equilibrium and the pace of price increases should moderate.

“What we are [also] seeing is another market which has been accelerated by the pandemic. The mass migration [in America] of thirtysomethings to the suburbs and other less expensive/better quality of life cities, and the delayed downsizing of elderly people, has created a unique set of circumstances. That is unlikely to persist indefinitely. Meanwhile, there are certainly opportunities for a fresh crop of young people to move to big cities which are now trading at a discount.”

Politicos Want to Rein In the Giants

Shares of Big Tech peaked in September because investors anticipated a rotation into cyclical stocks such as banks and energy. But another reason, says Jefferies’ commentator Chris Wood, was anticipation of “significant regulation of Big Tech in the next five years, despite the extremely close relations between Silicon Valley and the Democratic Party establishment.”

There are plenty of initiatives under way to rein in Big Tech.

The Federal Trade Commission has accused Facebook of unfair competition and asked a federal court to break it up.

The European Union proposes to impose sweeping new rules forcing Big Tech to take more responsibility for policing content of websites and to refrain from anti-competitive practices, or the giants will face being broken up.

In Australia Google and Facebook have been forced to compensate traditional media for use of their content, setting a global precedent.

Exploding Personal Wealth in the Asian Tropics

Southeast Asia's largest economy, Indonesia. is expected to see 67 per cent growth of its people becoming ultra-high-net-worth over the next five years, according to British property consultancy Knight Frank. That's those with personal wealth, including the value of primary residence, of more than $30 million.

It's not just the super-wealthy who are doing well. According to the World Bank Indonesia's middle-class consumption has grown at an average annual rate of 12 per cent since 2002 and now accounts for almost half all household consumption.

The richer Indonesians get, the more they spend on cars, health, education and other services.

Asia is the region where personal wealth is growing fastest and is already home to more billionaires than any other – 36 per cent of the world's.

Where to Seek Profits in Mining

Canadian billionaire Pierre Lassonde, who made his fortune from gold discoveries, says the best kinds of mineral deposits to find today are those that contain copper ores associated with gold and/or silver such as Indonesia's Grasberg mine.

"Copper is the metal of the future." Lassonde says, because of its increasing importance in generation and distribution of electricity and its use in transportation (electric vehicles) and communications. "With the emphasis on greening the world, we're going to use more copper." It's "the fundamental basis of our civilization, and it's going to get better." Gold and silver are "also part of the greening of the world," so the three metals are the place to be.

Because copper is central to demand for renewable energy resources, but it takes a long time to increase supply, it can be argued that we're in the early stages of the next major secular market in commodities.

Where Growth Is Strong

The pandemic hasn't brought any new trends in economic life but it has accelerated existing ones says the renowned British fund manager Terry Smith. He lists these examples:

► E-commerce;

► On-line working from remote locations using the cloud or distributed computing;

► Home cooking and food delivery;

► On-line schooling and medicine;

► Social media and communications;

► Pets – which have become more important in isolation and when their owners are more at home;

► Automation and artificial intelligence.

Tailpieces

Greenery: The Japanese government's new energy plan, which will ban the sale of new petrol-only cars by the mid-2030s, will have disastrous consequences, Toyota boss Akio Toyoda has said in a rare public attack on official policy. If all the cars today were electric vehicles, that would require ten extra nuclear plants to avoid electricity shortages during the peak summer period -- when so much power is needed for airconditioning. Nuclear is extremely unpopular in Japan as a consequence of the Fukushima disaster.

The government's new plan calls for use of renewables to increase from 18 per cent of electricity supply to as much as 60 per cent by 2050, with the balance to be generated by nuclear and thermal plants using carbon capture technology.

Death mysteries: According to official statistics there were 2,916,492 deaths in America last year from all causes, or 91,654 more than in 2019. But there were supposed to be some 400,000 deaths attributable to Covid-19. It seems that some 300,000 people conveniently ceased dying from other causes such as heart failure, car crashes and cancer. Another mystery is that, according to the Centers for Disease Control, deaths in the US from influenza dropped to almost zero in the last flu season, down from 56 million the previous year.

Can you believe this, or indeed anything else, about what we're told about the pandemic?

Global warming: The carbonatics stopped using this phrase to frighten you into abandoning cheap and reliable oil and gas as fuels when it became clear that the solar-led warming cycle was no longer evident. Now the enemy is "climate change." It's easy to blame every freak weather event on that, as climate always changes.

Whether or not it's caused by human activity driving up atmospheric levels of carbon dioxide is something else. William Engdahl, a commentator on geopolitics, says the gas cannot soar into the atmosphere from car exhaust, coal plants or other manmade origins, as is claimed, as its molecular weight is 44. It's heavier than air, which has a weight of only 29.

Interest income: Banks have traditionally encouraged customers to deposit money with them, but no longer. Germany's biggest banks have negative interest rates. They charge interest on large deposits.

The money bubble is a consequence of governments creating much more than is needed to finance business activity. It's a disparity magnified by the pandemic. Savings rates rocketed with consumers at home. Huge relief programmes have flooded banks with excess deposits.

With banks offering nothing, or worse, people are forced to accept relatively high-risk income sources such as equities and real estate.

American taxes: The new federal government has quietly clamped down on tax avoidance by huge numbers of gig workers. It slipped a section 9674 into the Covid relief law that requires platforms for contract workers such as Uber and Airbnb to report incomes to the IRS. Up till now a gig worker could earn up to $20,000 on these platforms without the IRS being informed of their incomes. Now the threshold for this exemption has been cut to just $600. As a result the IRS expects to collect an extra $1 billion a year from the poorest gig workers.

Iron ore: China, whose steel industry is the world's biggest, plans to slash its reliance on third parties for iron ore amid soaring prices of the raw material and a burgeoning trade/political dispute with top supplier Australia, raising from 30 to 45 per cent of its needs, supplies from sources that China controls.

A key to the five-year plan will be Simandou in Guinea, the world's largest untapped iron ore deposit, which several of China's biggest state-owned firms are close to getting the go-ahead to develop.

Interest rates: The US central bank cannot allow them to rise. The knock-on effect of two percentage point increases would add $100 billion to the annual cost of servicing government debt. That would require big tax hikes – which are politically impossible as there is no public tolerance for austerity.

That's why the stock market remains firm.

Hong Kong: China's taking of full control of the territory when it imposed the National Security Bill is a positive for investment as it "now effectively owns Hong Kong and will want its economy to prosper" says Chris Wood, Jefferies' locally-based global head of equity strategy.

China v America: The US share of the world's annual output in purchasing-power terms declined from 20.5 per cent in 1999 to 15.9 per cent in 2019 while China's rose from 7 to 17.4 per cent, according to the IMF.

The end of Communism: Cuba has scrapped most of its old Soviet system by allowing the private sector to practise more than 2,000 professions that have been reserved for state employees.

Stock markets: Currently there is no evidence of either of the two conditions that could trigger a major bear market – a collapse in earnings and/or monetary tightening.

Martin