# Gluskin Sheff + Associates Inc.

The Trials and Tribulations of Trumponomics
David A. Rosenberg

May 2017

Invested in your prosperity

Gluskin Sheff

# THE "ORACLE" OPINES: POLITICS AND MARKETS = OIL AND WATER

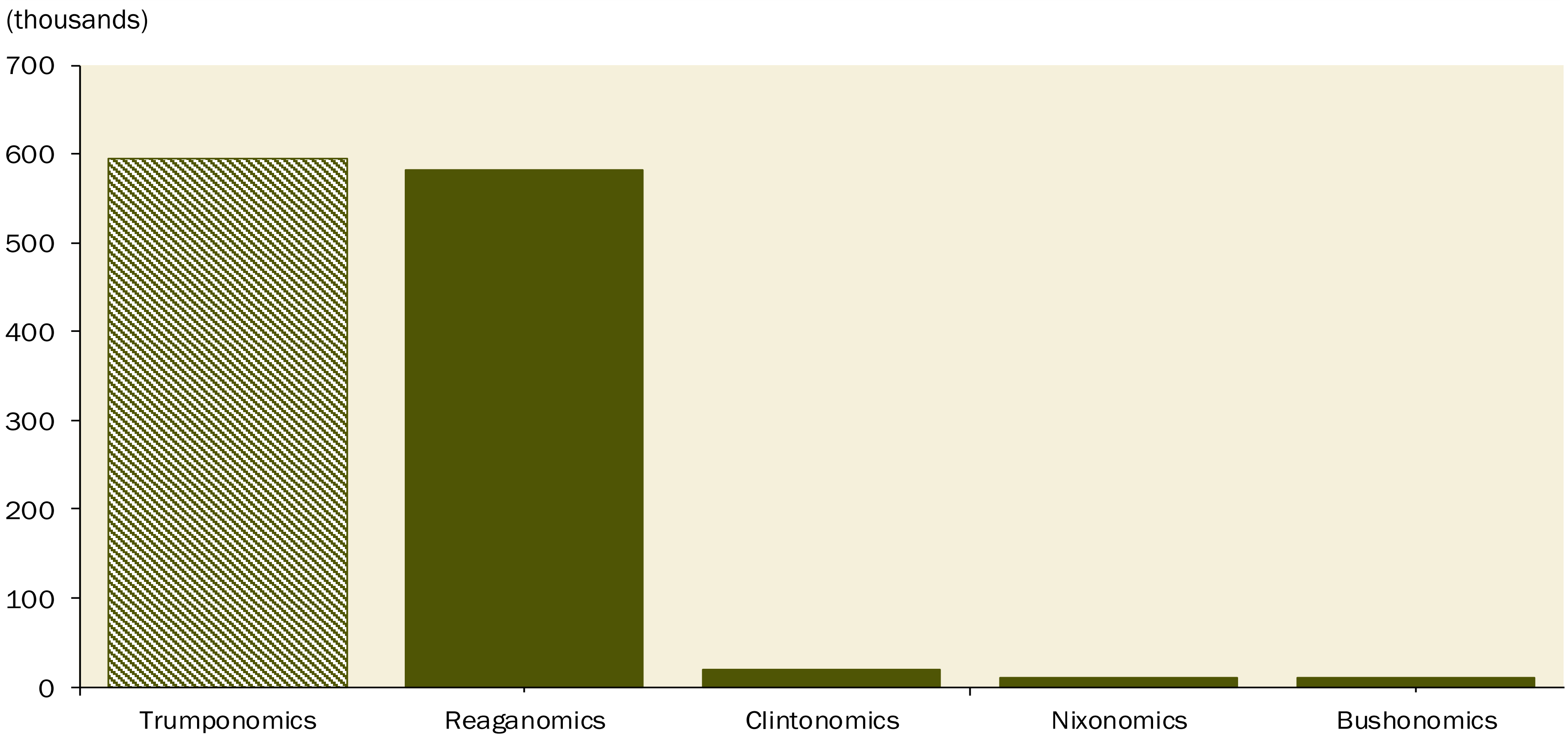

*"People who mix their politics up with their investment activities I don't think that makes sense."*

*"If you mix your politics with your investment decisions, you're making a big mistake."*

*Warren Buffett, February 27, 2017*

# TRUMPONOMICS ALL THE RAGE

## Google Search Results



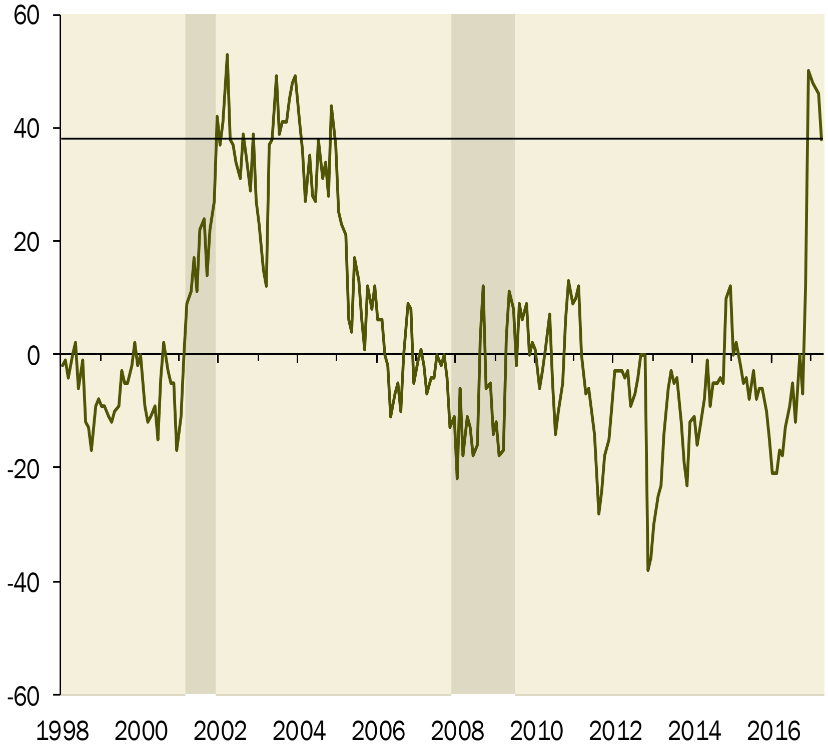

Notes:
*Search results as of February 22, 2017*
*Source: Google, Gluskin Sheff*

# ECONOMIC OPTIMISM CLOSE TO A RECORD HIGH!

## United States: Economic Optimism

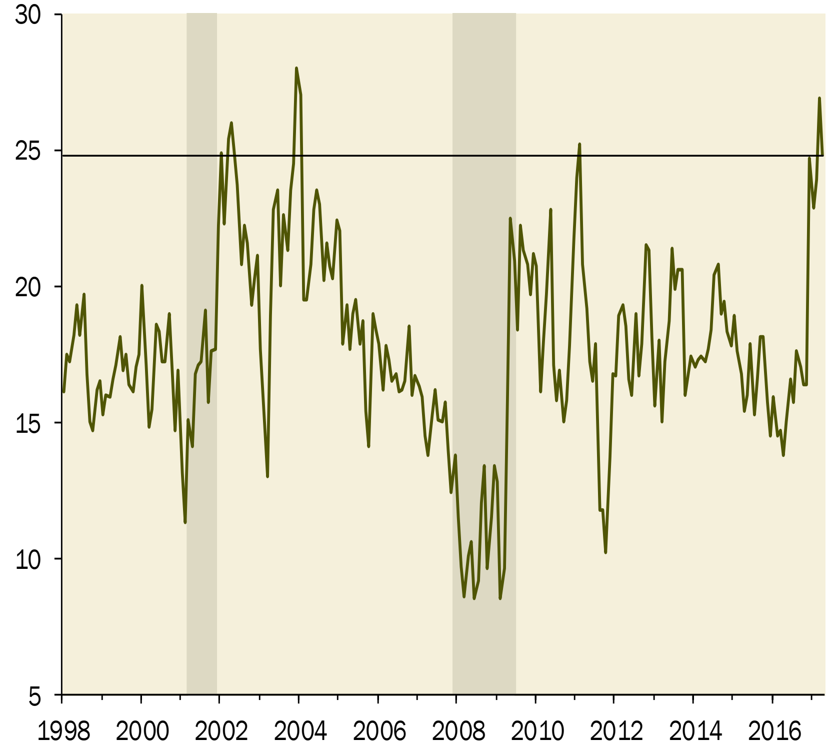
### Businesses

(net share of firms; percent expecting economy to improve)




### Households

(percent expecting better business conditions)




Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# WAITING TO SEE WHAT WILL HAPPEN!

*"So, we recognize, our statement actually last time noted that there had been an improvement, a marked improvement in business and household sentiment. It's uncertain just how much sentiment actually impacts spending decisions. And I wouldn't say, at this point, that I have seen hard evidence of any change in spending decisions based on expectations about the future.*

*... I'd say most of the business people that we've talked to also have a wait and see attitude, and are very hopeful that they will be able to expand investment and are looking forward to doing that, but are waiting to see what will happen. So, we will watch that. And, of course, if we were to see a major shift in spending reflecting those expectations, that could very well affect the outlook. I'm not seeing it -- I'm not seeing that at this point. But the shift in sentiment is obvious and notable."*

Janet Yellen
March 15, 2017

Notes:
*Fed Chairperson Janet Yellen Q&A Post-March 14-15 FOMC Meeting, March 15,2017*

## WHAT YOU SEE ISN'T ALWAYS WHAT YOU GET

| | Election Narrative | What Actually Happened |
|---|---|---|
| Ronald Reagan (1980-88) | Deregulation, small government, tax cuts, defense spending | Recession in first two years, massive deficits, S&P 500 down 25% (the good stuff happened later) |
| George H.W. Bush (1988-92) | Extend the Reagan era (nothing more) | Proposed tax hikes, recession within two years, one-term president |
| Bill Clinton (1992-2000) | Health care reform, socialist from Arkansas | Eight-year expansion, stock market tripled, deregulation, welfare reform |
| George W. Bush (2000-08) | Deregulation, fiscal conservatism, isolationism | Tax cuts, public spending, Iraq war, 35% stock market plunge |
| Barack Obama (2008-16) | Health care reform, Main Street over Wall Street, socialist from Illinois | Obamacare, bank bailouts, weakest recovery ever, record income inequality, S&P 500 tripled |

BARRON'S

WALL STREET'S BEST MINDS

# Trump's Top Legislative Goals Are Bogged Down

Political infighting will both slow down and limit the impact of tax reform and other initiatives.

By GREG VALLIERE

Feb. 15, 2017 1:44 p.m. ET

All the focus right now is on Michael Flynn — the flood of leaks, rumors of more disclosures to come, the prospect of hearings lasting into the summer — but we'll shift gears this morning and look at an issue that's been overlooked amid the furor: Donald Trump's four major legislative priorities.

Notes:
*Source: Barron's (February 15, 2017)*


REAGAN
FOR PRESIDENT
Let's make America great again.


TRUMP
FOR PRESIDENT
Let's make America great again.

# JUST REMEMBER REAGAN'S OPENING TWO YEARS

## United States: S&P 500


Notes:

*Source: Haver Analytics, Gluskin Sheff*

# YELLEN WORRIED THE FED HAS WAITED TOO LONG

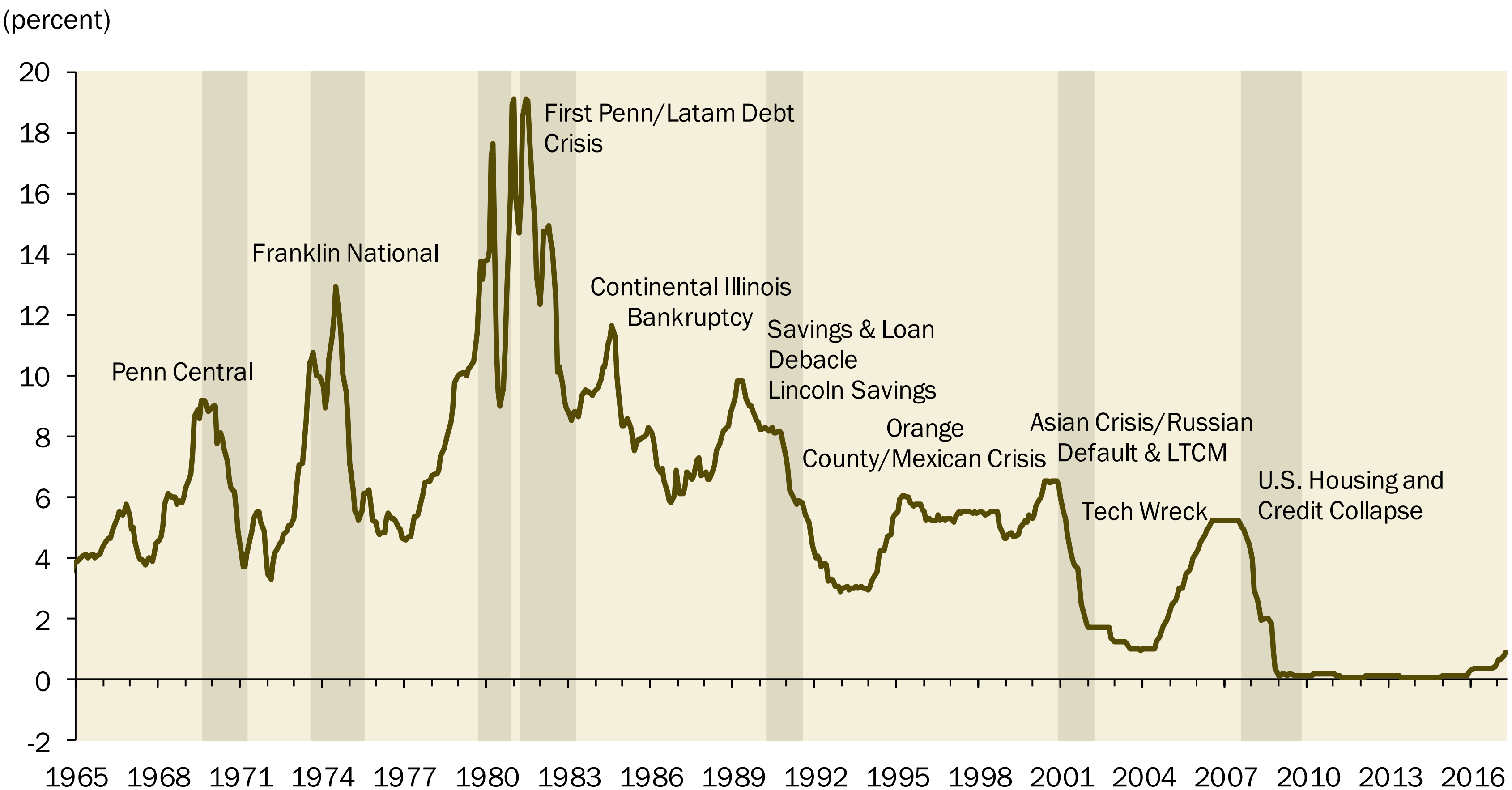
*"As I noted on previous occasions, waiting too long to remove accommodation would be unwise, potentially requiring the FOMC to eventually raise rates rapidly, which could risk disrupting financial markets and pushing the economy into recession"*

Janet Yellen
February 14, 2017

Notes:
*Fed Chairperson Janet Yellen's Semiannual Monetary Policy Report to the Congress, February 14, 2017*

# FED TIGHTENING CYCLES AND FINANCIAL EVENTS

## United States: Federal Funds Rate




Notes:

*Shaded regions represent periods of U.S. recession*

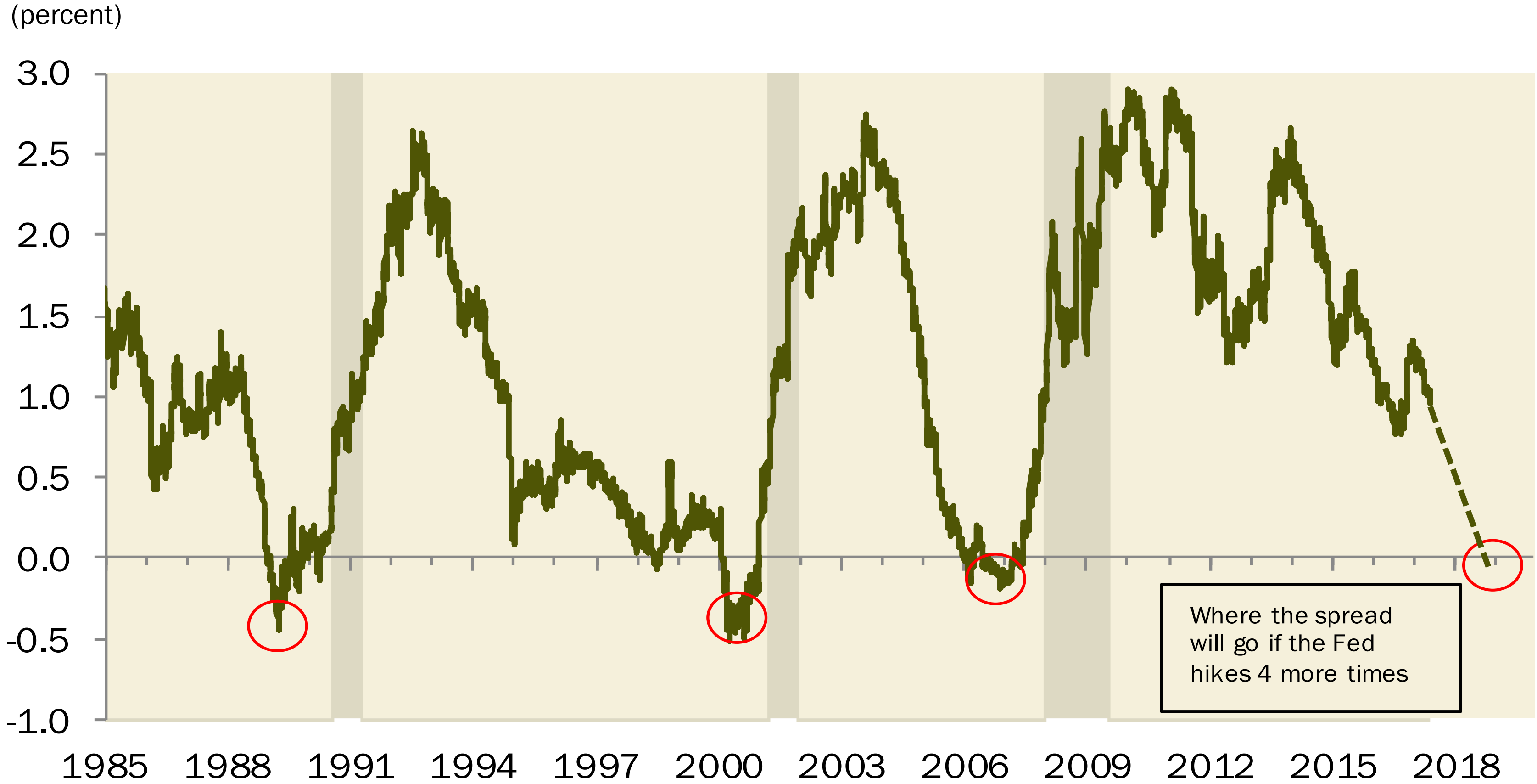
*Source: Haver Analytics, Gluskin Sheff*

## THERE HAVE BEEN 13 FED HIKING CYCLES, 10 LANDED IN RECESSION!

| First Hike | Last Hike | Result |
|---|---|---|
| October 1950 | May 1953 | **Recession** |
| October 1955 | August 1957 | **Recession** |
| September 1958 | September 1959 | **Recession** |
| December 1965 | September 1966 | Soft Landing |
| November 1967 | June 1969 | **Recession** |
| April 1972 | September 1973 | **Recession** |
| May 1977 | March 1980 | **Recession** |
| August 1980 | December 1980 | **Recession** |
| March 1983 | August 1984 | **Recession** |
| January 1987 | May 1989 | Soft Landing |
| February 1994 | February 1995 | Soft Landing |
| June 1999 | May 2000 | **Recession** |
| June 2004 | June 2006 | **Recession** |
| December 2015 | ??? | ??? |

# YIELD CURVE FLATTENS; WILL IT INVERT?

## United States: 10-Year Less 2-Year Treasury Yield




Notes:

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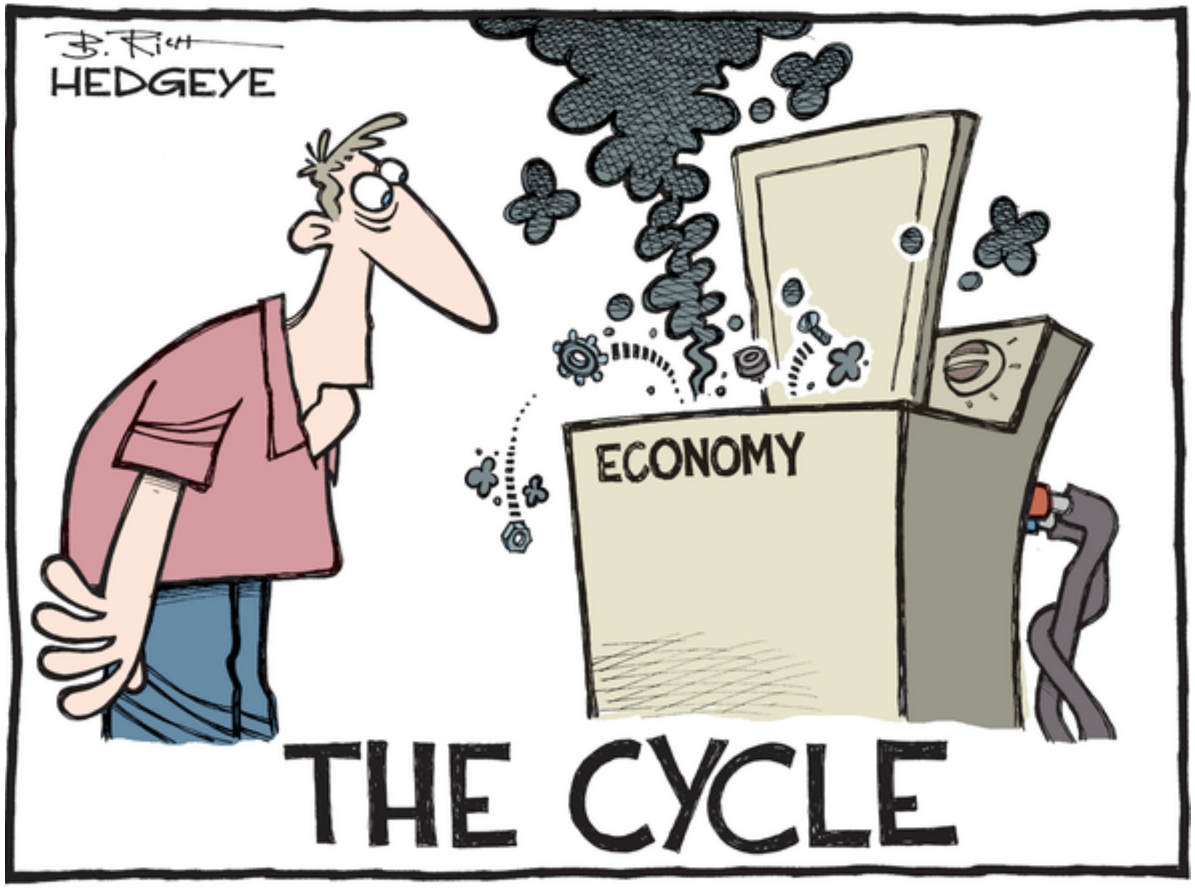
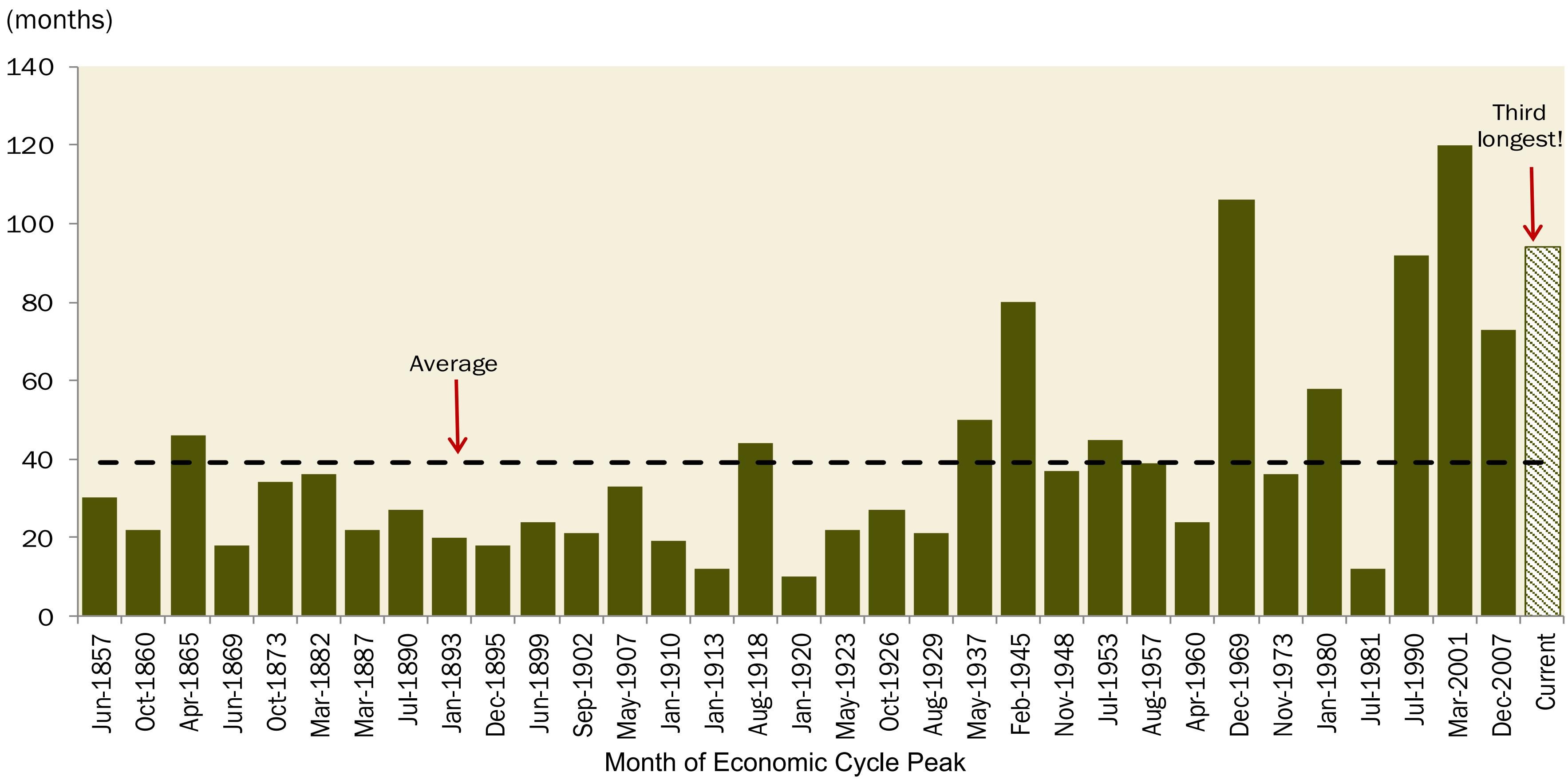
*Source: Haver Analytics, Gluskin Sheff*


B. Rich
HEDGEYE
ECONOMY
THE CYCLE

# THE U.S. CYCLE IS VERY LATE, NO MATTER WHO WOULD HAVE WON THE ELECTION

## United States: Duration of Economic Expansions




Notes:
*Source: National Bureau of Economic Research, Gluskin Sheff*

# WHEN CONFIDENCE PEAKS — RECESSION A YEAR LATER!

## United States: Consumer Confidence

(1985 = 100)


Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# PEAK AUTOS (LATE CYCLE!)

## United States: Motor Vehicle Production

(index; 2012 = 100)

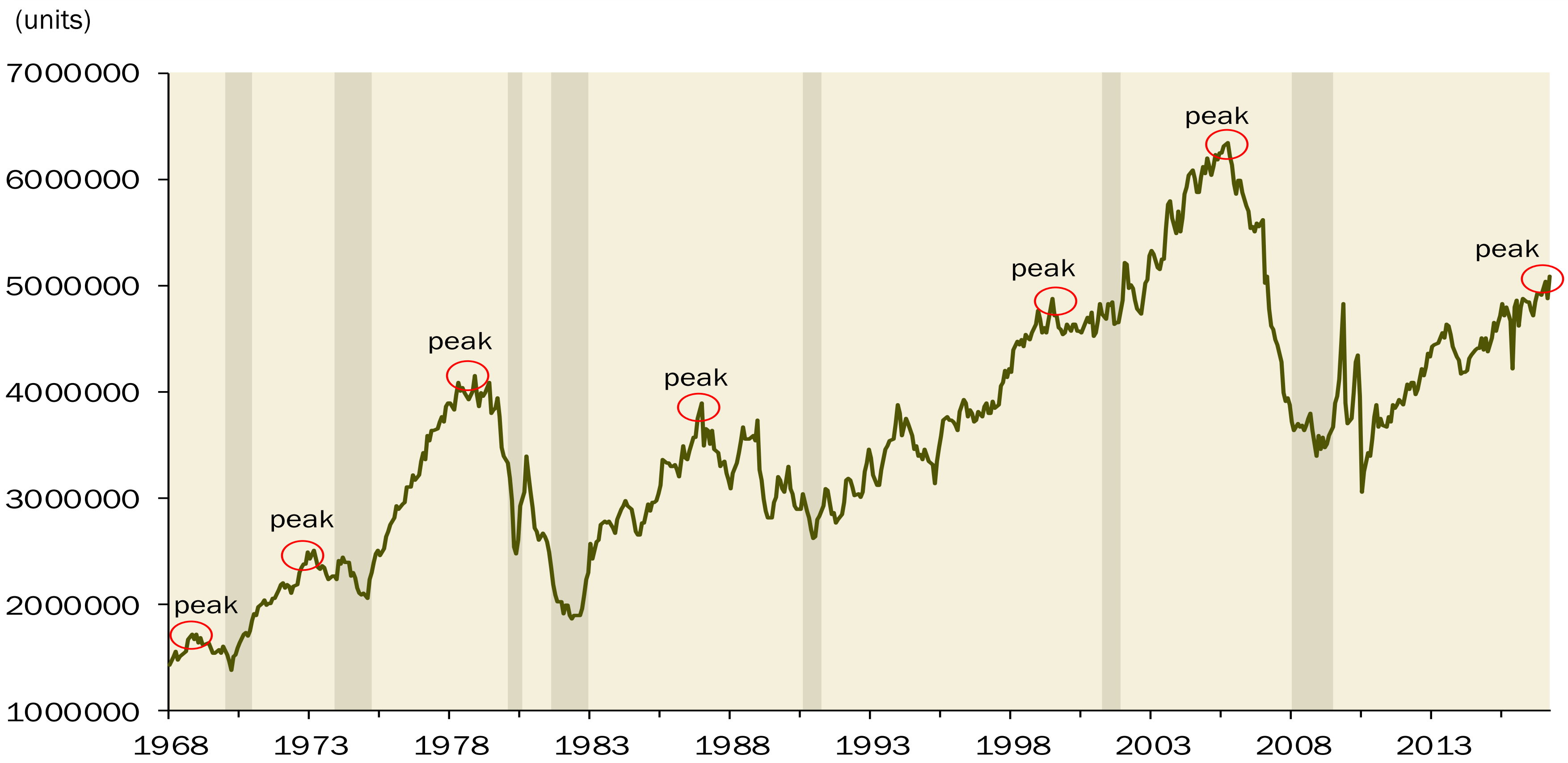

Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# PEAK HOUSING (LATE CYCLE!)

## United States: Existing Home Sales

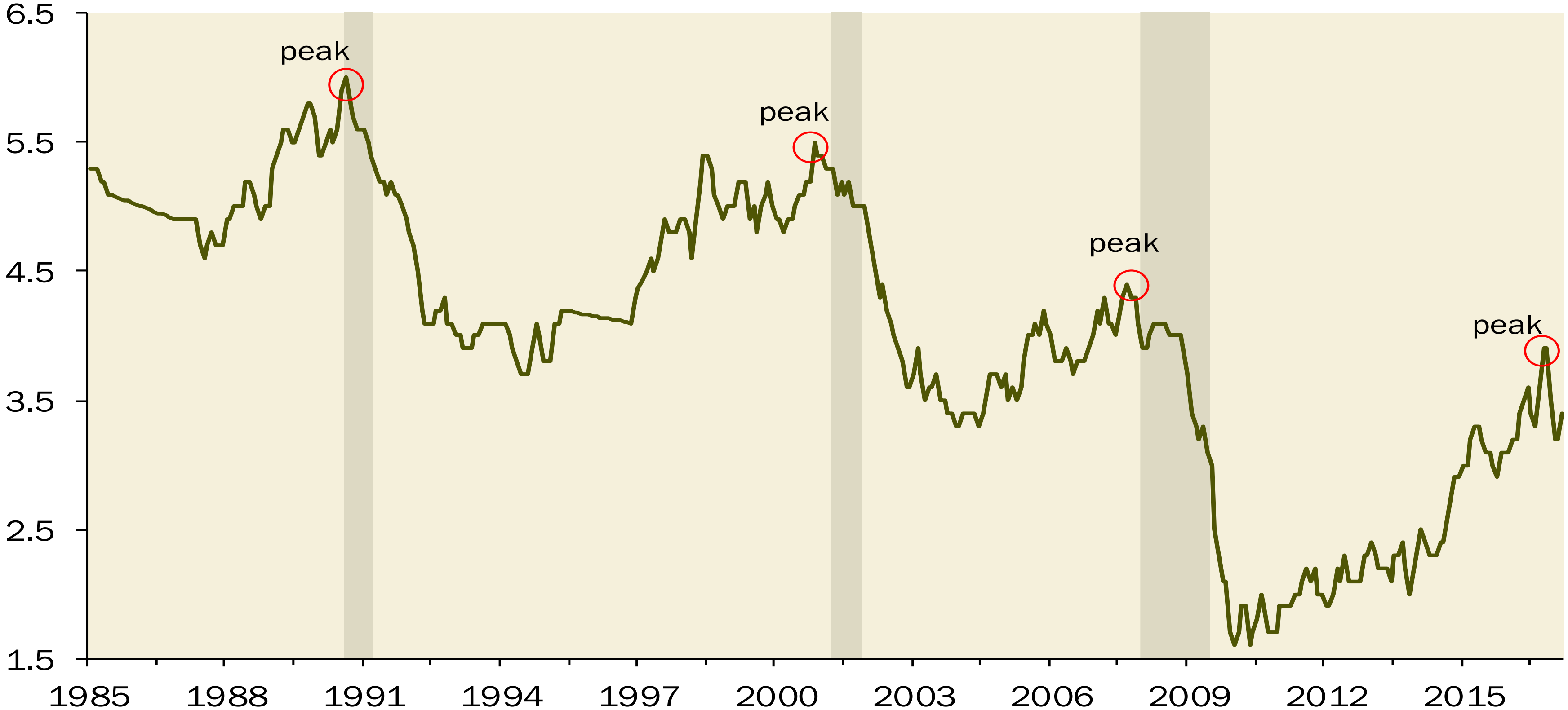



Notes:
*Shaded regions represent periods of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

# PEAK WAGES?

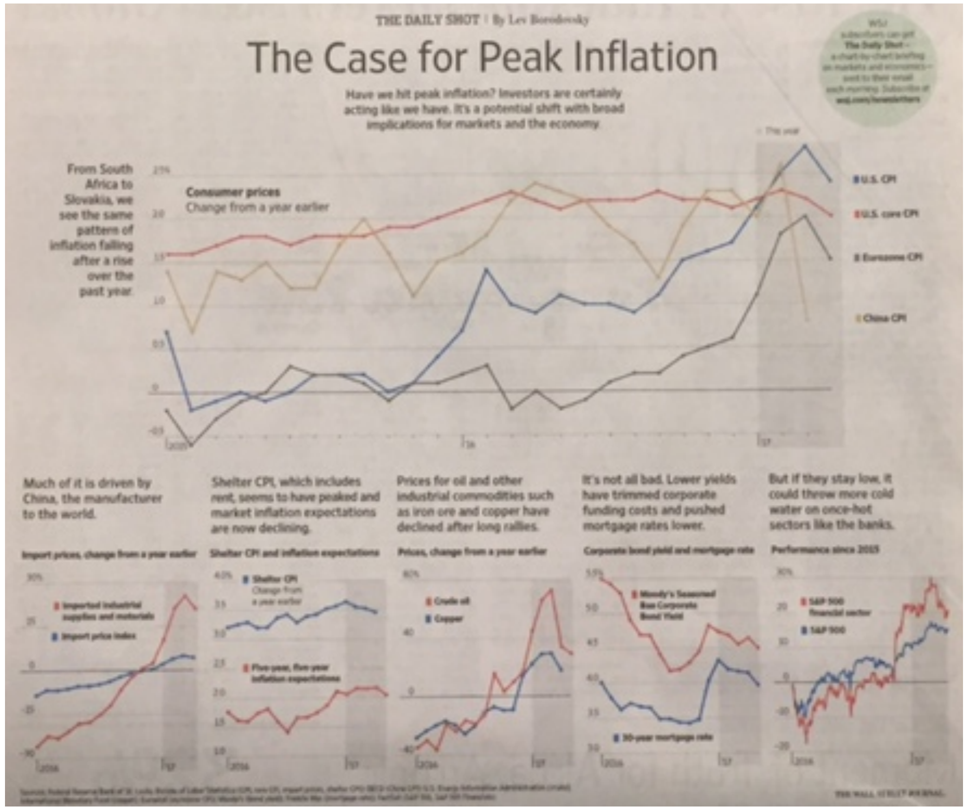
## United States: Atlanta Fed Wage Growth Tracker

(percent; 3-month moving average)




Notes:
*Shaded regions represent periods of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

# THE WALL STREET JOURNAL.



THE DAILY SHOT | By Lev Borodovsky

## The Case for Peak Inflation

Have we hit peak inflation? Investors are certainly acting like we have. It's a potential shift with broad implications for markets and the economy.

From South Africa to Slovakia, we see the same pattern of inflation falling after a rise over the past year.



Much of it is driven by China, the manufacturer to the world.



Shelter CPI, which includes rent, seems to have peaked and market inflation expectations are now declining.



Prices for oil and other industrial commodities such as iron ore and copper have declined after long rallies.



It's not all bad. Lower yields have trimmed corporate funding costs and pushed mortgage rates lower.



But if they stay low, it could throw more cold water on once-hot sectors like the banks.



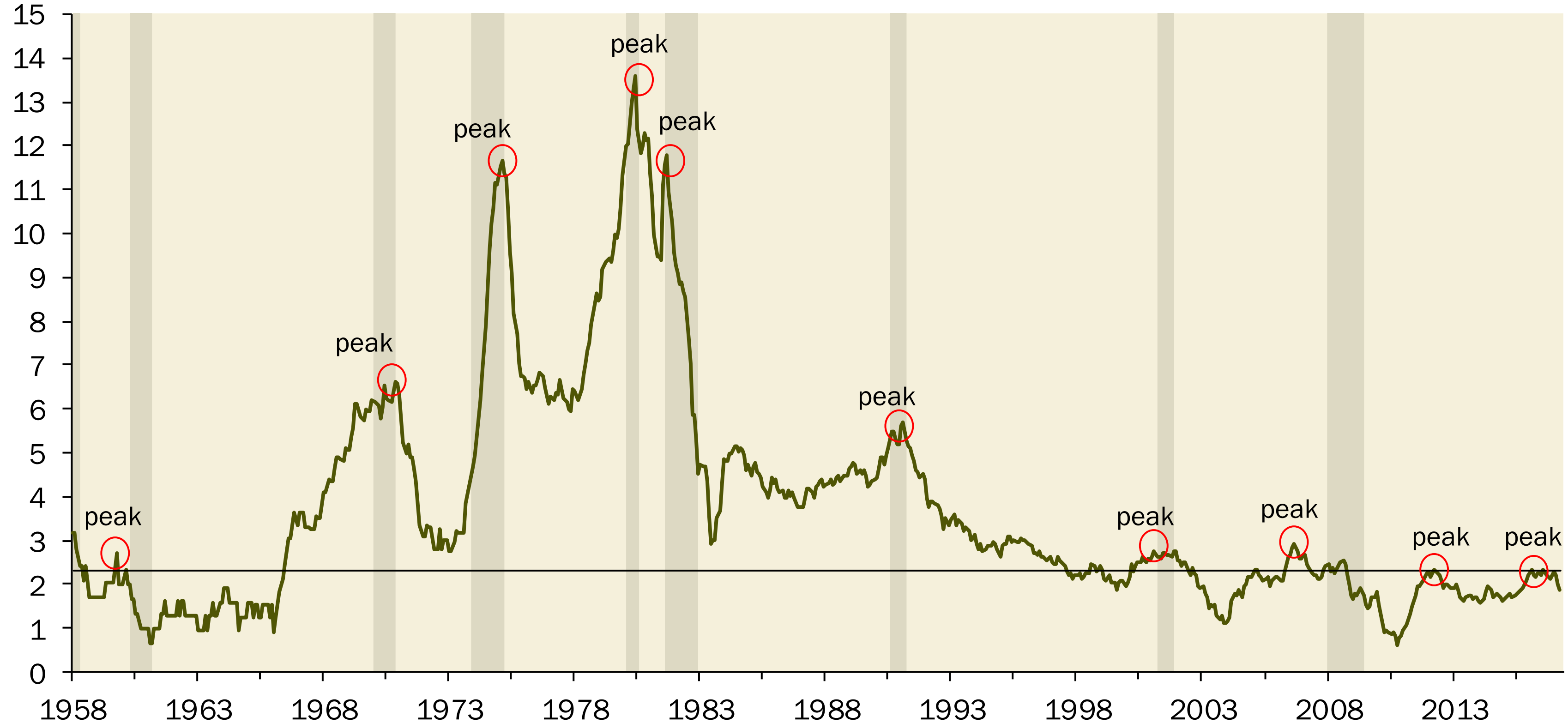
Notes:

*Source: The Wall Street Journal (April 24, 2017)*

# FIRST TIME IN HISTORY THAT CORE CPI HAS PEAKED BELOW 2.5%

## United States: CPI Less Food and Energy

(12-month percent change)




Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# THE WALL STREET JOURNAL.

AHEAD OF THE TAPE

Steven Russolillo

## For U.S. Inflation, Seeing Is Believing

If inflation really is heading higher, businesses will want to do something they have been reluctant to do ever since the financial crisis: spend more money.

Inflation expectations have been heating up since the election of Donald Trump. The 10-year break-

Notes:

*Source: Wall Street Journal (January 11, 2017)*

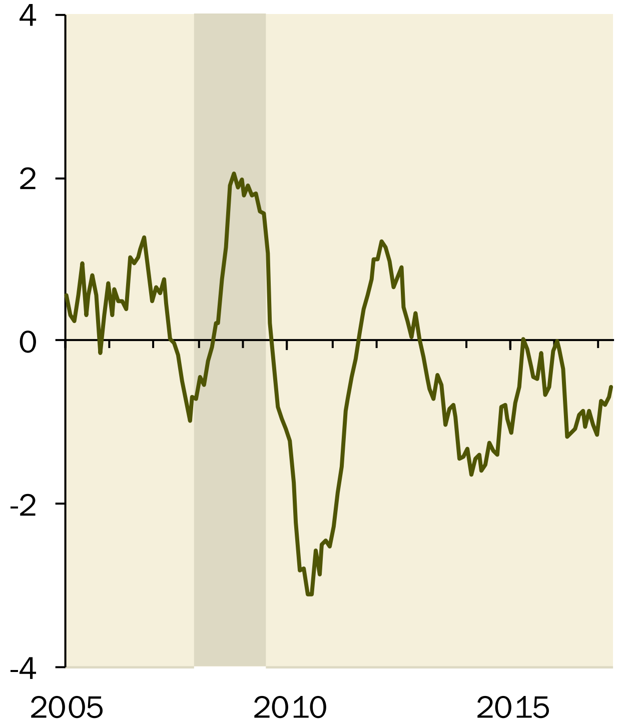
# DEFLATION INTACT FOR ANYTHING YOU CAN SEE, TOUCH, AND FEEL

## United States: Consumer Price Index

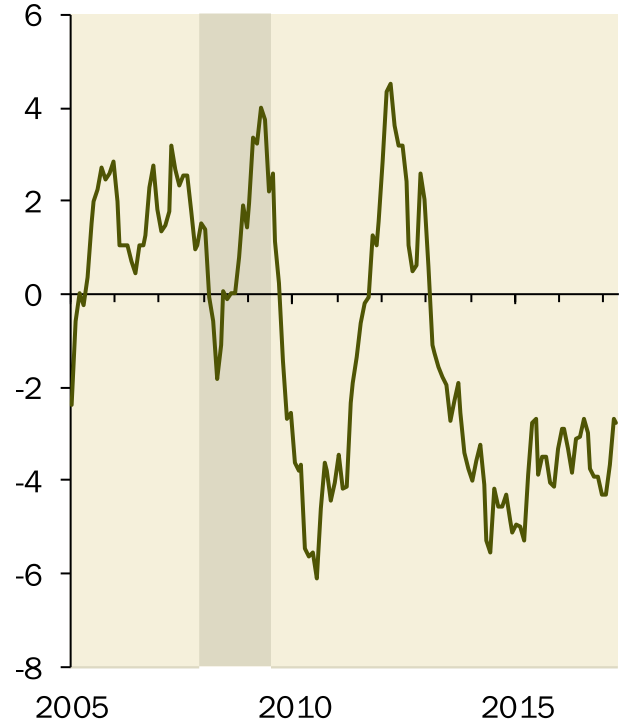
(year-over-year percent change)

Motor Vehicles


Furniture




Major Appliances

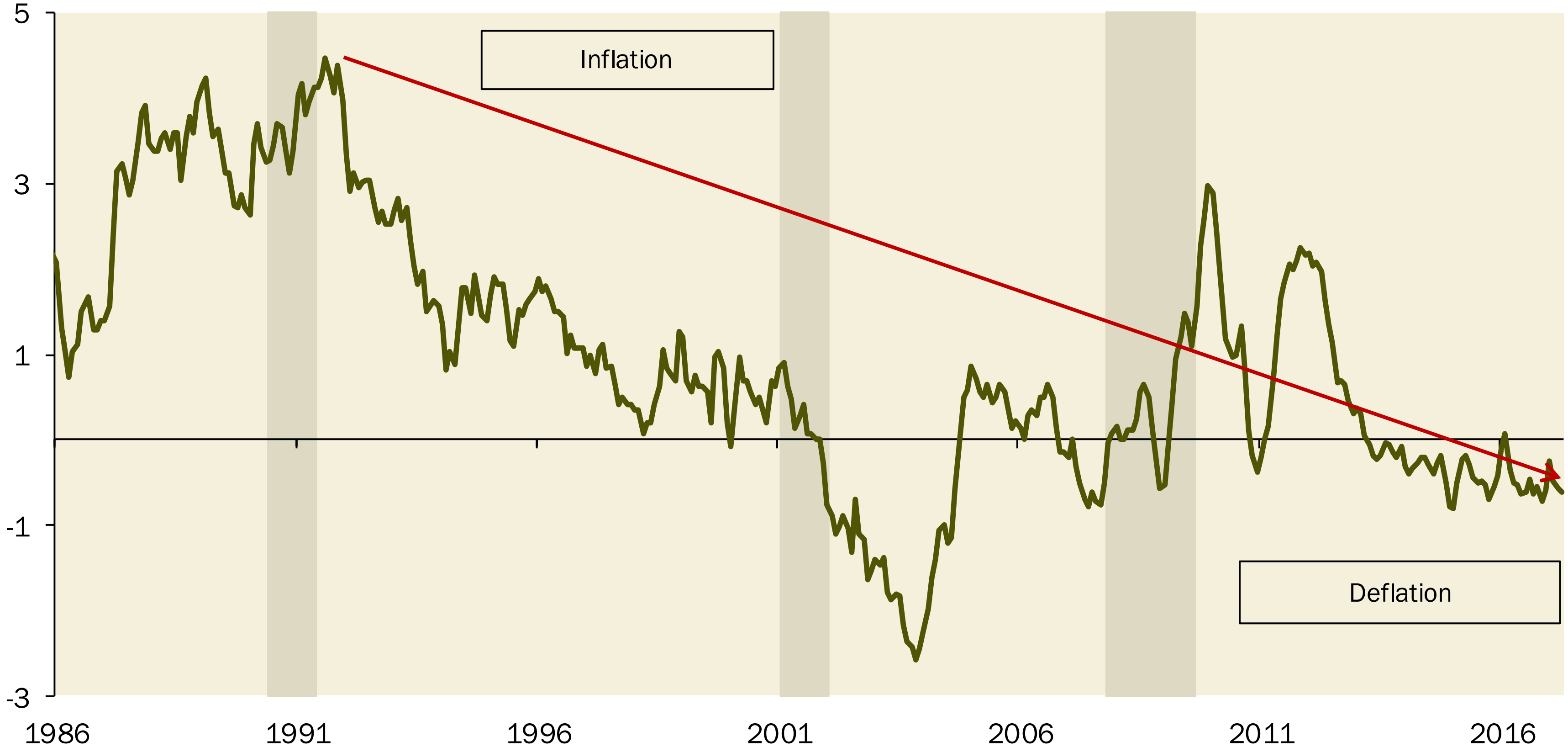



Notes:
*Shaded region represents period of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

# ANYTHING WE CAN TOUCH OR FEEL IS DEFLATING

## United States: Core Goods Consumer Price Index

(year-over-year percent change)




Notes:

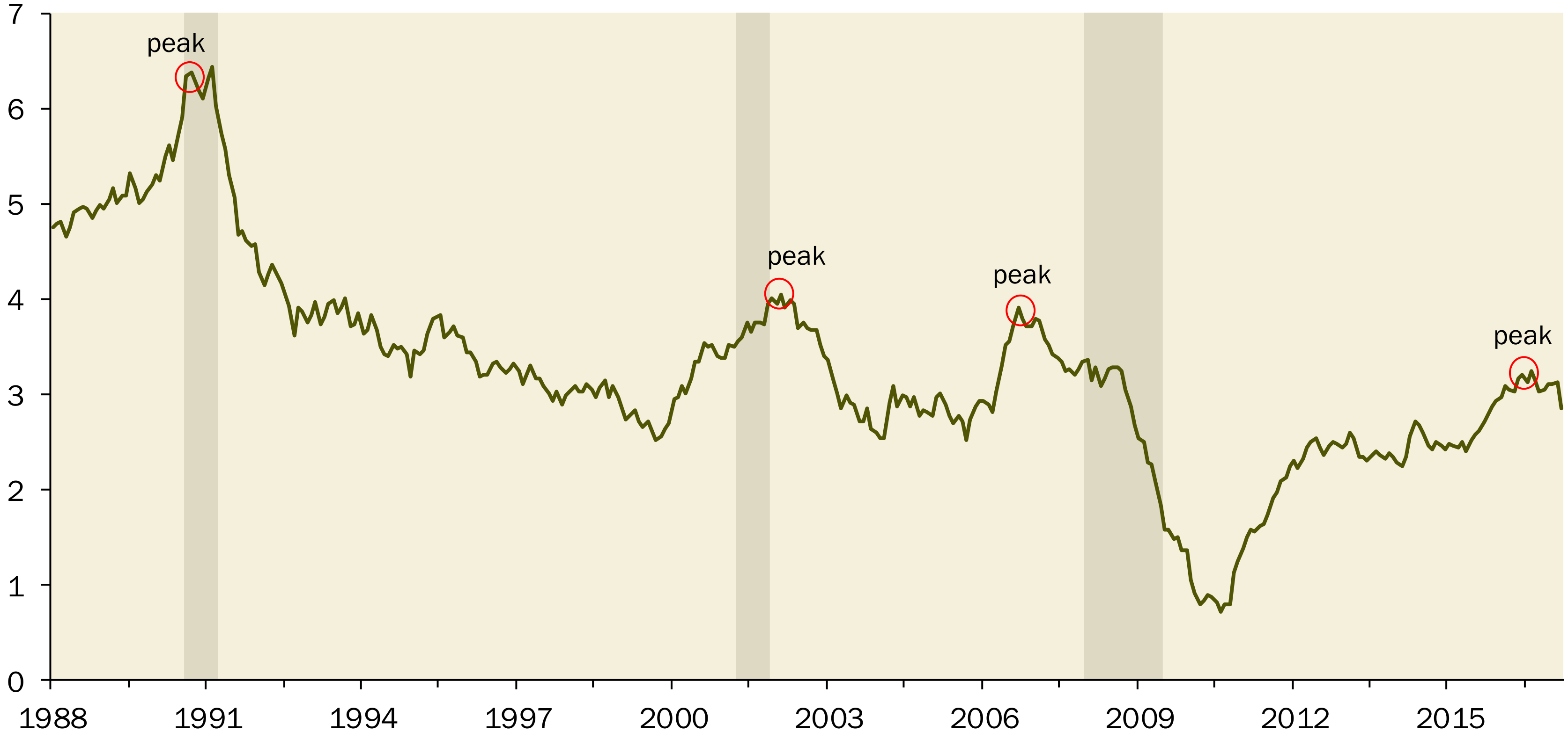
*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# SERVICE PRICES HAVE PEAKED AND ROLLED OVER

## United States: CPI Services Less Energy Services

(12-month percent change)




Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# YELLEN ON WAGE GROWTH – OR LACK THEREOF

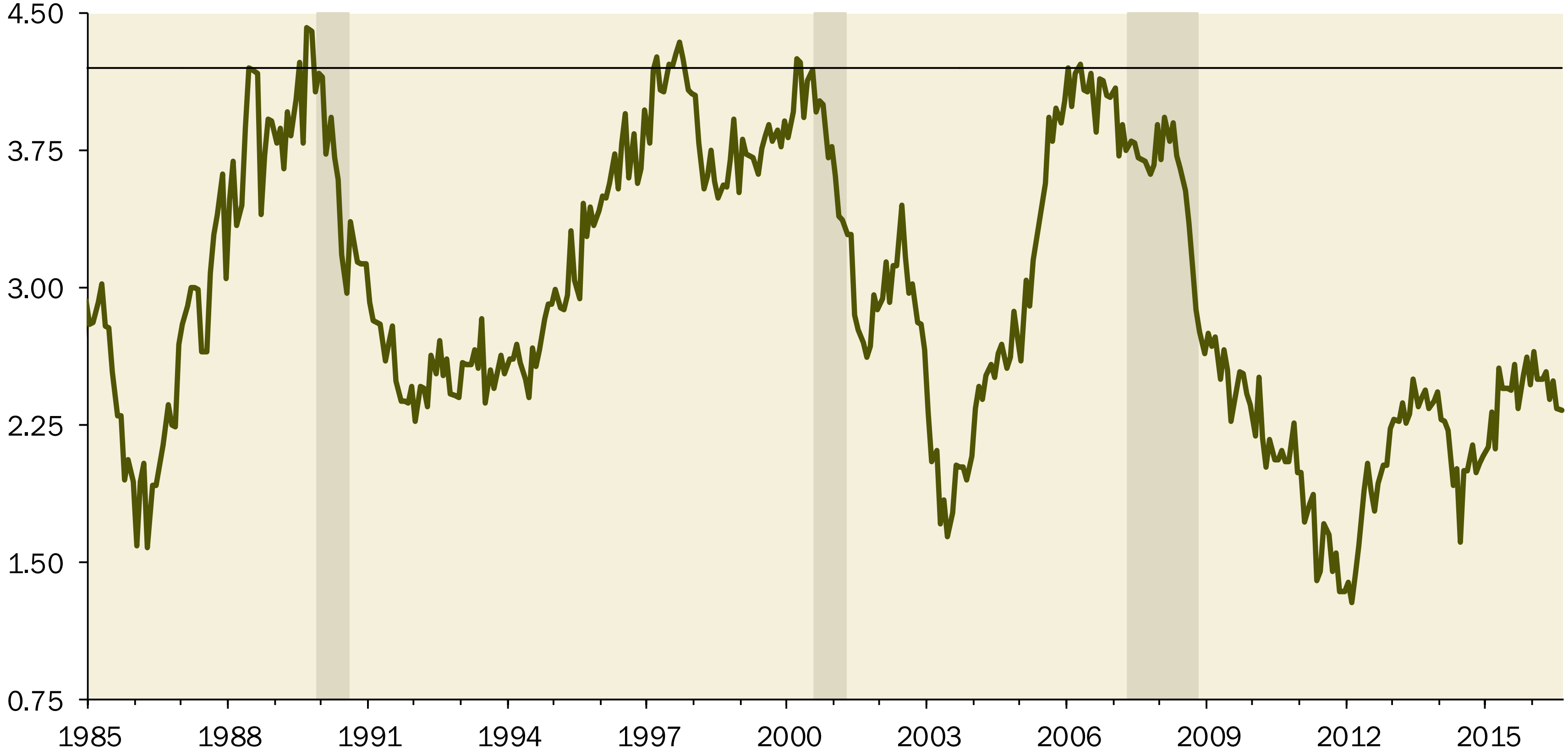
*I know there is perhaps one isolated measure of wage growth that suggests some uptick, but most measures of wage increase are running at very low levels. In fact, with the productivity growth we have and 2 percent inflation, one would probably expect to see, on an ongoing basis, something between — perhaps 3 and 4 percent wage inflation would be normal. Wage inflation has been running at 2 percent. So not only is it depressed, signaling weakness in the labor market, but it is certainly not flashing.*

*Janet L. Yellen*
*Post-FOMC Press Conference*
*March 19, 2014*

# WAGE GROWTH REMAINS SUBDUED

## United States: Average Hourly Earnings

(year-over-year percent change)




Notes:

*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# THE WALL STREET JOURNAL.

## An Econ Mystery: Why Did Wages Flatline?

POLITICS & IDEAS

*By William A. Galston*

On its face, the April jobs report, released Friday, was filled with good news. Employment increased by 211,000; the unemployment rate ticked down to 4.4%. Over the past year, the number of un-

for inflation have risen at barely 0.5% a year. The official statistics back up reports that Americans are working harder than ever just to stay even.

Since the depths of the Great Recession, household incomes have increased steadily—not because wages are rising, but because Americans are working more hours. A longer view reveals the limits of these gains. Nearly

want full-time jobs, as well as people not counted as unemployed who remain marginally attached to the labor force—rose from 8.8% at the start of the recession to 17.1% at its peak but had fallen back to 8.6% as of April.

To be sure, the labor-force participation rate, which nudged above 67% in the late 1990s, stands at only 62.9% today. On its face, this suggests continuing slack in the

wage growth as recently as the expansion of 2003-07—just as it had in 1982-89 and 1992-2000. What has changed? No one knows for sure.

Unions are historically weak, reducing workers' bargaining power. But it is hard to argue that they are significantly weaker now than they were a decade ago. One hypothesis, plausible but unproven, is that increased cor-

Notes:

*Source: Wall Street Journal (May 10, 2017)*

# TIGHT LABOR MARKET AND YET NO WAGE BREAKOUT?

## United States: Unemployment Rate


Notes:

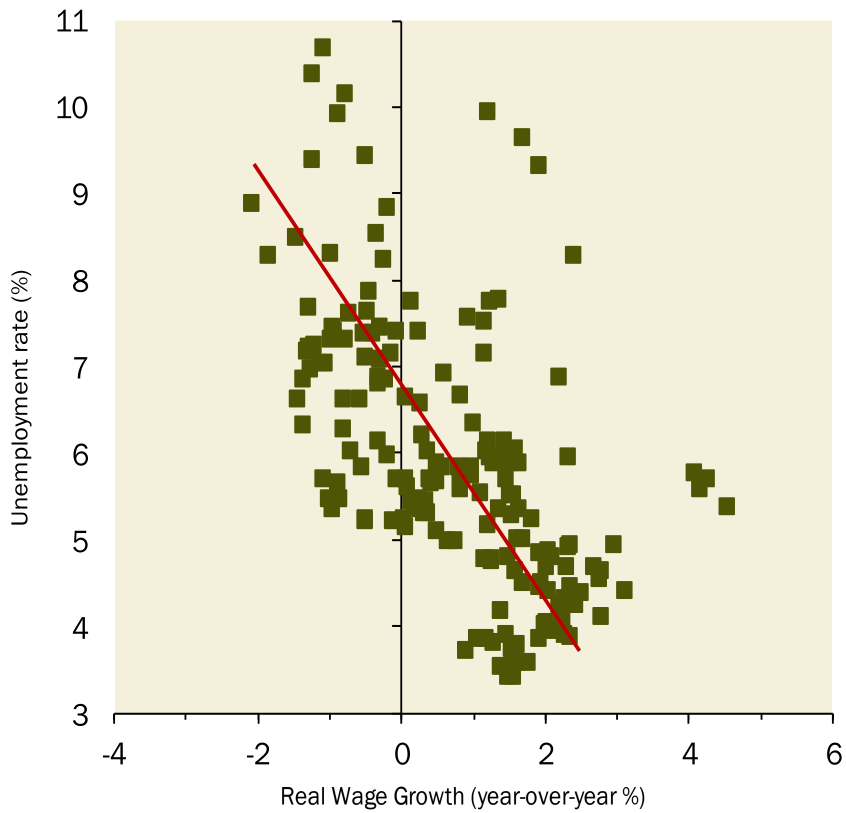
*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

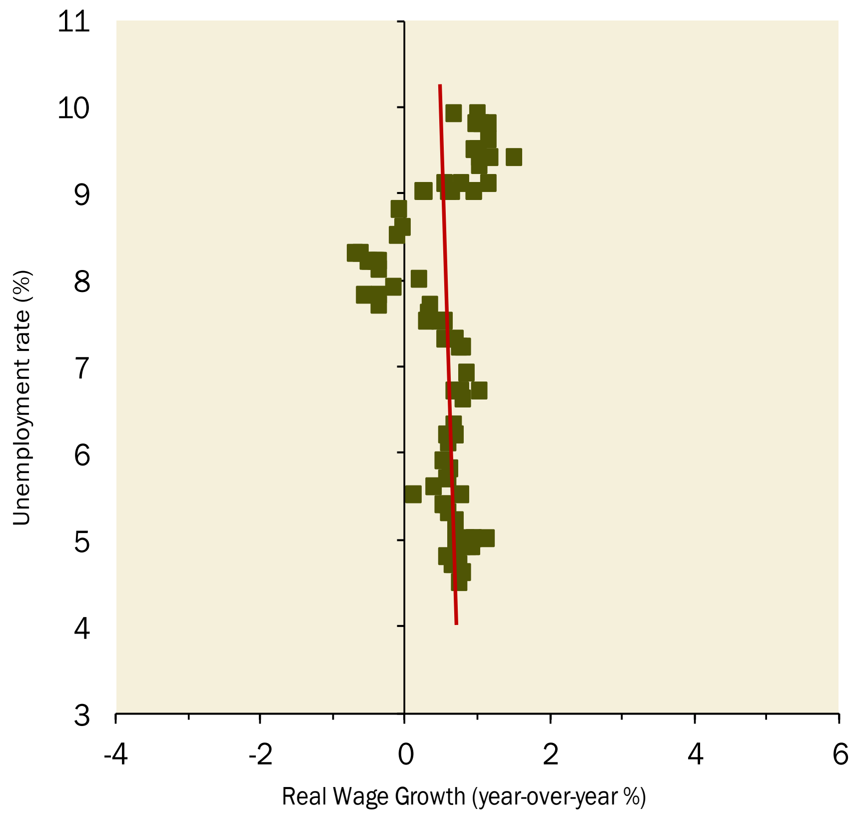
# WHAT HAPPENED TO THE PHILLIPS CURVE?

## United States: Unemployment Rate & Inflation-Adjusted Wage Growth

1964 to 2009




2010 to present




Notes:

*Source: Haver Analytics, Gluskin Sheff*

# THE WALL STREET JOURNAL.

## Man, Machines and Fear

GE's Marco Annunziata on managing the labor displacement from technological innovation

*Technological innovation poses some tough questions for companies concerning their workers. Among them: How can executives and managers calm workers' fears of losing their jobs to automation? And how can companies find workers with the skills needed in a more technologically advanced workplace?*

*Marco Annunziata, chief economist and executive director of global market insight at* **General Electric** *Co., discussed these issues with Jennifer Forsyth, deputy chief of investigations at The Wall Street Journal. Here are edited excerpts of their conversation.*

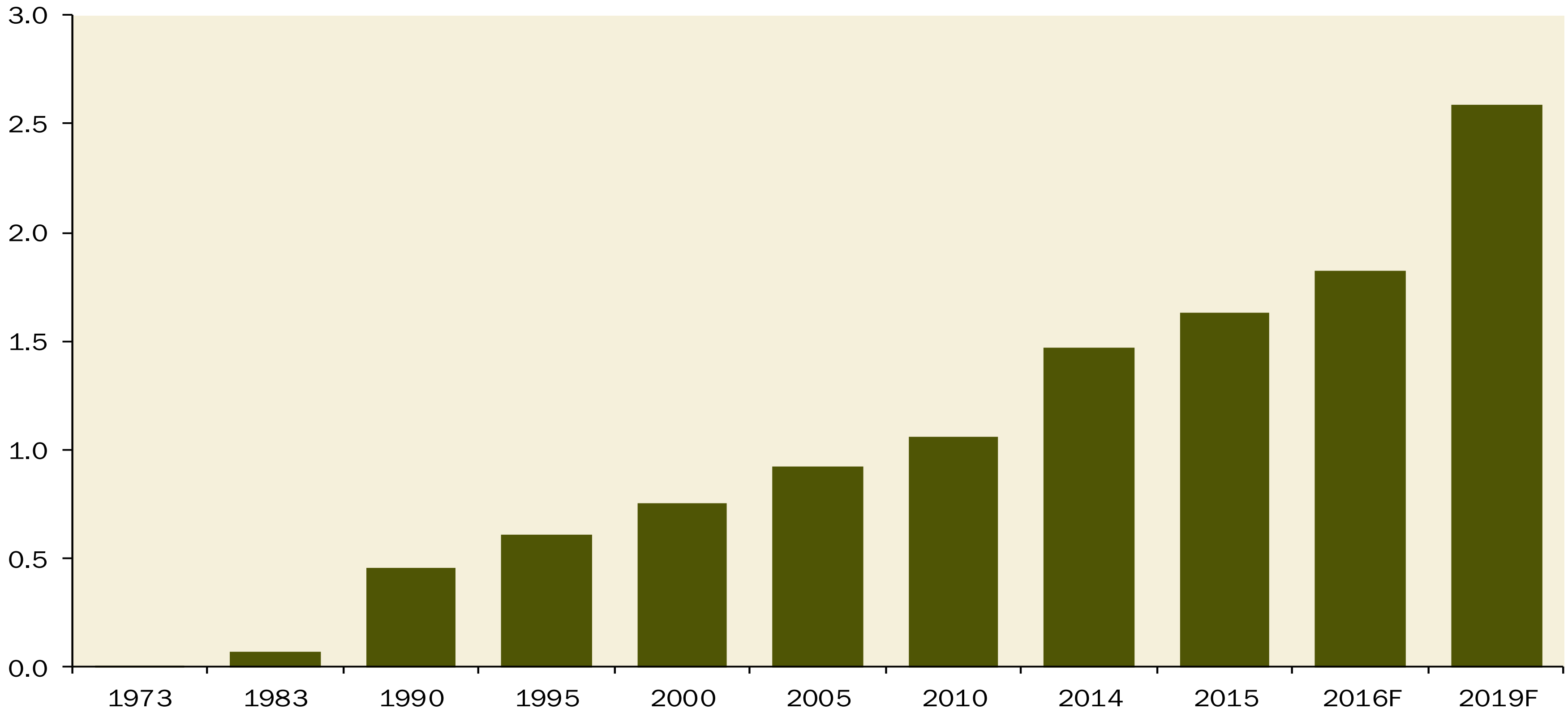
'We have to factor in the displacement that will inevitably happen.'

Notes:
*Source: Wall Street Journal (May 10, 2017)*

# DOMO ARIGATO, MR. ROBOTO?

## Estimated Worldwide Operational Stock of Industrial Robots

(millions of units)




Notes:
*Source: International Federation of Robotics*
*2016 & 2019 figures forecast*

The New York Times

# How to Help Humans When the Robots Come To Take Our Jobs

By CLAIRE CAIN MILLER

Maybe the automation of jobs will eventually create new, better jobs. Maybe it will put us all out of work. But as we argue about this, work is changing.

government retraining programs are confusing and often ineffective, and many companies aren't willing to invest in training workers only to have them poached by a rival. "It's bipartisan judg-

Notes:
*Source: The New York Times (March 8, 2017)*

The New York Times

# People Who Train Robots (to Do Their Jobs)

Before the machines can replace humans, as some people fear, they must be taught.

By DAISUKE WAKABAYASHI

What if part of your job became teaching a computer everything you know about doing someone's job — perhaps your own?

Before the machines become smart enough to replace humans, as some people fear, the machines need teachers. Now, some companies are taking the first steps, deploying artificial intelligence in the workplace and asking their employees to train the A.I. to be more human.

We spoke with five people — a travel agent, a robotics expert, an engineer, a customer-service representative and a scriptwriter, of sorts — who have been put in this remarkable position. More than most, they understand the strengths (and weaknesses) of artificial intelligence and how the technology is changing the nature of work.

Here are their stories.

Notes:

*Source: The New York Times (April 30, 2017)*

THE GLOBE AND MAIL

# How robots can revolutionize middle management

LAURIE CLARKE
*Chief operating officer of the Tatham Group*

The World Economic Forum expects more than five million jobs will switch ownership from humans to robots in the next five years.

Concern about the predicted Great Displacement of the human work force is growing. More nervous than those in customer service, financial planning and risk assessment are people in middle management.

However, the technological advancement we are graduating into now, and in the next 10 years, can finally propose a future for managers and release companies from middle management's chokehold that has crippled businesses from changing and accelerating the pace of innovation in their field.

If we can delegate duties such as record keeping, data mining and, eventually, problem solving and logical reasoning, middle managers can finally be utilized in a manner that best serves a business and its customers.

This is not advocating that we cut middle management altogether. It is about reimagining that layer of control that often, to the lesser fault of middle managers, cements companies in what is old and underserving to its business. The current system of middle management does not work. Middle managers are hired to support teams, but end up spending their days pushing paper and solving operational issues. That

Increased North-South trade, especially with China, has exerted major downward press
surviving manufacturing operations in advanced economies to become much more capi

Notes:
*Source: The Globe & Mail (May 10, 2017)*

# THE WALL STREET JOURNAL.

## Robots Will Save the Economy

By Bret Swanson
And Michael Mandel

Some anxious forecasters project that robotics, automation and artificial intelligence will soon devastate the job market. Yet others predict a productivity fizzle. The Congressional Budget Office, for instance, expects labor productivity to grow at the

last business cycle in December 2007, hours worked in the digital category rose 9.6%, compared with 5.6% on the physical side. If health care is excluded, hours worked in physical jobs rose only 3%.

What is holding the physical industries back? It is no coincidence that they are heavily regulated, making them expensive to operate in and resistant

entirely new business models, products and platforms. The physical category's "information gap" is a drag on growth and helps explain the productivity paradox: Many workers seem not to have benefited from apparent rapid technological advance.

Fortunately, many physical industries are poised for dramatic transformations into

unproductive factories are the most vulnerable to low-wage foreign competition.

Perhaps no industry needs a productivity revolution more than health care. But one appears to be on the way. Soon sensors on and in our bodies may help patients communicate with doctors and nurses, reduce office visits, and flood databases with information needed

Notes:
*Source: The Wall Street Journal (May 15, 2017)*

The New York Times

# A Robot Revolution in China as Car Manufacturers Look to Cut Costs

## *State-of-the-Art Factories for Ford and G.M. Reflect an Industrial Transformation*

By KEITH BRADSHER

HANGZHOU, China — Even a decade ago, car manufacturing in China was still a fairly low-tech, labor-intensive endeavor. Thousands of workers in a factory, earning little more than $1 an hour, performed highly repetitive tasks, while just a handful of industrial robots dotted factory floors.

No longer.

At Ford's newest car assembly plant in Hangzhou in east-central China, at least 650 robots, resembling huge, white-necked vultures, bob and weave to assemble the steel structures of utility vehicles and midsize sedans. Workers in blue uniforms and helmets still do some of the welding, but much of the process has been automated.

The state-of-the-art factory exemplifies the vast transformation that has taken place across manufacturing in China. General Motors opened a similarly ultramodern Cadillac factory in the eastern suburbs of Shanghai, as well as one in Wuhan. Other automakers are also pouring billions of dollars into China, now the world's largest auto market.

Robots are critical to China's economic ambitions, as Chinese companies look to move up the manufacturing chain. The Ford assembly plant is across the street from a robot-producing factory owned by Kuka, the big German manufacturer of industrial robots that a Chinese company bought last summer.

For carmakers, the reliance on robots is driven partly by cost. Blue-collar wages have soared because multinational companies have moved much of their production to China even as its labor force is rapidly changing. The combination of the one-child policy, which cut the birthrate through the 1980s and '90s, and an eightfold increase in college enrollments has cut by more than half the number of people entering the work force each year who have less than a high school degree and may be willing to consider factory work.

Blue-collar wages are now $4 to $6 an hour in large, prosperous cities, though still far lower than in the United States.

Automation is also a competitive necessity. As carmakers jockey for customers' attention, they have no choice but to deploy the latest technologies, even in research and development. The challenge is how to keep a competitive edge, while trying to prevent intellectual property from being copied quickly by Chinese rivals.

"We're basically building an R&D center here in China, and test track, that is on par with other parts of Ford," in North America, Europe and Australia, said Mark Fields, the chief executive of Ford Motor. At the same time, he said, the company would protect its intellectual property.

Robots perform tasks like welding in exactly the same way every time, improving quality control. But they require a lot of fine-tuning along the way.

The painting process is also mostly automated. Elaborate spraying robots, their joints covered in many layers of plastic so that they do not become clogged with paint mist, snake back and forth across each car body. Workers still apply protective sealant to the vehicles' interiors and underbodies, as Ford has been leery of depending entirely on robots for this step until it is sure they work well. More robots are scheduled to be installed in August, replacing manual labor for the protective sealant step as well.

Automation doesn't elicit the same fear of job losses in China as in the United States. With car demand in China growing quickly, ever more factories and workers are needed to produce more cars. The Ford factory here in Hangzhou may have 650 robots, but it also has 2,800 workers. Other automakers continue to hunt for skilled workers to fill vacancies in their factories.

"Robots aren't the threat," said Paul Buetow, the director of China manufacturing at General Motors. "The threat is not being able to run your business with products that people want to buy."

Notes:

*Source: The New York Times (May 13, 2017)*

**Bloomberg Businessweek**

# Robots Will Build Your Next House

▶ With construction workers in short supply and demand rising, builders turn to fast factories

▶ "The house is 60 percent complete when it arrives"

The future of U.S. homebuilding may depend on robots—and on more people like Cyndicy Yarborough, a 26-year-old former Walmart clerk with no background in construction. At **Blueprint Robotics Inc.** in Baltimore, she works in a factory that builds houses like cars—on an assembly line, using robots that fire thousands of nails into studs each day without missing. Other machines, operated by 29 workers, cut, sand, drill, and insulate. Yarborough operates a machine that lifts floors and

walls and packs them onto a flatbed truck. "I like being a part of something new, on the cutting edge," she says.

Indoor homebuilding factories such as Blueprint are filling in for a shortage of skilled workers that's crimped construction of residences and commercial properties across the country. The plants enable developers to patch the labor gap by having houses and apartment buildings manufactured off-site, for less money and in a fraction of the time. ▶

Notes:

*Source: Bloomberg Businessweek, Week of April 24, 2017*

**INVESTOR'S BUSINESS DAILY**

# Robots Take A Hammer To Homebuilding's Labor Crunch


The Blueprint Robotics factory in Baltimore is reputed to be one of the first in the U.S. where robots construct modular housing components.

Notes:
*Source: Investor's Business Daily, Week of April 24, 2017*

WORLD ECONOMIC FORUM  Agenda  Initiatives  Reports  Events  About  TopLink login  中文  Español

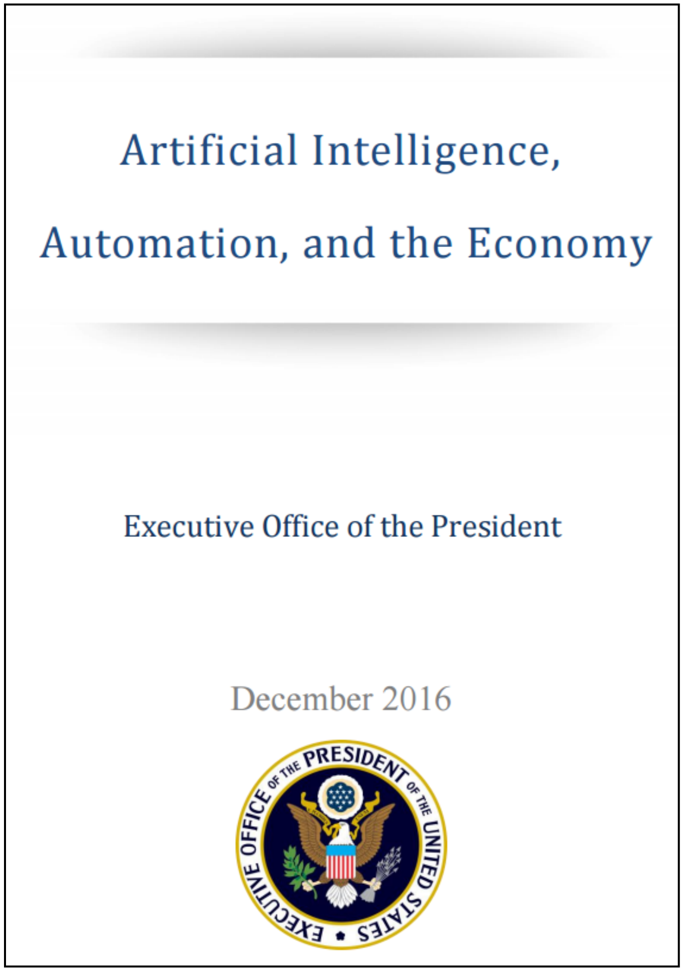
Global Agenda > Fourth Industrial Revolution

# The Fourth Industrial Revolution: what it means, how to respond

*"We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society."*

Notes:
*Source: Klaus Schwab, Founder and Executive Chairman, World Economic Forum*

# OBAMA ADMINISTRATION CAUGHT ON, BUT A LITTLE LATE


Artificial Intelligence,

Automation, and the Economy

Executive Office of the President

December 2016



*"AI-driven changes in the job market in the United States will cause some workers to lose their jobs, even while creating new jobs elsewhere. The economic pain this causes will fall more heavily upon some than on others. Policymakers must consider what can be done to help those families and communities get back on their feet and assemble the tools they need to thrive in the transformed economy and share in its benefits."*

Notes:
*Source: White House Report "Artificial Intelligence, Automation, and the Economy"*

INVESTOR'S BUSINESS DAILY

# Amazon Vs. Inflation

E-tail giant puts downward pressure on prices across the economy as it disrupts one sector after another

BY REINHARDT KRAUSE
INVESTOR'S BUSINESS DAILY

If Federal Reserve Chairman Janet Yellen shops at Amazon.com like most Americans, she might pick up insights from the e-commerce behemoth to help her set future interest rates.

In fact, Yellen & Co. might want to include Amazon in the mix when discussing oil, housing, health care and other inflationary costs that can signal whether to tap the brakes or let the economy keep

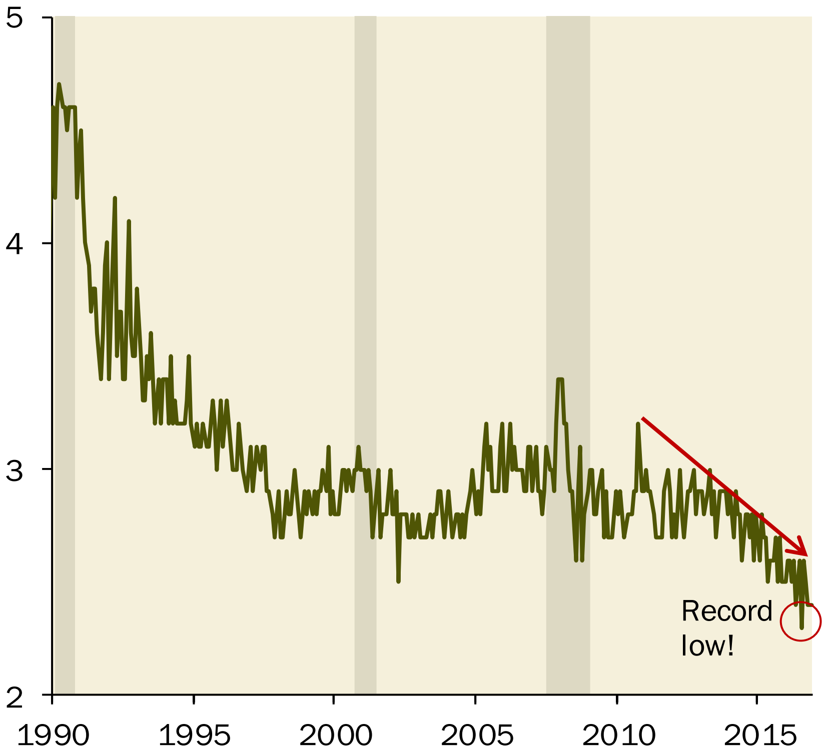
Notes:
*Source: Investor's Business Daily, Week of May 15, 2017*

# CONSUMERS & BUSINESSES DON'T SEE INFLATION AS A PROBLEM

## United States

UMich 5-to-10-year consumer inflation expectations

(percent)




Small business reporting inflation as biggest problem

(percent)


Notes:

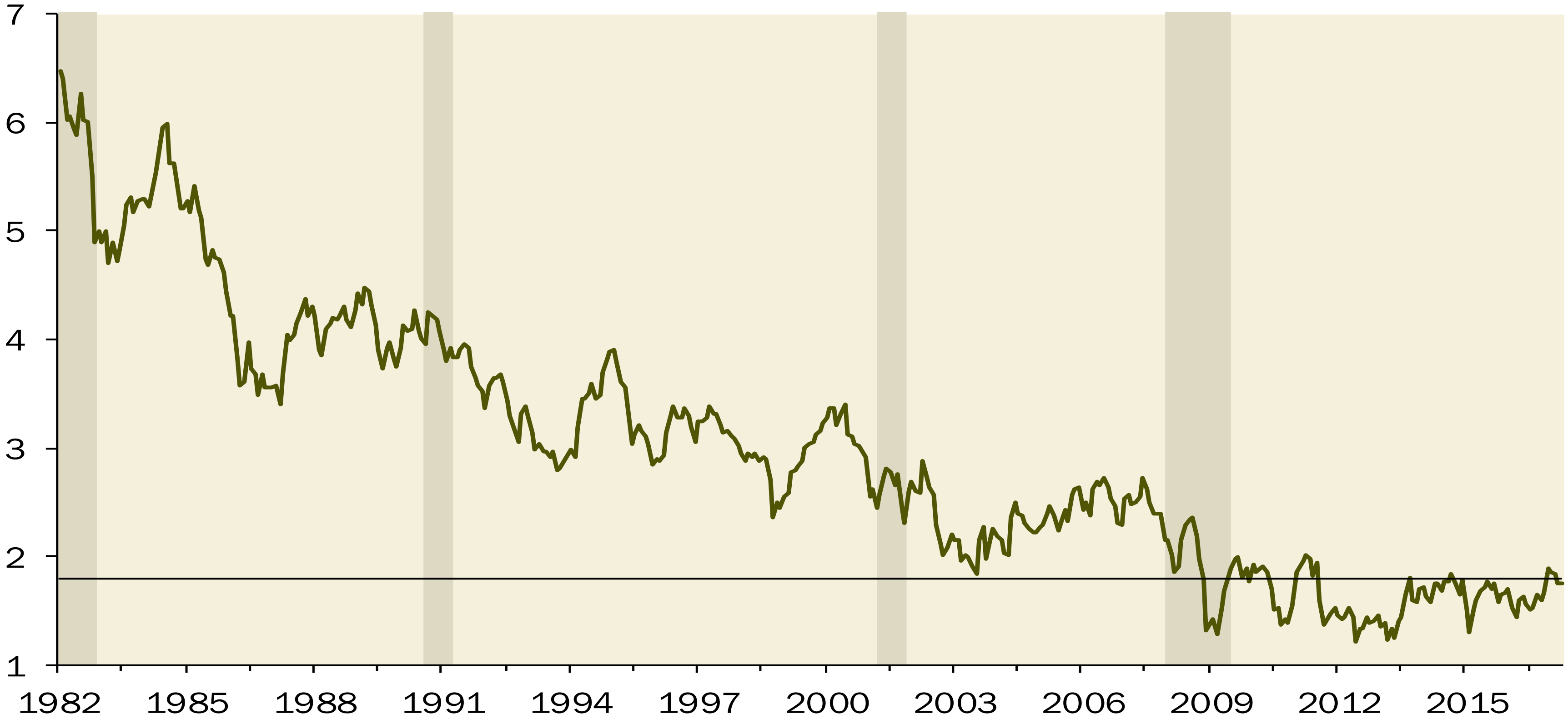
*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# NOR DOES THE CLEVELAND FED

## United States: Cleveland Fed 5-Year Expected Inflation Rate

(percent)




Notes:
*Shaded regions represent periods of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

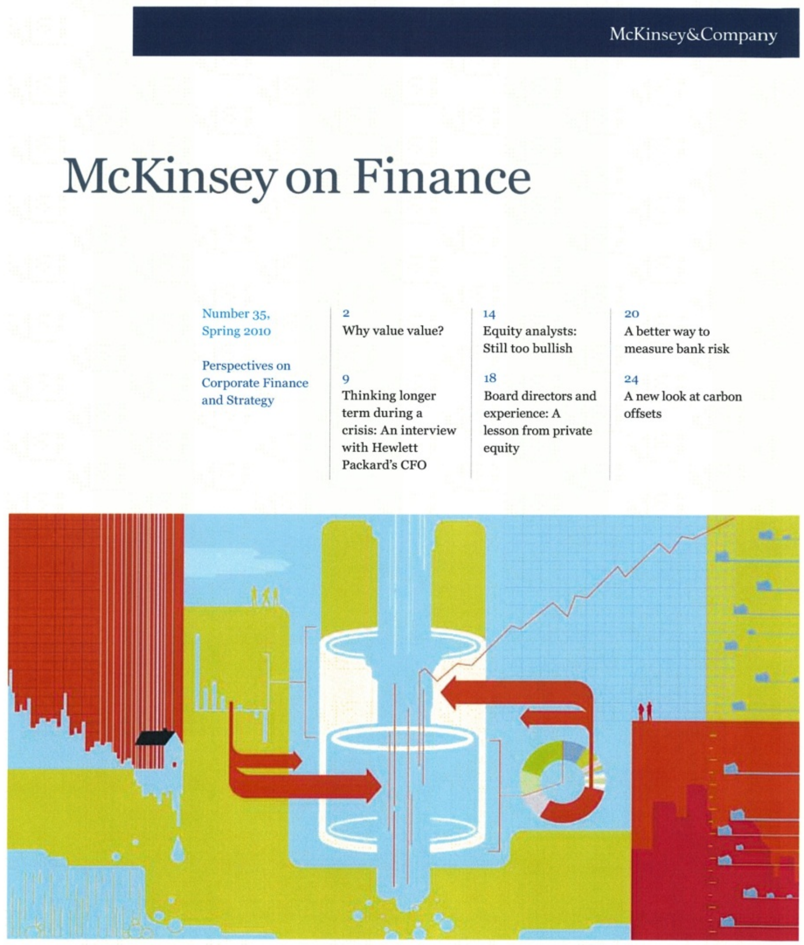
## A SECULAR INFLECTION POINT?

*"Change of a long term or secular nature is usually gradual enough that it is obscured by the noise caused by short-term volatility. By the time secular trends are even acknowledged by the majority they are generally obvious and mature. <u>In the early stages of a new secular paradigm, therefore, most are conditioned to hear only the short-term noise they have been conditioned to respond to by the prior existing secular condition.</u> Moreover, in a shift of secular or long term significance, the markets will be adapting to a new set of rules while most market participants will be still playing by the old rules."*

*Bob Farrell*
*August 3, 2001*


DEBT
HEY! LOOK!
NO SHADOW!
THINGS ARE GONNA BE GREAT!
DARYL CAGLE
POLITICALCARTOONS.COM

# MCKINSEY ON FINANCE: PERSPECTIVE ON CORPORATE FINANCE & STRATEGY 2010




Findings from McKinsey & Company:

*"While we cannot say for certain whether these sectors will deleverage, we do know that nearly every significant financial crisis in the post-World War II period was followed by a lengthy and painful period of deleveraging. <u>These episodes lasted on average six to seven years, with total debt as a percentage of GDP declining by roughly 25 percent. GDP contracted in the initial years of deleveraging but rebounded in the later years.</u> If history is a guide, therefore, we would expect a significant period of deleveraging to come, which will dampen GDP growth."*

# MCKINSEY REVISITED FIVE YEARS LATER: DELEVERAGING NEVER OCCURRED!


*" After the 2008 financial crisis and the longest and deepest global recession since World War II, it was widely expected that the world's economies would deleverage. It has not happened. Instead, debt continues to grow in nearly all countries, in both absolute terms and relative to GDP. This creates fresh risks in some countries and limits growth prospects in many."*

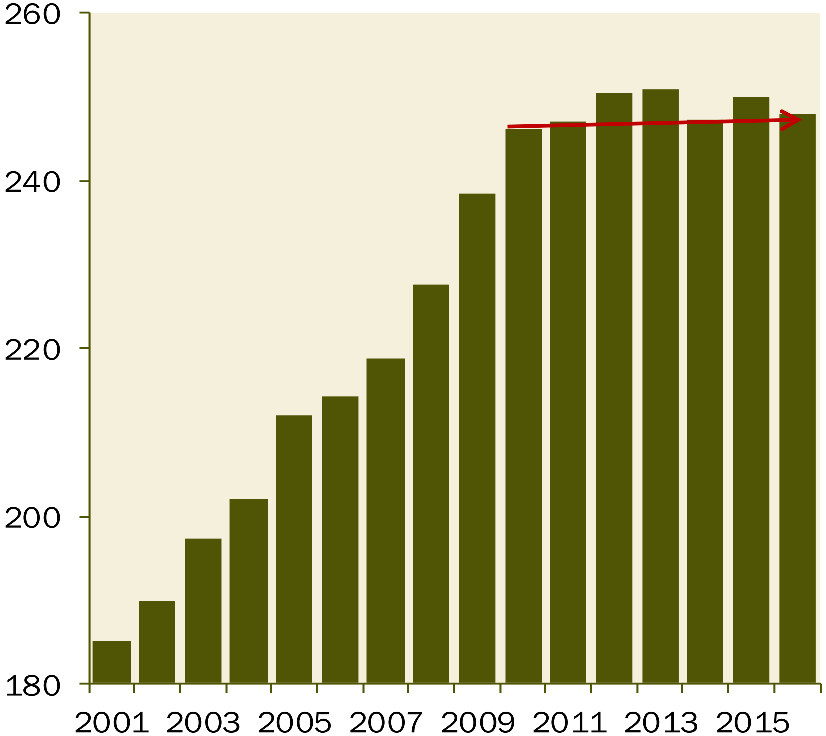
*"We find that deleveraging since 2008 remains limited to a handful of sectors and that, overall, debt relative to GDP is now higher in most nations than it was before the crisis. Not only has government debt continued to rise, but so have household and corporate debt in many countries."*

# THE MASSIVE GLOBAL DEBT OVERHANG HAS YET TO BE RESOLVED

## Nonfinancial Debt

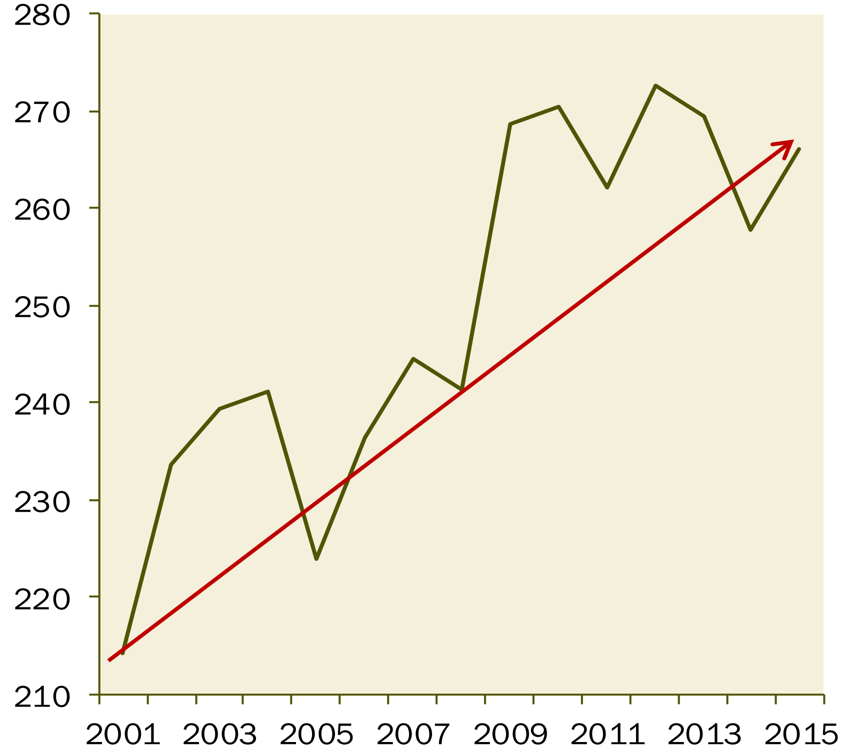
United States

(percent of GDP)




Advanced Economies

(percent of GDP)




Notes:

*Source: Bank for International Settlements, International Monetary Fund, Gluskin Sheff*

# THE KING OF DEBT

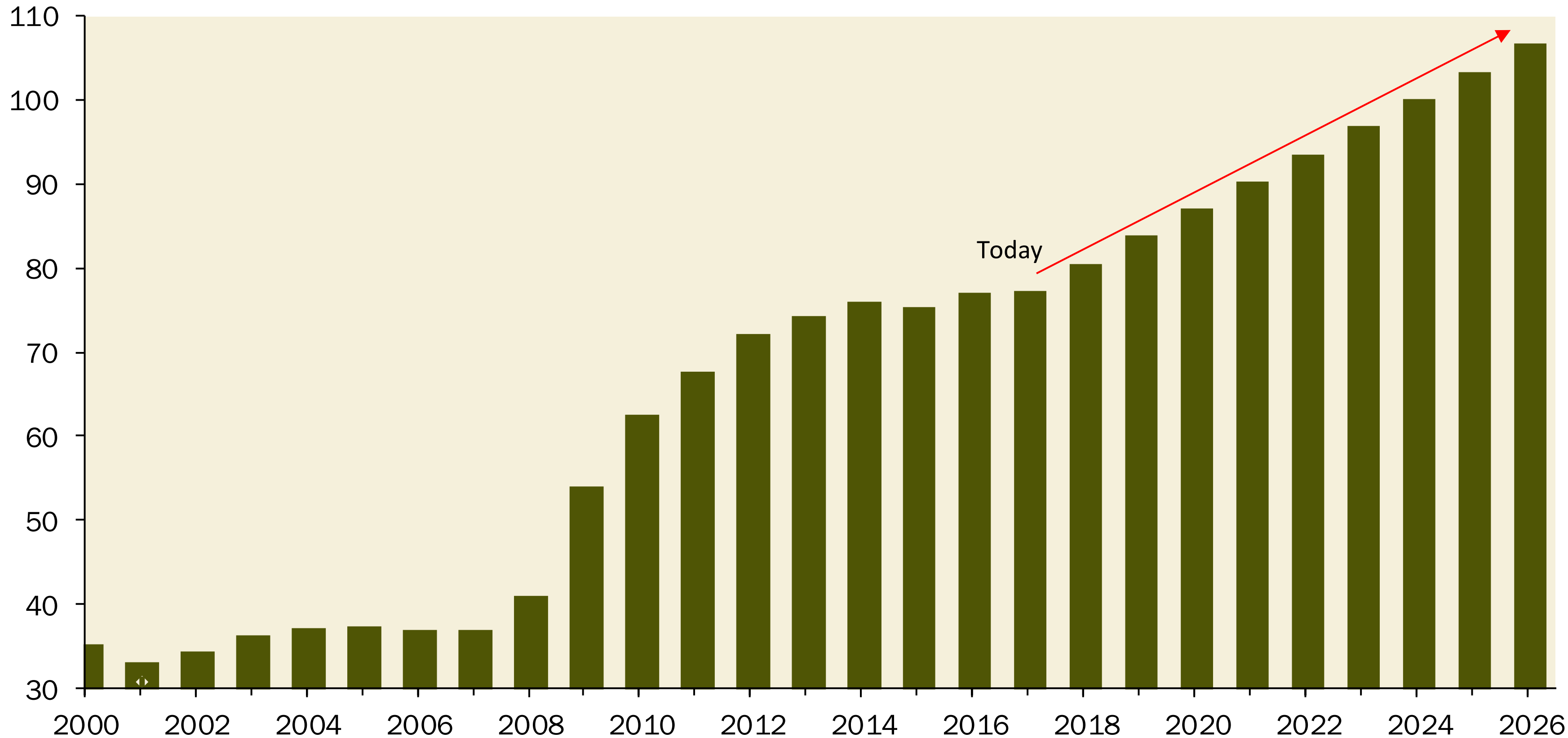
"I'm the king of debt. I'm great with debt; nobody knows debt better than me. I've made a fortune by using debt, and if things don't work out, I renegotiate the debt. I mean, that's a smart thing, not a stupid thing."

**Donald Trump, June 22, 2016**

# THE DONALD UNPLUGGED

## United States: Federal Debt-to-GDP with Trump's Policy Proposals

(percent)

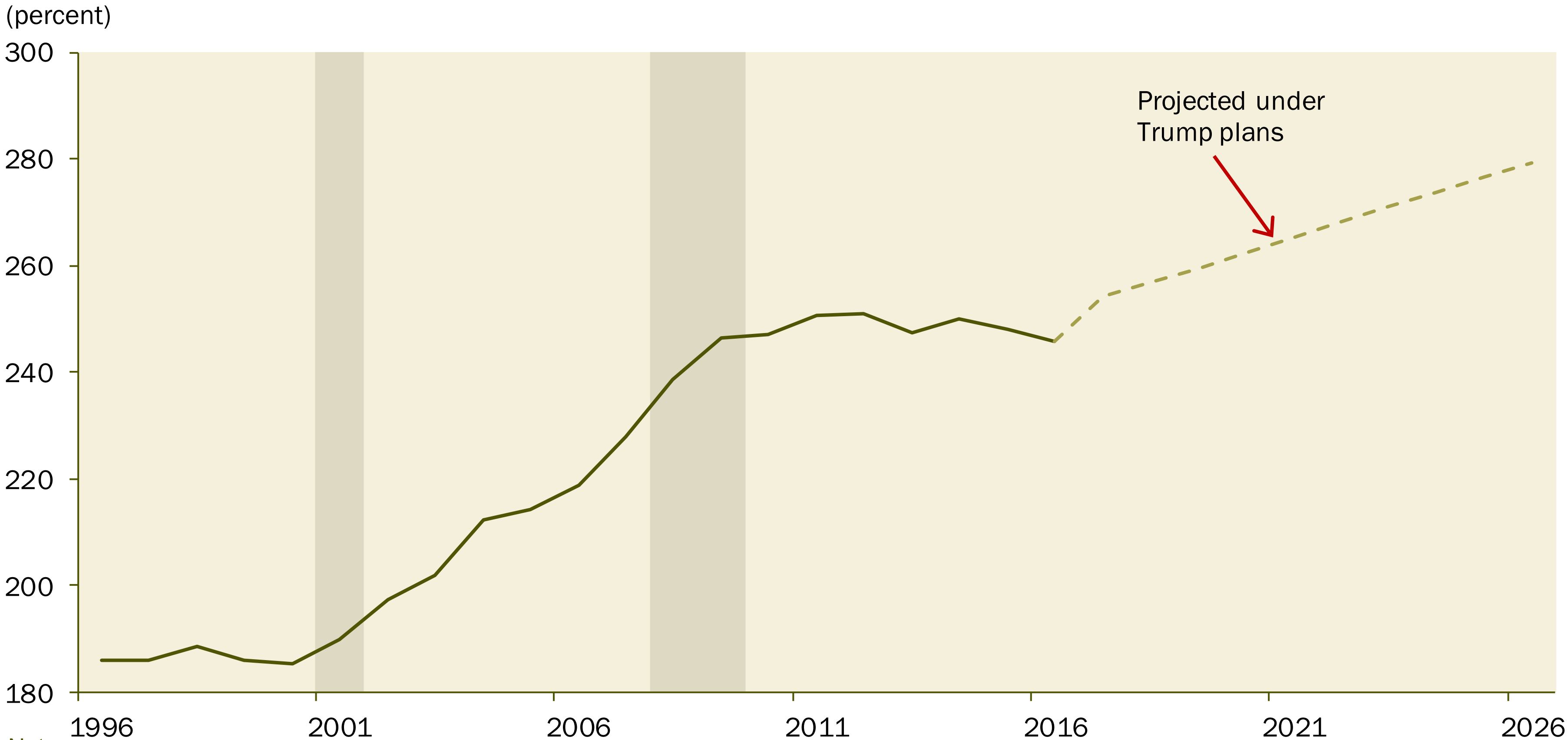



Notes:

*Source: Haver Analytics, Gluskin Sheff*

# THIS IS WHAT TOTAL U.S. DEBT WILL LOOK LIKE IN THE FUTURE

## United States: Nonfinancial Debt-to-GDP with Trump's Policy Proposals



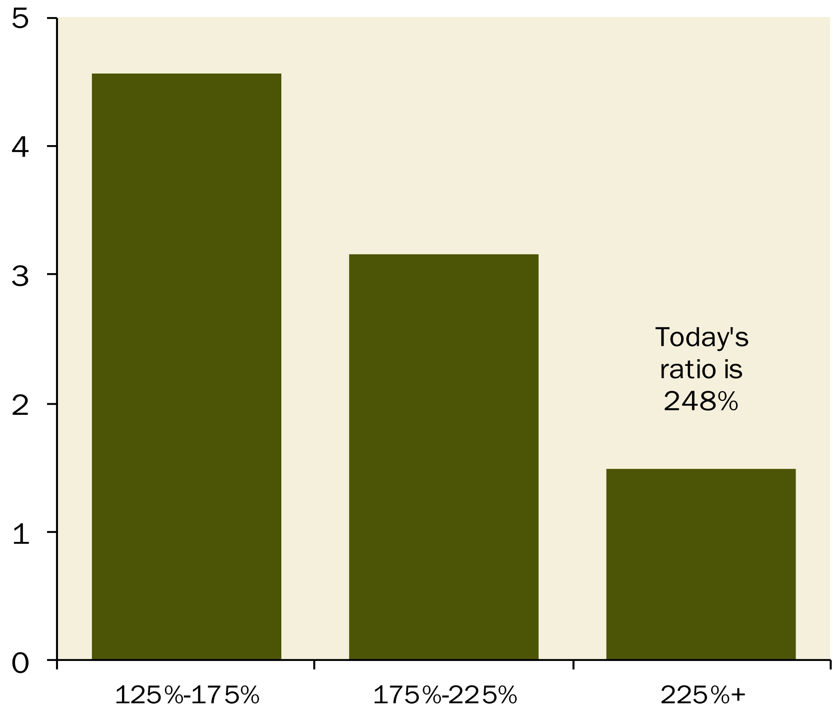

Notes:
*Assumes 4% nominal GDP growth and 4% credit growth (ex-government)*
*Shaded regions represent periods of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

# HIGHER DEBT RATIOS COINCIDE WITH LOWER GDP GROWTH

## GDP Growth versus Debt Burden

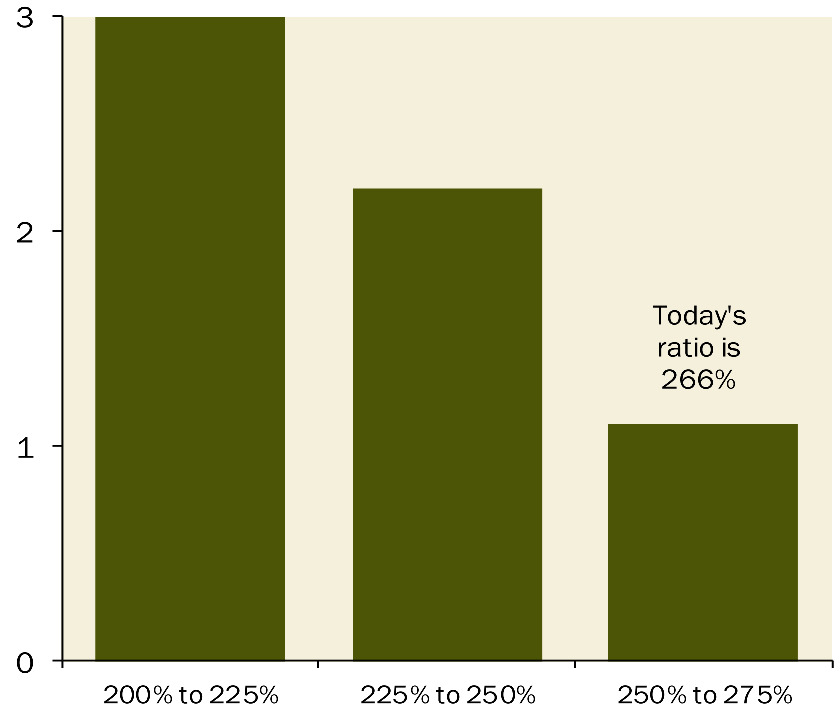
### United States

(vertical axis: real GDP Growth)
(horizontal axis: nonfinancial debt-to-GDP)




### Advanced Economies

(vertical axis: real GDP Growth)
(horizontal axis: nonfinancial debt-to-GDP)




Notes:
*Source: Bank for International Settlements, Haver Analytics, Gluskin Sheff*

# Ricardian equivalence

From Wikipedia, the free encyclopedia

The **Ricardian equivalence proposition** (also known as the **Ricardo–De Viti–Barro equivalence theorem**[1]) is an economic hypothesis holding that consumers are forward looking and so internalize the government's budget constraint when making their consumption decisions. This leads to the result that, for a given pattern of government spending, the method of financing that spending does not affect agents' consumption decisions, and thus, it does not change aggregate demand. Thus, this theorem is used as an argument against tax cuts and spending increases aimed to boost aggregate demand.

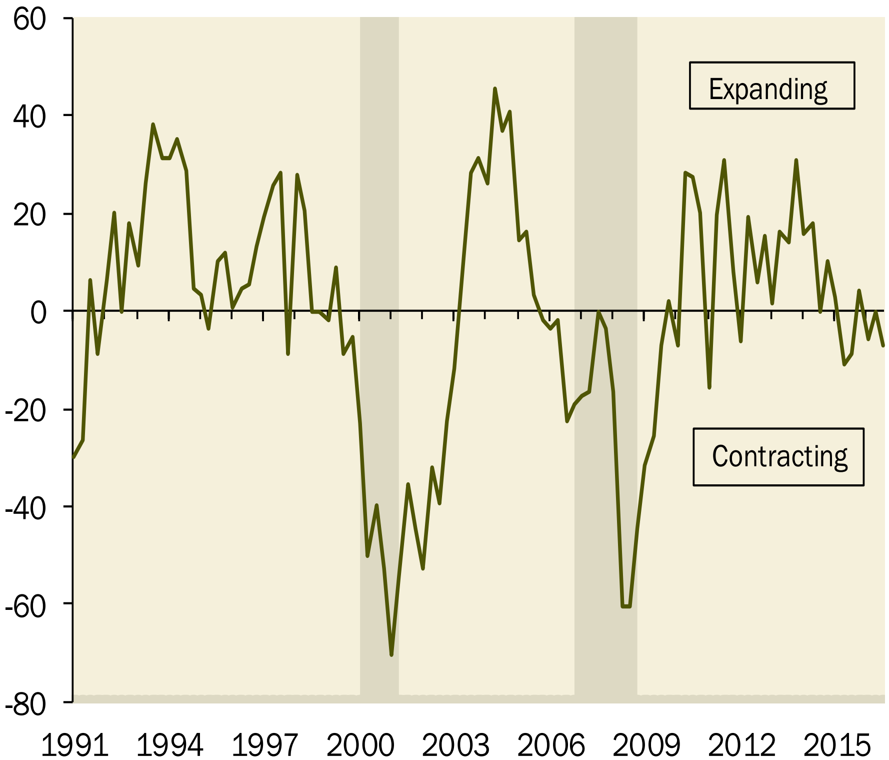
Notes:
*Source: Wikipedia*

# BUSINESS CREDIT DEMAND NOT MERELY SLOWING BUT CONTRACTING

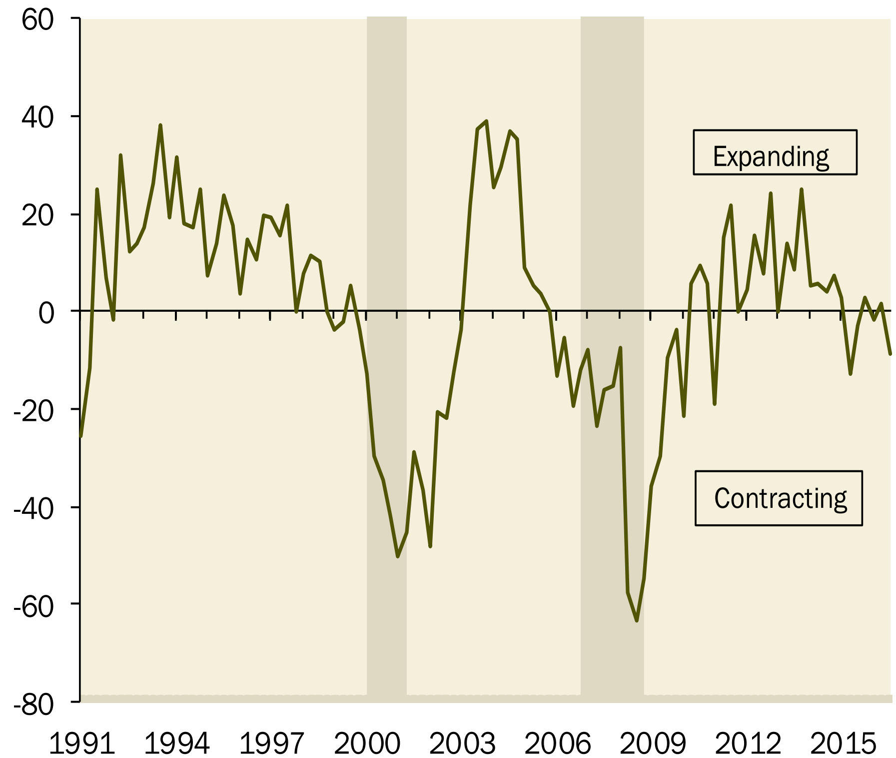
## United States: Banking Sector C&I Loans

(net share; percent)

Large Firms




Small Firms




Notes:

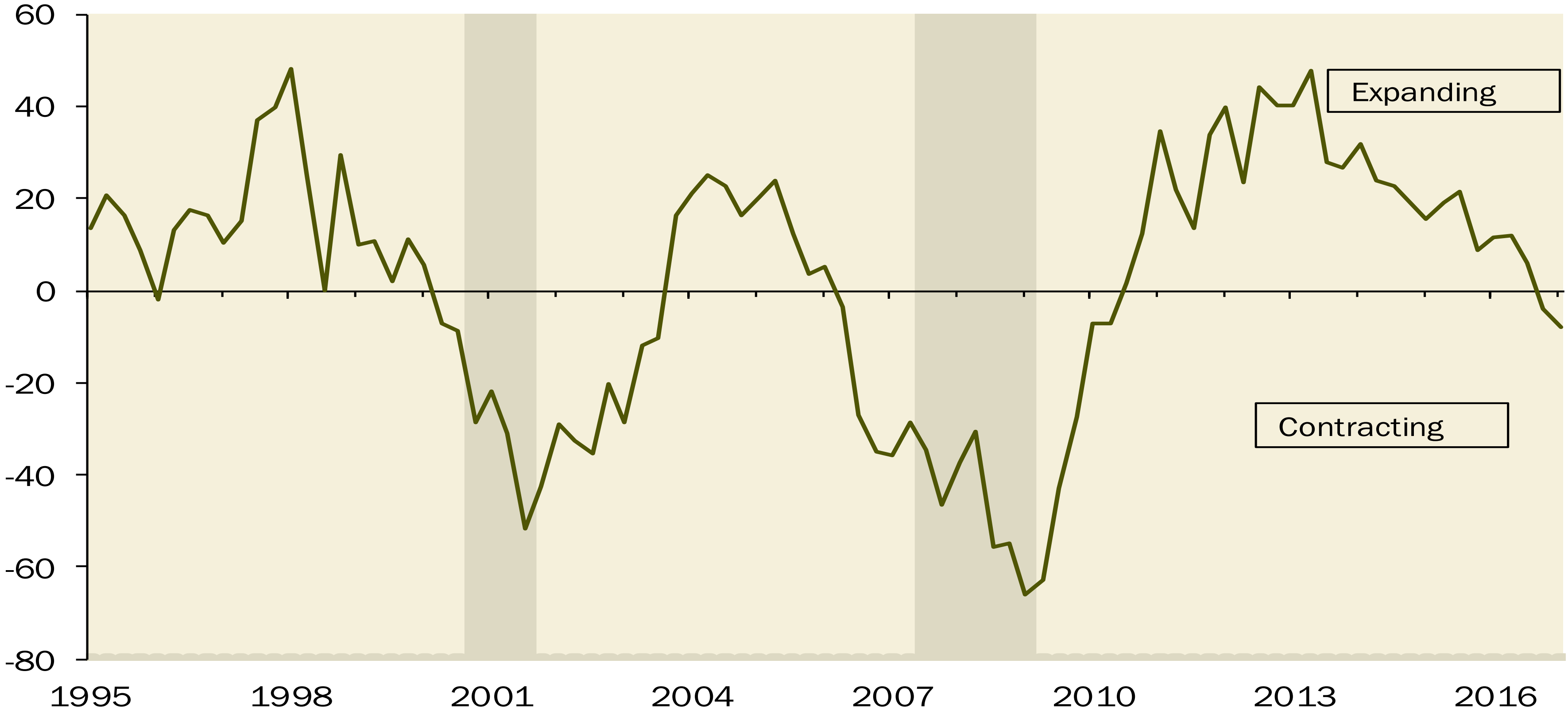
*Shaded regions represent periods of U.S. recession*

*Source: Haver Analytics, Gluskin Sheff*

# COMMERCIAL REAL ESTATE LOAN DEMAND IS FALLING

## United States: Banking Sector CRE Loans

(net share; percent)



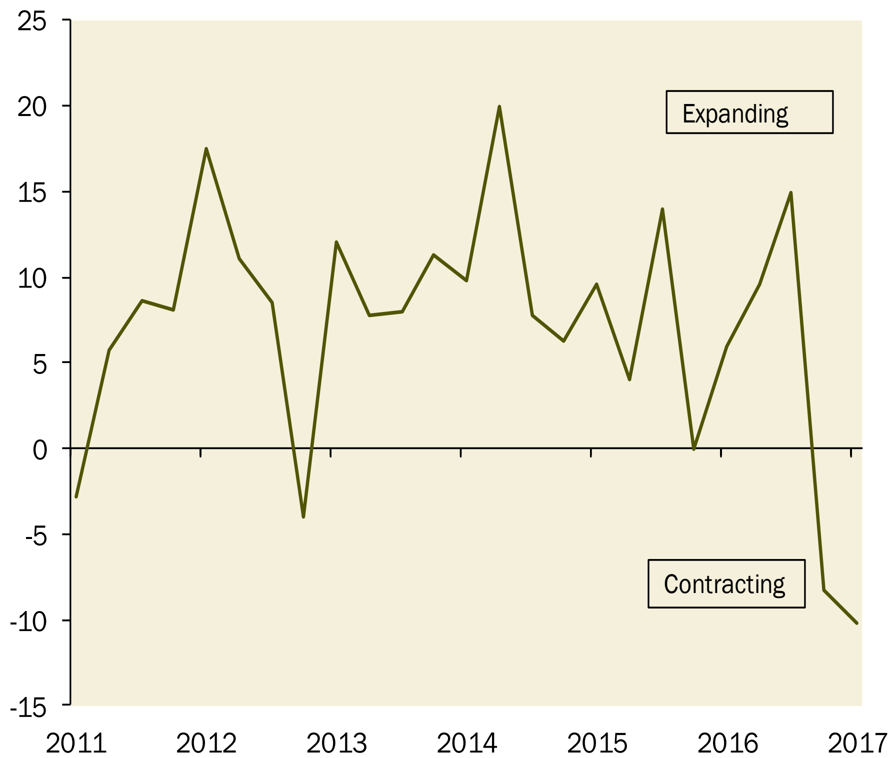

Notes:
*Shaded regions represent periods of U.S. recession*
*Source: Haver Analytics, Gluskin Sheff*

## CONSUMER LOAN DEMAND HAS CONTRACTED ACROSS A BROAD FRONT

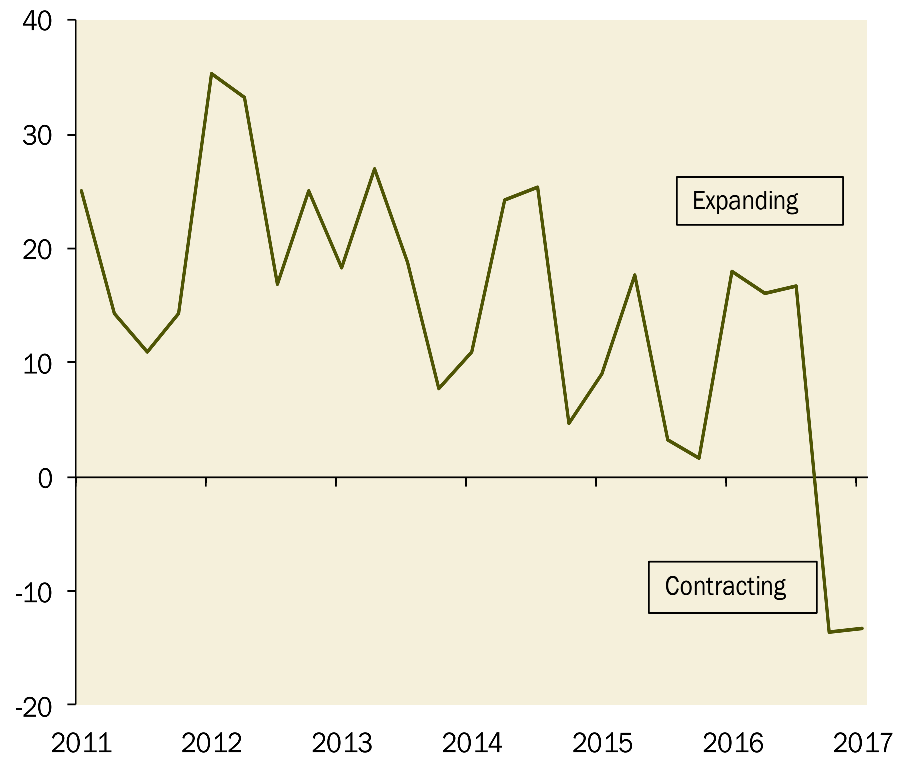
### United States: Banking Sector Consumer Loans

(net share; percent)

Credit Cards




Autos




Notes:
*Source: Haver Analytics, Gluskin Sheff*

# THE END GAME IS THE DEBT JUBILEE

The Federal Reserve Board

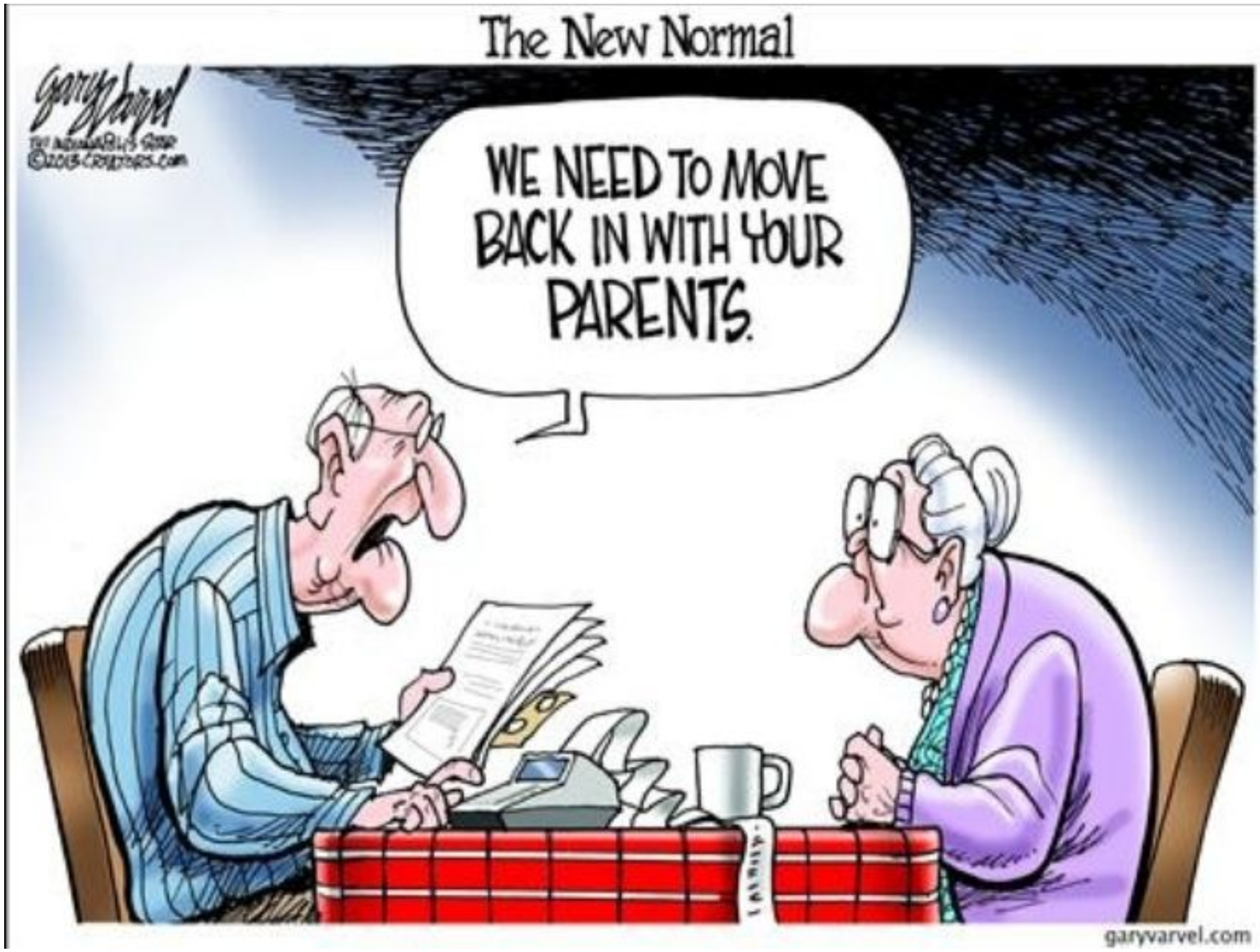
## Remarks by Governor Ben S. Bernanke

**Before the National Economists Club, Washington, D.C.**
**November 21, 2002**

### Deflation: Making Sure "It" Doesn't Happen Here

Since World War II, inflation--the apparently inexorable rise in the prices of goods and services--has been the bane of central bankers. Economists of various stripes have argued that inflation is the inevitable result of (pick your favorite) the abandonment of metallic monetary standards, a lack of fiscal discipline, shocks to the price of oil and other commodities, struggles over the distribution of income, excessive money creation, self-confirming inflation expectations, an "inflation bias" in the policies of central banks, and still others. Despite widespread "inflation pessimism," however, during the 1980s and 1990s most industrial-country central banks were able to cage, if not entirely tame, the inflation dragon. Although a number of factors converged to make this happy outcome possible, an essential element was the heightened understanding by central bankers and, equally as important, by political leaders and the public at large of the very high costs of allowing the economy to stray too far from price stability.

Notes:
*Source: Ben Bernanke, Deflation: Making Sure "It" Doesn't Happen Here (November 21, 2002)*


The New Normal
WE NEED TO MOVE BACK IN WITH YOUR PARENTS.
garyvarvel.com

# THE GLOBE AND MAIL

# Trump can't make America young again

Aging work force and accompanying decline in bond yields likely to drag on U.S. growth and the president-elect's rejuvenation plans


IAN McGUGAN
imcgugan@globeandmail.com


Listen up, investors: The problem with trying to make America great again is that you can't make it young again.

Until someone discovers a miracle rejuvenation formula, the nation's greying work force is one reason the current market surge looks overdone.

Bond yields have soared around the world in the days after Donald Trump's surprise election victory, while prices for stocks and metals have climbed on speculation that growth is set to pick up speed.

The president-elect has galvanized markets by vowing to spend $1-trillion (U.S.) dollars on infrastructure over the next decade while stripping away regulations

**TREND TO WATCH**



JOHN SOPINSKI/THE GLOBE AND MAIL ) SOURCE: MOODY'S ANALYTICS

ratings agency calculated that the number of working-age Americans will inch ahead by only 0.5 per cent a year in the decade ahead.

Even factoring in productivity gains, gross domestic product will struggle to grow 2 per cent annually between now and 2026,

American great again," Moody's chief economist John Lonski wrote.

He pointed out that the aging trend is not just about a slowing number of new workers. It is also reflected in a rapidly increasing percentage of employees who are 55 years old

against a much higher benchmark Treasury yield," Mr. Lonski reasoned.

He disagreed with projections that the yield on the benchmark 10-year U.S. Treasury note will move up to between 3 per cent and 5 per cent.

If his logic is right, the 10-year Treasury offers tempting value after its recent pummelling.

Bond prices move in the opposite direction to bond yields, so as sellers have dumped the bond in recent days, its yield has surged from below 1.8 per cent at the beginning of last week to above 2.2 per cent on Monday – a huge move in bond market terms.

In the event that Mr. Trump's infrastructure pledge fails to stimulate the economy as much as investors hope, yields could drop back and bond prices may rise back near their old levels.

How likely is the president-elect's plan to disappoint? It's "no game changer," warns Derek Holt of Bank of Nova Scotia. In a note, he cautioned that markets may be getting ahead of them-

economy.

The plan might boost the economy's growth rate by half a percentage point in its initial year, he calculated, but even that modest increase is open to doubt and delay.

Among other issues, a new administration will need time to approve projects and sign contracts, so it's unlikely that any money would be spent until 2018.

When wallets finally do open, the effect of the new spending on growth will last for only a single year. After that, spending the same amount each year just maintains the size of the economy rather than adding to further growth. A sustained rise in the growth rate can only be accomplished by exponential increases in spending.

Investors who are counting on the infrastructure plan to fuel big gains in raw materials prices should think again, Mr. Holt warned. Out of the $100-billion or so in annual spending, much will be spent on wages and only a portion will go to buying ma-

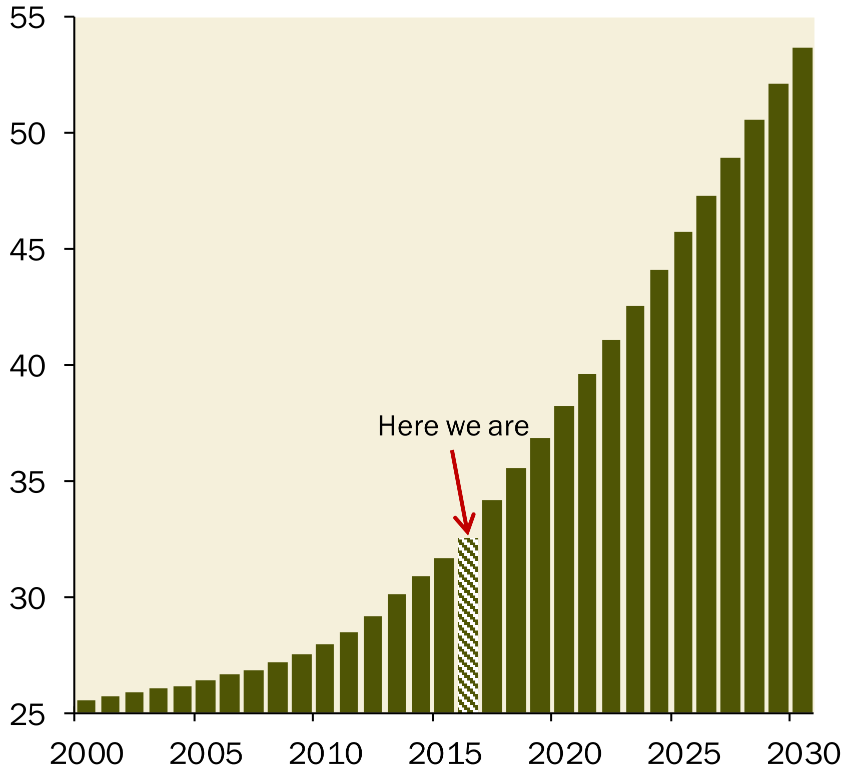
Notes:
*Source: Globe & Mail – November 16, 2016*

# THE FIRST OF THE BABY BOOMERS TURNED 70 THIS YEAR!

## United States: Adults Aged 70+

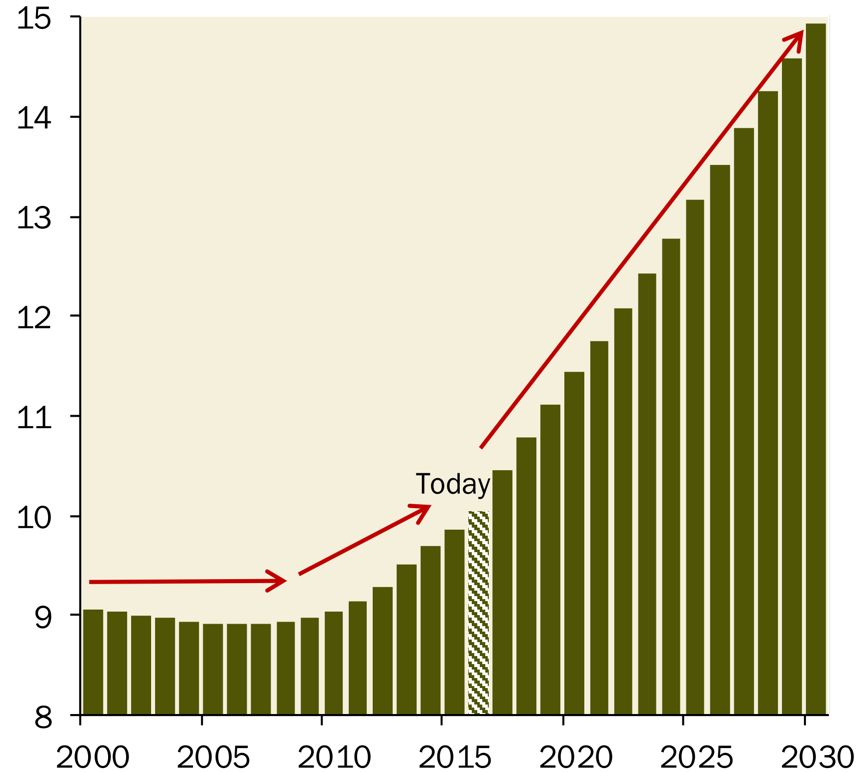
Population

(millions)




Share of the total population

(percent)




Notes:

*Source: Haver Analytics, Gluskin Sheff*

# A carefree life in retirement? Think again

## Ipsos/USA TODAY poll finds 78% say they will have to cut back their standard of living

Paul Davidson
@Pdavidsonusat
USA TODAY

Many Americans are downsizing the traditional vision of retirement as an endless vacation filled with weeks-long trips abroad, daily golf and carefree sailing adventures.

Seventy-eight percent of 45- to 65-year-olds somewhat or strongly agree they'll need to cut back on spending after they retire, according to an Ipsos/USA TODAY survey of 1,205 adults in mid-January.

The results partly reflect the less-than-robust state of their nest eggs: 27% of those surveyed have no retirement savings or investments, and another 22% have less than $100,000.

The diminished views of their golden years are also rooted in a more vigilant mind-set after the Great Recession pummeled home and stock prices and forced millions of unemployed Americans to take lower-level or part-time

LUIS ALVAREZ

**Retirement isn't always about boat excursions, golf and trips abroad. Many retirees plan to cut back their spending.**

jobs. Although U.S. payrolls and real estate and market values have more than recovered and hit record highs, many workers never reclaimed their former salary levels, endured sluggish wage growth or simply remain chastened by the downturn.

"I find that to be a (relief) that people are aware they won't have as much," says Sheryl Garrett, a certified financial planner and founder of Garrett Planning Network. "We have fewer ostriches with their heads in the sand."

Garrett, whose firm serves middle- and upper-middle-class clients, adds, "I've met almost no

▶ STORY CONTINUES ON 2B

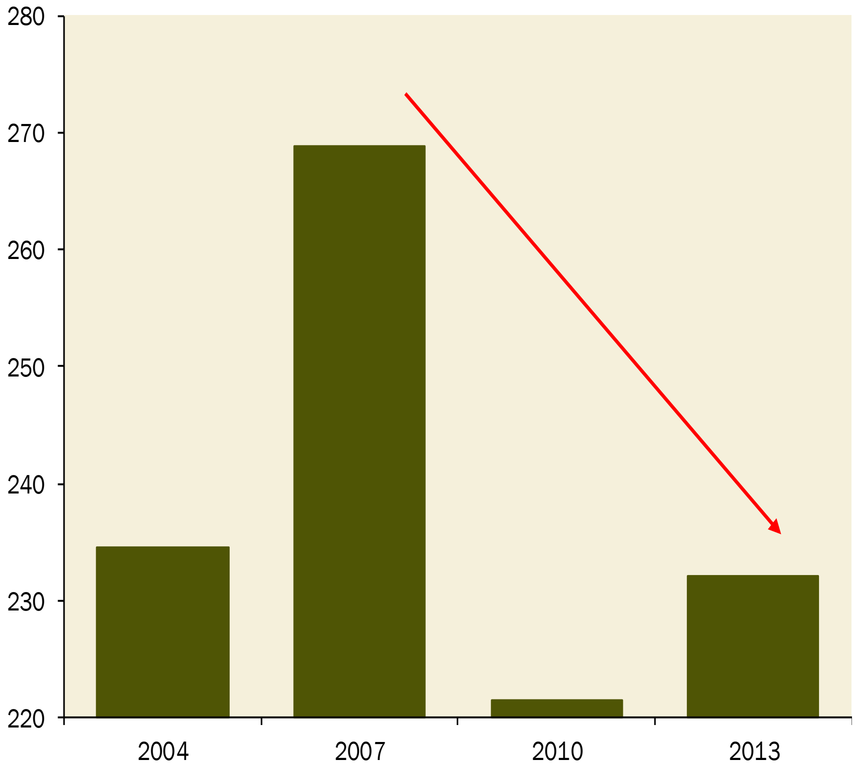
Notes:
*Source: USA Today (February 14, 2017)*

# NET WORTH STILL UNDERWATER; SAVINGS NEED TO BE REVISITED

## United States

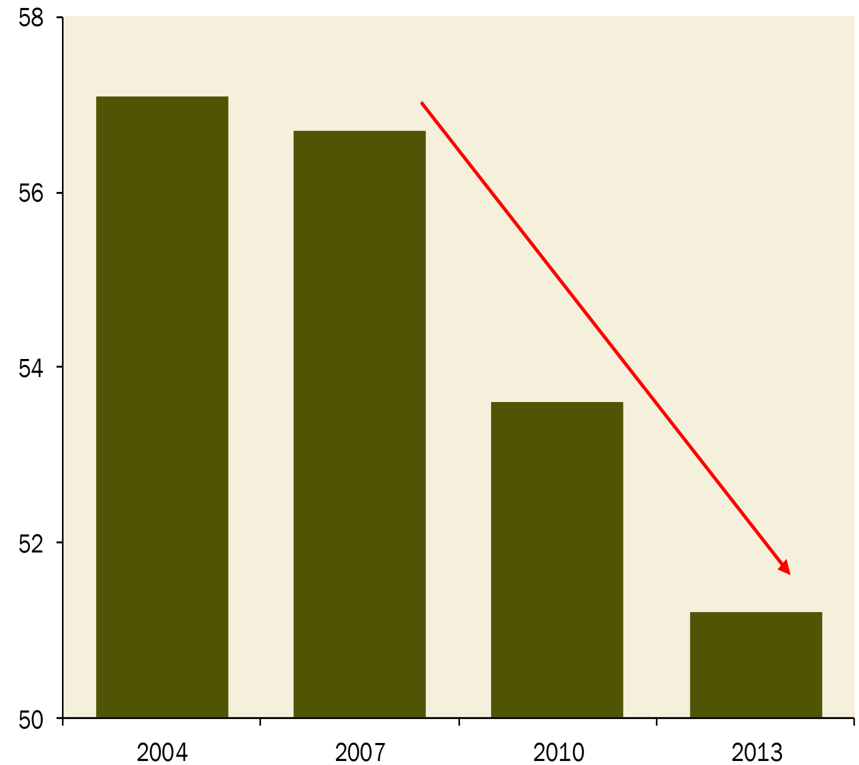
### Median Family Net Worth

(thousands of 2013$; family head is 65-74 years of age)




### Families Which Saved Income

(percent; family head is 65-74 years of age)




Notes:

*Source: Haver Analytics, Gluskin Sheff*

The New York Times

**LONGER LIVES, SMALLER SAFETY NETS**

# When to Save? Today

Traditional pensions have grown scarcer, life expectancies are generally greater and, for workers of all ages, planning for retirement is more important than ever.

By KERRY HANNON

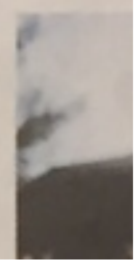
Five days a week, Kim Moske makes a peanut butter and jelly sandwich and brown-bags it to work. "I've been doing that for 30 years and saving what I would have spent eating my lunch out someplace," she said. "That's added up to a lot of money, and truthfully, I don't care what I eat for lunch."

money she received from her husband's life insurance policy.

"I will be fine," she said. "But I don't go it alone: I meet with a financial planner once a year to make sure I am on track, and I check retirement calculators all the time."

In many ways, she is an anomaly.

**'Work More, Save More or Both'**

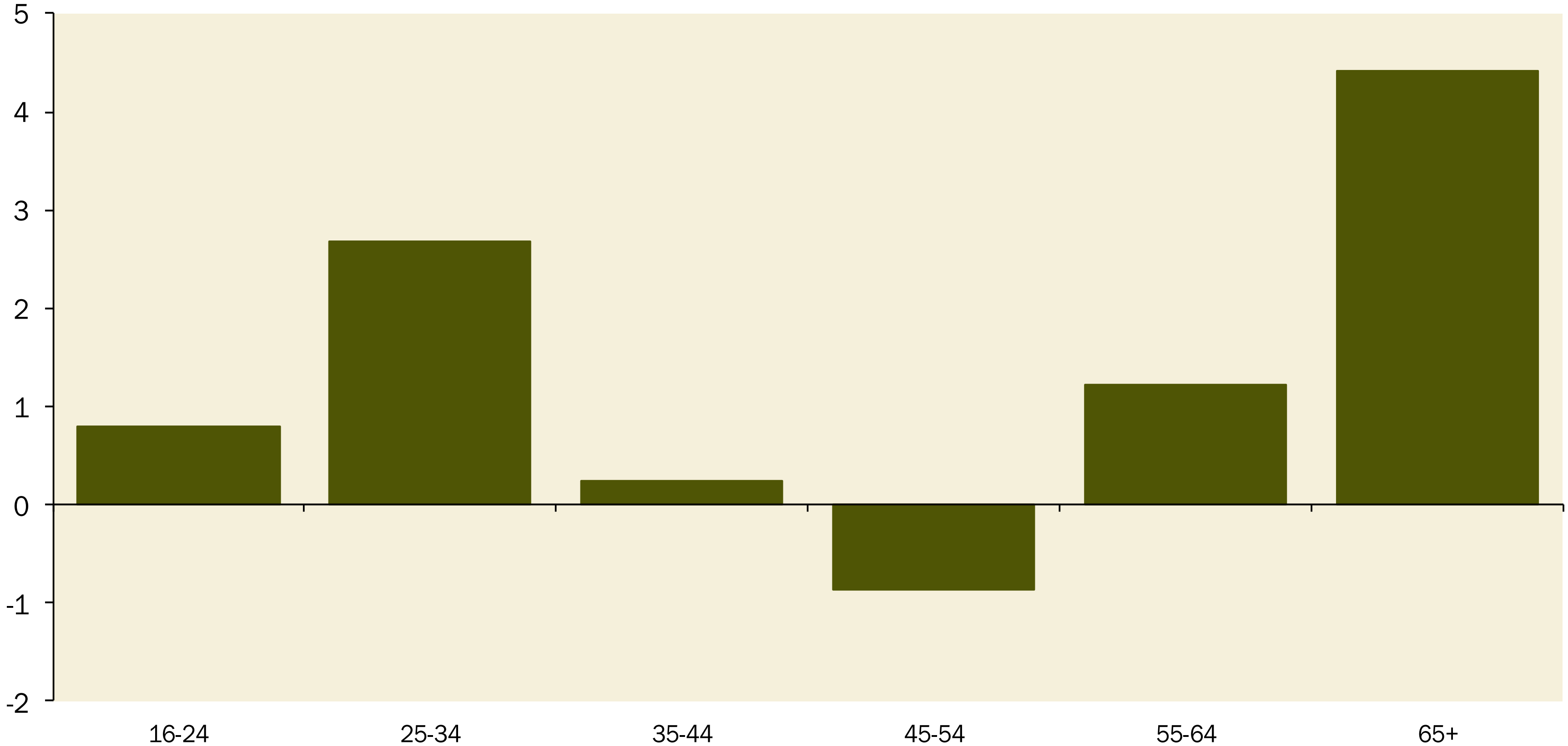


Notes:
*Source: The New York Times (March 5, 2017)*

# YOU'RE NOT GETTING OLDER, YOU'RE GETTING BETTER (AND NOT RETIRING)!

## United States: Employment By Age Cohort

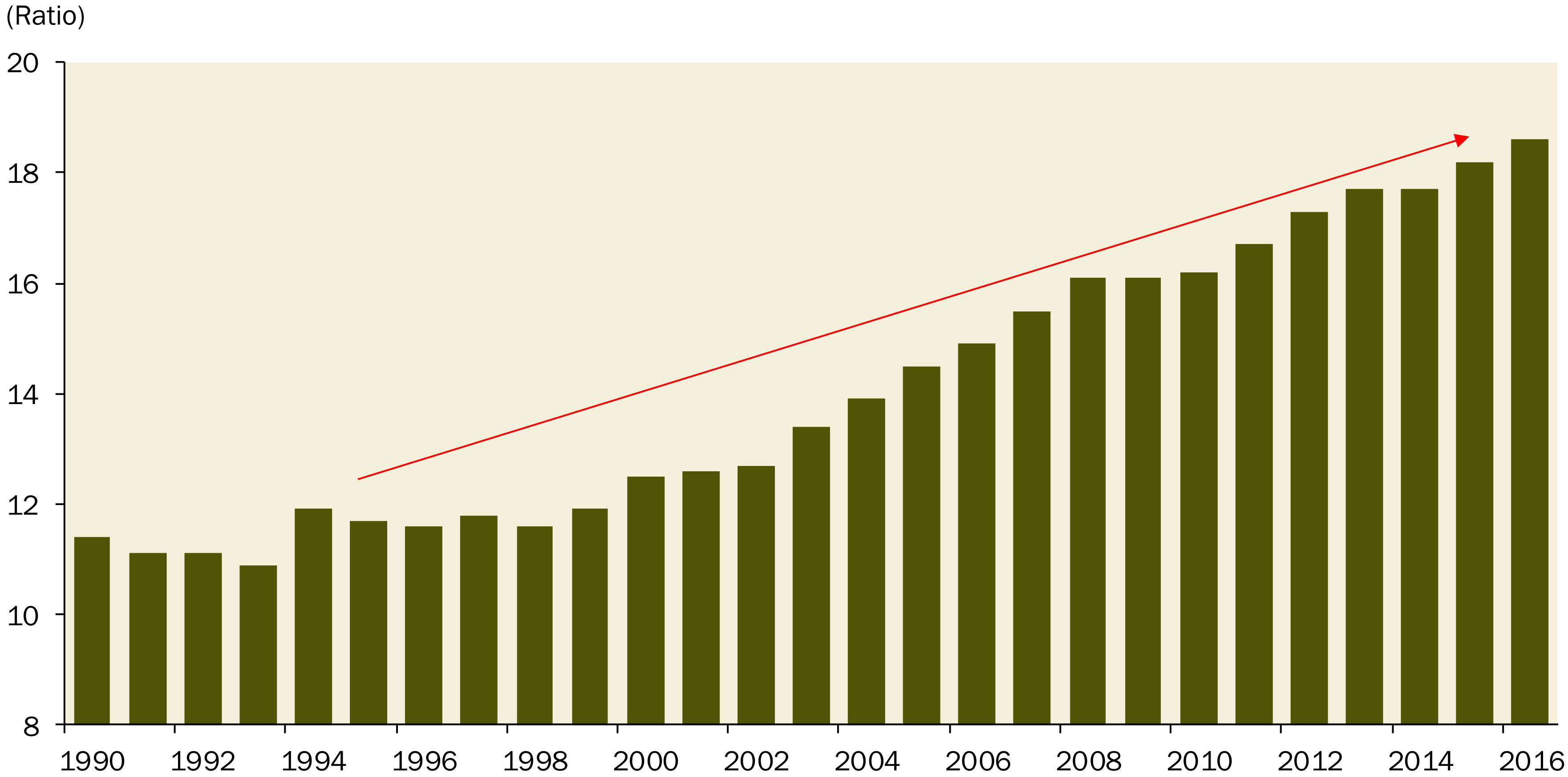
(year-over-year percent change)




Notes:
*Source: Haver Analytics, Gluskin Sheff*

# EMPLOYMENT RATE FOR THE OLDER BOOMERS IS BOOMING

## United States: Employment to Population Ratio: 65+ Years



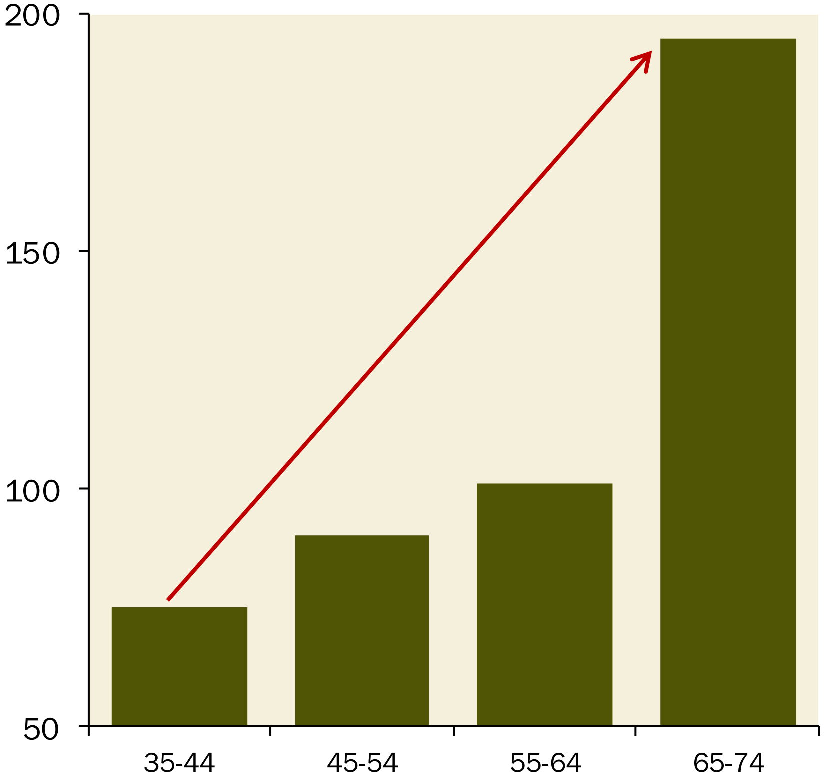

Notes:
*Source: Haver Analytics, Gluskin Sheff*

# BOOMERS BOND WITH BONDS

## United States

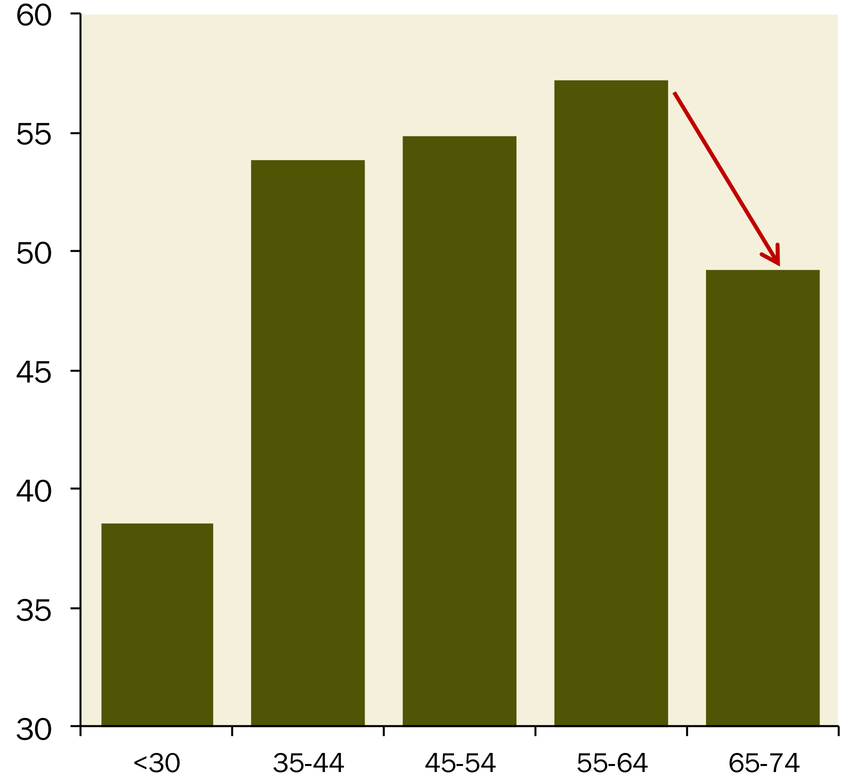
Bond Holdings By Age

(inflation-adjusted U.S. dollars, median)




Stock Ownership By Age

(percent share)

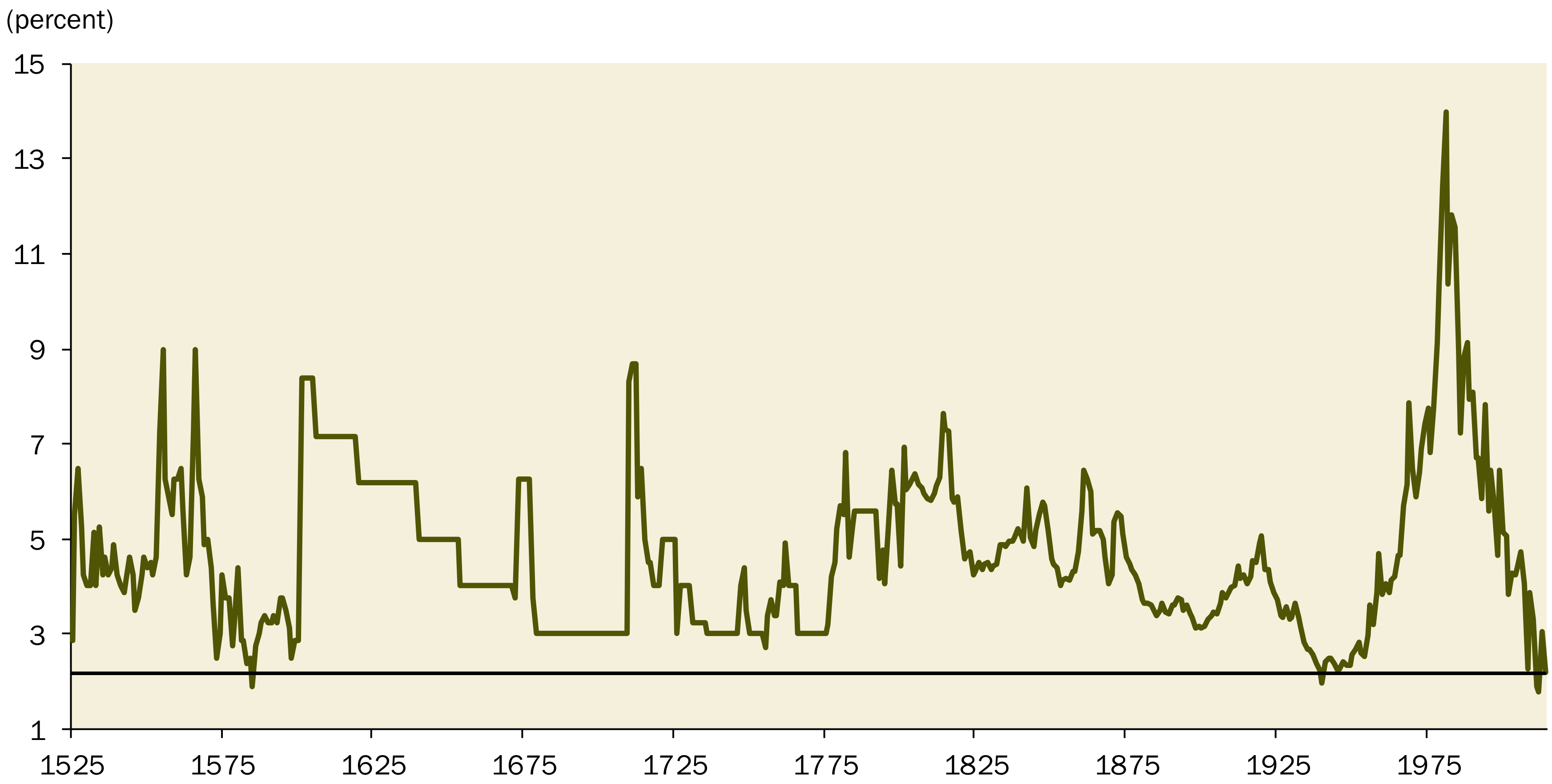



Notes:

*Source: Haver Analytics, Gluskin Sheff*

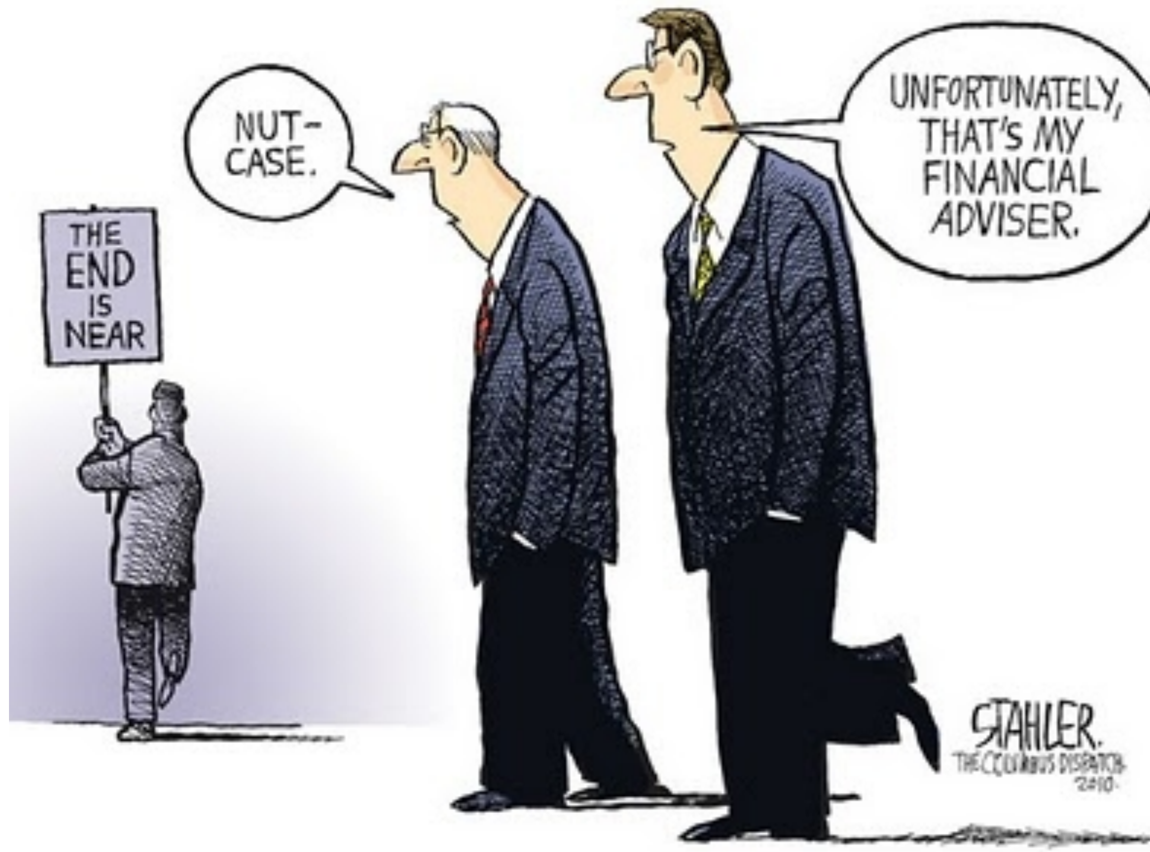
# BOND YIELDS AT HISTORICAL LOWS

## Historic Global Interest Rates




Notes:

*Source: Homer & Sylla's "A History of Interest Rates", Shiller's "Irrational Exuberance", Gluskin Sheff*


THE END IS NEAR
NUT-CASE.
UNFORTUNATELY, THAT'S MY FINANCIAL ADVISER.
STAHLER.
THE COLUMBUS DISPATCH 2010

# POLOZ COMES TO THE SAME CONCLUSION


***"But some of the forces leading to low interest rates will persist for a long time, so we need to prepare for lower for longer. Individuals need to plan for retirement with different assumptions about longevity, interest rates and growth.*** *Businesses need to make sure their expectations about investment returns reflect the current and likely future reality and reconfigure their investment plans accordingly. And policy-makers need to make sure they are working to increase the economy's potential output and reduce uncertainty—whether economic, political or regulatory—that may be holding back investment."*

Stephen Poloz
September 20, 2016

Notes:
*Source: Bank of Canada, Living with Lower for Longer, September 20, 2016*

# FINANCIAL TIMES

INSIGHT

Anne Richards

## Demographic trends require a rethink of our economic model

Capital markets have experienced a shift in sentiment over the course of the past couple of months. Fears over secular stagnation and deflation have dissipated and investors have been willing to embrace risk assets again. Many economists have revised upwards their estimates of global economic growth, starting first with the US, where the fiscal reigns are expected to be loosened in order to meet some of President Donald Trump's election promises to voters.

While there is clear short-term momentum in economies like the US and UK, where unemployment rates are low and consumption is robust, there remain secular themes that investors should be aware of when they formulate long-term investment decisions. One of these themes is a shift in the focus of economic policy, driven by demographics. Unlike economic variables, demographic trends are predictable and greatly affect all of us.

The global economy has now passed an important tipping point. For the first time in recorded history, children under the age of five no longer outnumber those aged 65 and above. We have arrived at "peak child".

*"There remain secular themes that investors should be aware of when they formulate long-term investment decisions. <u>One of these themes is a shift in the focus of economic policy, driven by demographics.</u> Unlike economic variables, demographic trends are predictable and greatly affect all of us."*

*"The changing demographic trend that the developed and parts of the emerging world are now experiencing will increasingly act as a headwind to global GDP."*

*"<u>Fixed income and dividend-paying equities will probably benefit in this environment</u> given both asset classes provide a regular income for retirees to use."*

Notes:

*Source: Financial Times (February 7, 2017)*

# THE WALL STREET JOURNAL.

## Brave New World for Bonds—and Stocks

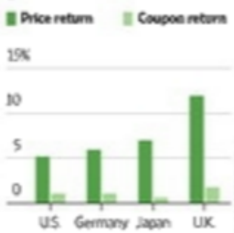
"Speculate to accumulate" hardly counts as an investment strategy. But in a world of low and negative yields, it has been driving the bond market. That has consequences for all investors.

Bonds are churning out returns many equity investors would envy, led by U.K. gilts, up a startling 13.7% year to date. Remarkably, more than 80% of returns on U.S., German, Japanese and U.K. bonds are attributable to gains in price, Barclays index data show. Bondholders are no longer patient coupon-clippers accruing steady income.

In fact, there is hardly any income to come by. In the most extreme case, Switzerland, every government bond in issue, including a security maturing in 2064, sports a negative yield. That means a buyer of that bond today pays just over 200 Swiss francs ($203) to receive future interest payments totaling 96 francs and repayment of 100 francs in principal in 48 years' time.

**Capital Trade**

Year-to-date returns on government bonds




Source: Barclays
THE WALL STREET JOURNAL.


Haruhiko Kuroda of the Bank of Japan, Mario Draghi of the European Central Bank and Janet Yellen of the Federal Reserve

Bond prices may go higher yet. But cashing in those gains will mean sellers need to find more willing buyers. Central banks engaging in quantitative easing are the answer for now: A buyer that can print money and whose only performance yardstick is the amount of bonds bought is clearly a distorting force.

Importantly, low yields are proving persistent. In the past five years, 10-year U.S. Treasury yields have been below 2% for 40% of the time; 10-year German yields have been below 1% for nearly as long. This is allowing more low-coupon bonds to be issued. The bond-income drought is becoming embedded and reinforced.

That dearth of income and the search for yield is changing incentives for other investors and asset classes. Income is a valuable attribute. For equities, that means dividends: In the U.K., the FTSE 100 dividend yield of 4.2% now towers above the 10-year gilt yield of 0.8%. Stocks nowadays look more like bonds than ever.

Tellingly, strategists at **Citigroup** have created a basket of stocks for what they call "bond refugees"—investors who want yield but without the big swings in prices associated with equities. To do so, they looked for stocks with high dividend yields, but that fall by relatively less in price when markets take a tumble. That produced a list of large, defensive, global stocks, including PepsiCo, Nestlé, **Roche** and McDonald's. The strategy produced a total return of 8.2% in the first half, Citi notes, and suffered less in February's selloff than the wider markets.

Low and negative yields also change the perception of assets that have no cash flows. Gold's traditional investment flaw has been precisely this; the same goes for physical cash.

Buying equities for income always has been a strong idea. This strategy has simply become turbocharged. But buying bonds for speculative capital gains looks far more dangerous. Traditional assumptions about asset classes are being turned on their heads. That is a worrying development.

—*Richard Barley*

Buying equities for income always has been a strong idea. This strategy has simply become turbocharged. But buying bonds for speculative capital gains looks far more dangerous.

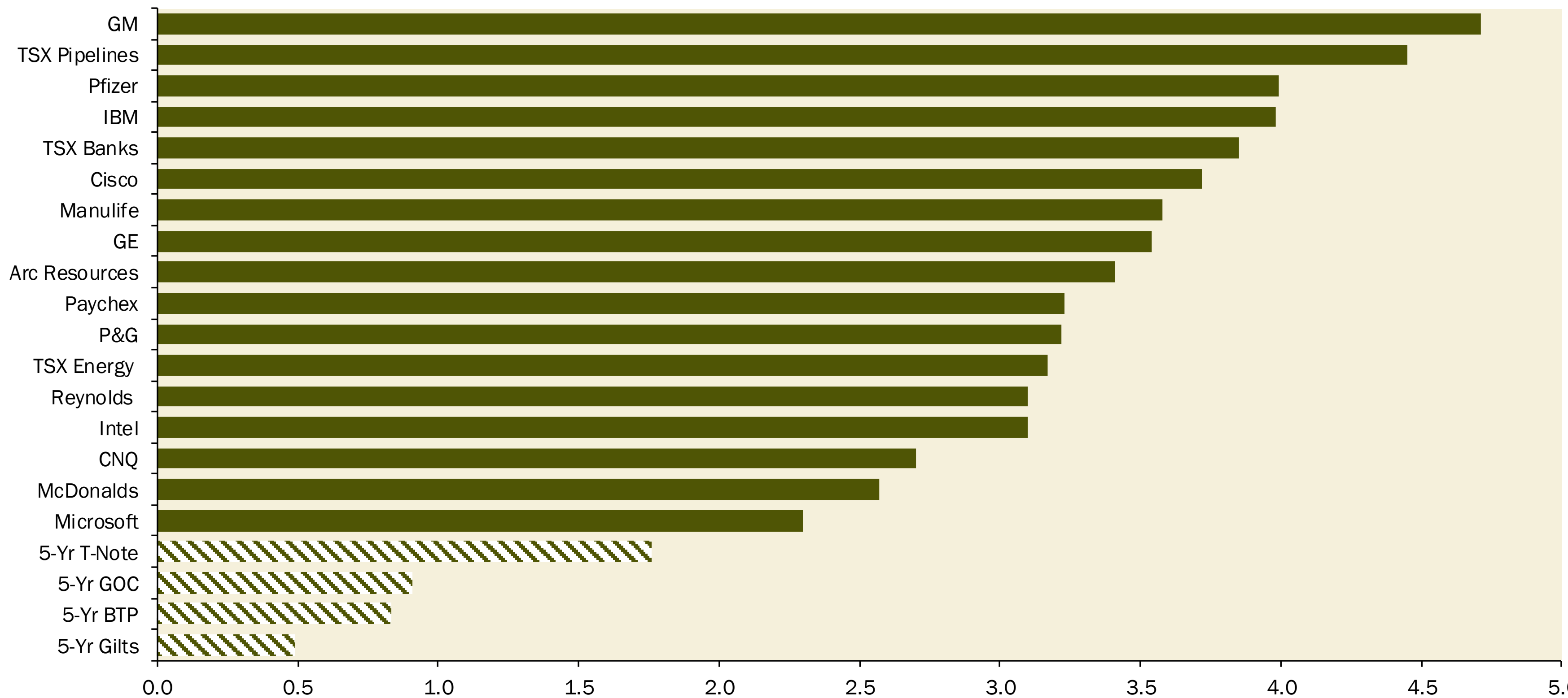
Traditional assumptions about asset classes are being turned on their heads.

Notes:
*Source: Wall Street Journal – July 7, 2016*

# A YIELD-STARVED WORLD

## Bond Yields & Dividend Yields

(percent)

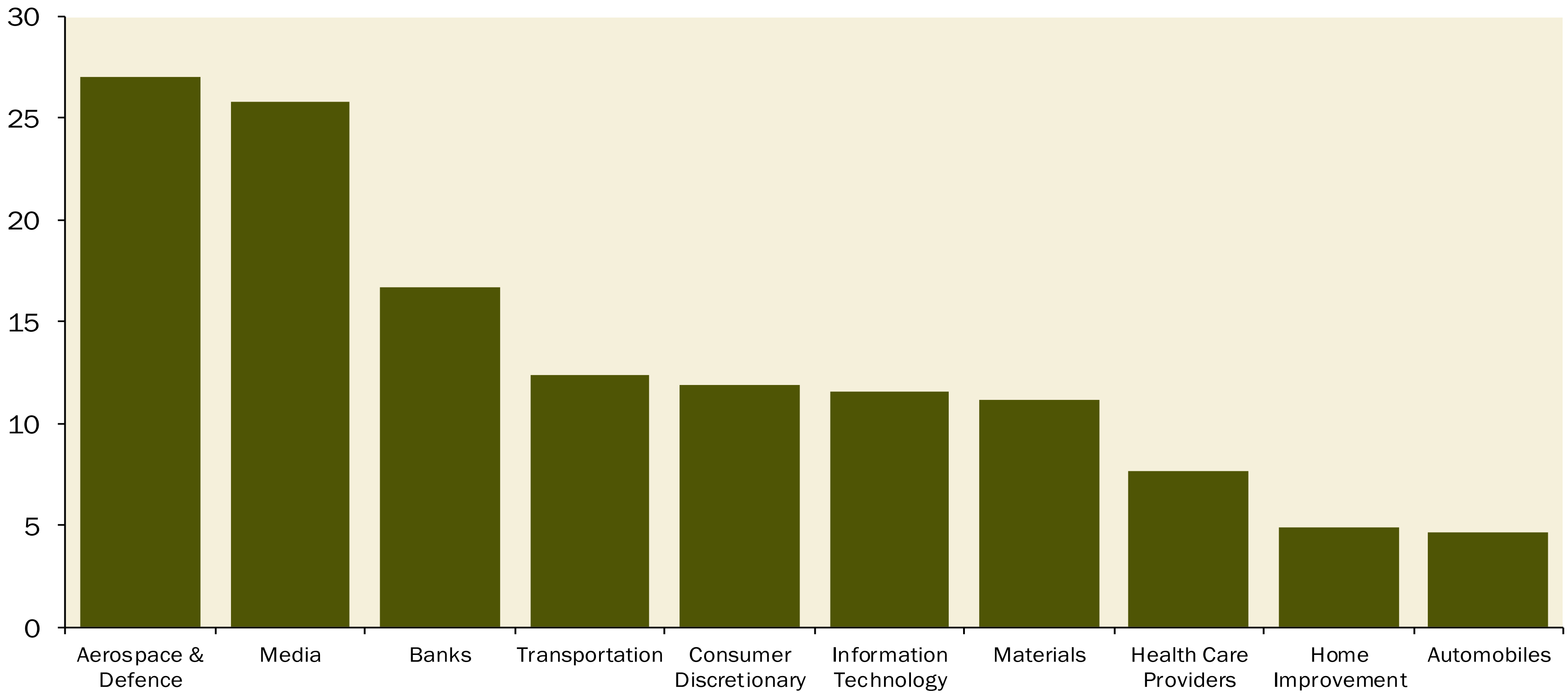



Notes:
*As of May 18, 2017*
*Source: Bloomberg, Gluskin Sheff*

# IT'S NOT JUST THE DIVIDEND YIELD BUT THE GROWTH THAT MATTERS

## S&P 500: Dividend Growth

(4Q 2016; year-over-year % change)




Notes:
*Source: Haver Analytics, Gluskin Sheff*

# DISCLAIMER