

# A Decade of Crisis.. and Beyond

What's ahead for our lives, economy, and nation.

by Neil Howe



**ASK THIS QUESTION:**

**What Will America (and the World)  
Look Like and Feel Like  
in 20 Years... say by 2037?**

# From One Era to Another

*In the mid-1920s, who  
could have predicted...*

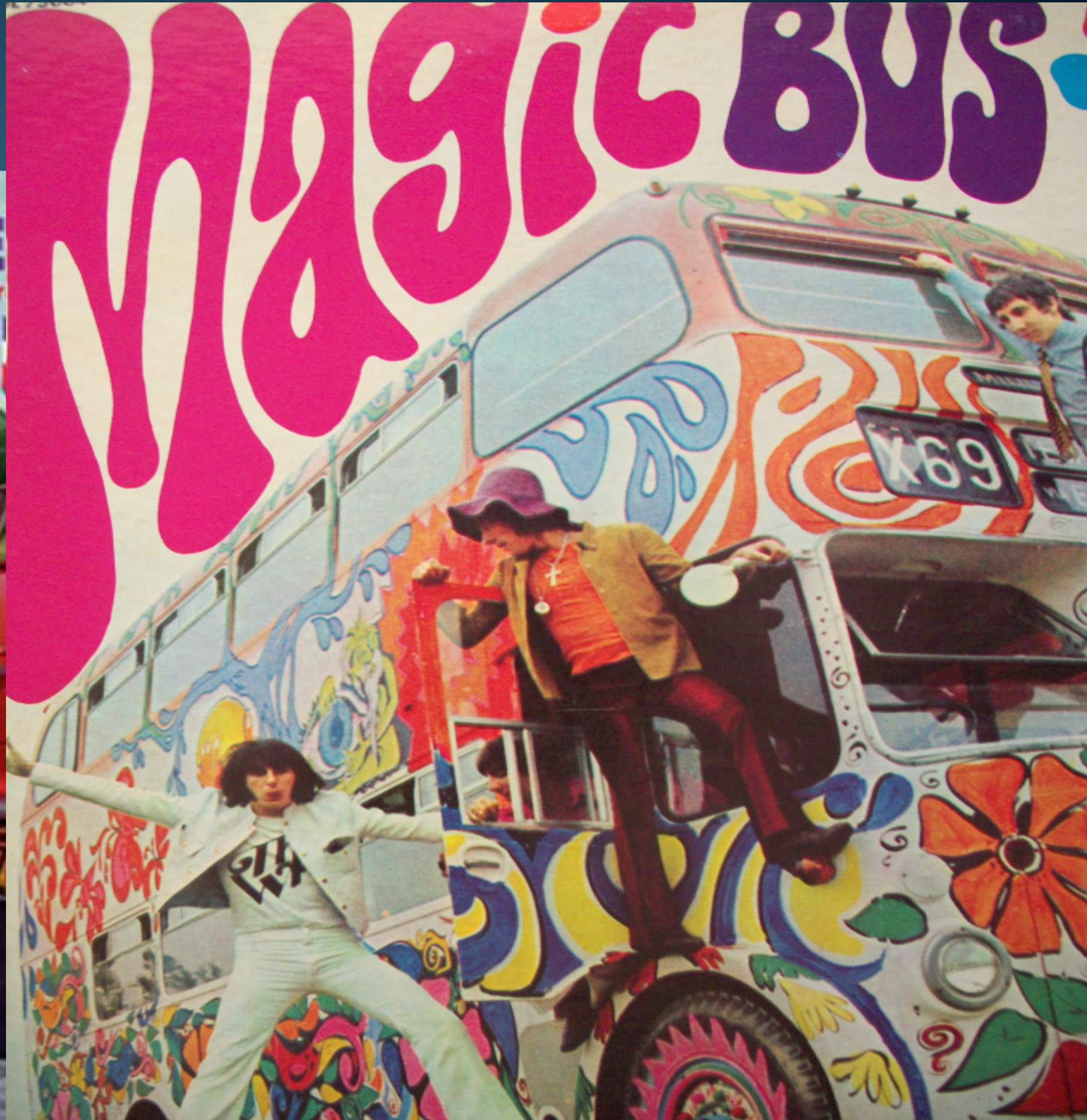


*...the mid-1940s?*

# From One Era to Another

*In the mid-1950s, who  
could have predicted...*

*...the mid-1970s?*





FRANCIS FUKUYAMA

THE  
END OF HISTORY  
AND THE LAST  
MAN

'A FASCINATING HISTORICAL AND PHILOSOPHICAL SETTING  
FOR THE TWENTY-FIRST CENTURY' - TOM WOLFE



*In the mid-1990s,  
who could have  
predicted...*

*...our world  
today?*

"A brief and wonderfully argued volume . . . that has a message for  
Americans of all political stripes." —*The New York Times Book Review*

THE  
RETURN OF HISTORY  
AND THE  
END OF DREAMS



ROBERT KAGAN  
AUTHOR OF  
OF PARADISE AND POWER

# Recent U.S. Generations

Generation	(Born)	Childhood Era	Coming-of-Age
G.I.	(1901-1924)	World War I Roaring '20s	Great Depression World War II
Silent	(1925-1942)	Great Depression World War II	American High
Boom	(1943-1960)	American High	Consciousness Revolution
Gen X	(1961-1981)	Consciousness Revolution	Culture Wars '90s Boom
Millennial	(1982-2004)	Culture Wars '90s Boom	Financial Crisis War on Terror (& More?)
Homeland	(2005-2026)	Financial Crisis War on Terror (& More?)	Post-Crisis Era ?



## 1929-1938 and 2008-2017: Parallels?

Gen

### ECONOMIC

G.I. played out in shadow of global financial crash; slow & disappointing economic growth; chronic underemployment of labor & capital; tepid investment; deflation fears; growing inequality; powerless central banks; “secular stagnation”; falling RROR

Boor

### GEOPOLITICAL

Gen rise of isolationism, nationalism, right-wing populism; waning influence of great-power alliances or agreements; new appeal of authoritarian political models

Mille

### SOCIAL/CULTURAL

Hor falling rates of fertility and homeownership; rise of multi-generational households; spread of localism and community identification; rejection of established political parties and elites; decline in youth violence; blanding of youth culture

(ore?)

# Recent U.S. Generations

Gen

G.I.

Silen

Boor

Gen

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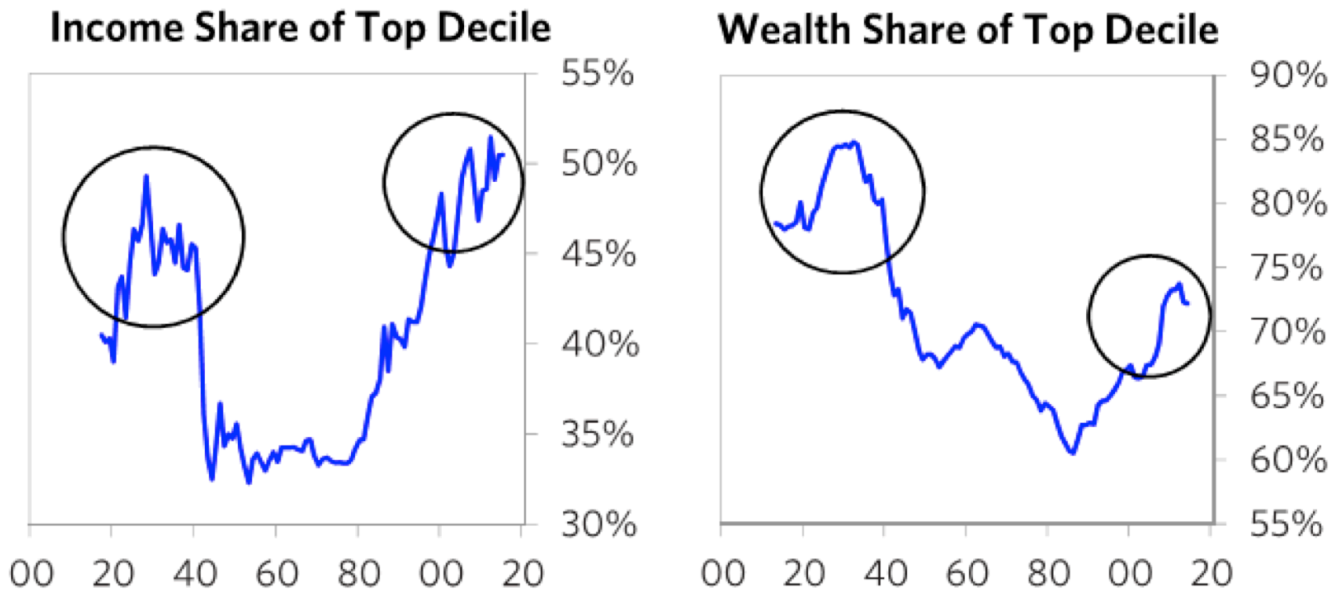
pow

SO

fall

spr

parties and elites; decline in youth violence; blanding of youth culture



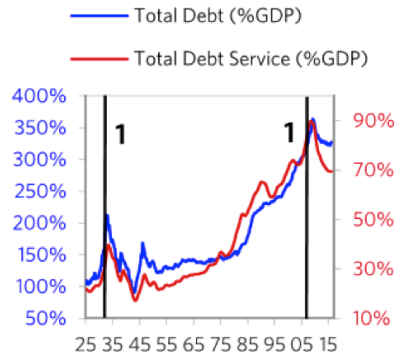
From "Populism: The Phenomenon" by Ray Dalio et al. (Bridgewater, 2017)

lore?)

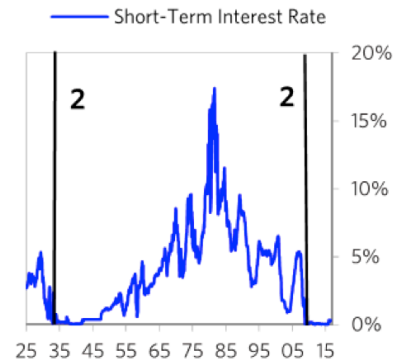


# Recent U.S. Generations

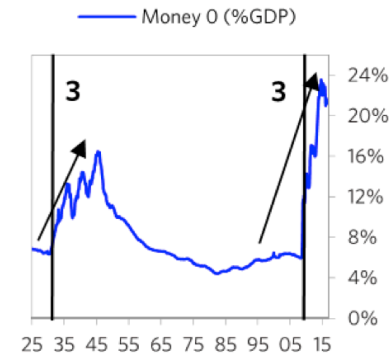
1. Debt Limits Reached at **Bubble Top**



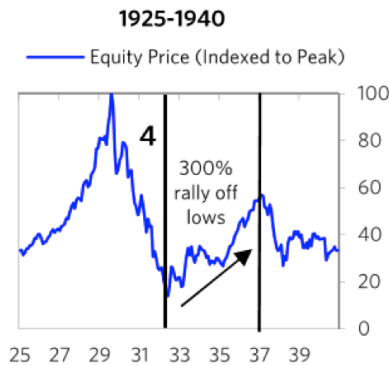
2. Interest Rates Hit Zero amid **Depression**



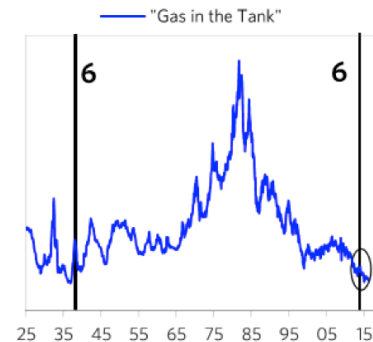
3. Money Printing Starts, Kicking off a **Beautiful Deleveraging**



4. The Stock Market and "Risky Assets" **Rally**, Helping Produce...  
5. **Cyclical Recovery** in the Economy



6. The Central Bank **Tightens a Bit**,  
Resulting in a Self-Reinforcing  
Downturn, with Little "Gas in the Tank"



From "Populism: The Phenomenon" by Ray Dalio et al. (Bridgewater, 2017)

Gen  
G.I.  
Silent  
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Gen  
Mille  
Hon

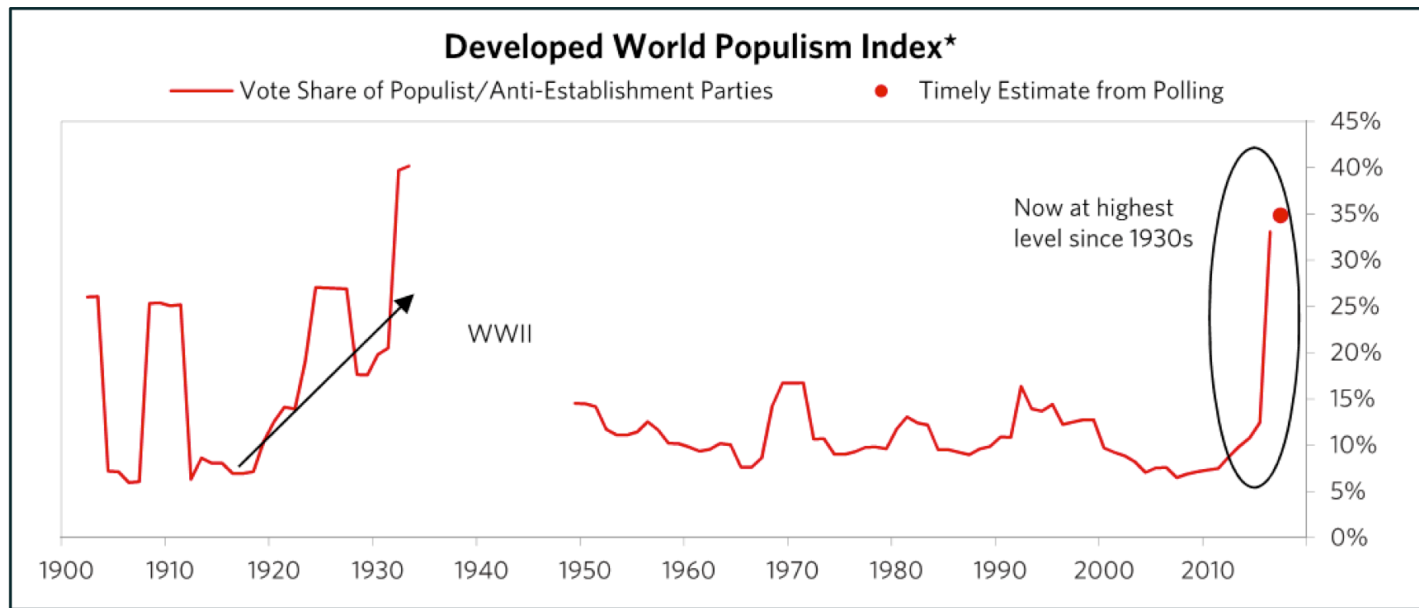
ECO  
playe  
grow  
fears  
RRO

GEO  
rise o  
power

SOC  
falling  
spread  
partie

ore?)

# Recent U.S. Generations



From "Populism: The Phenomenon" by Ray Dalio et al. (Bridgewater, 2017)

parties and elites; decline in youth violence; blanding of youth culture

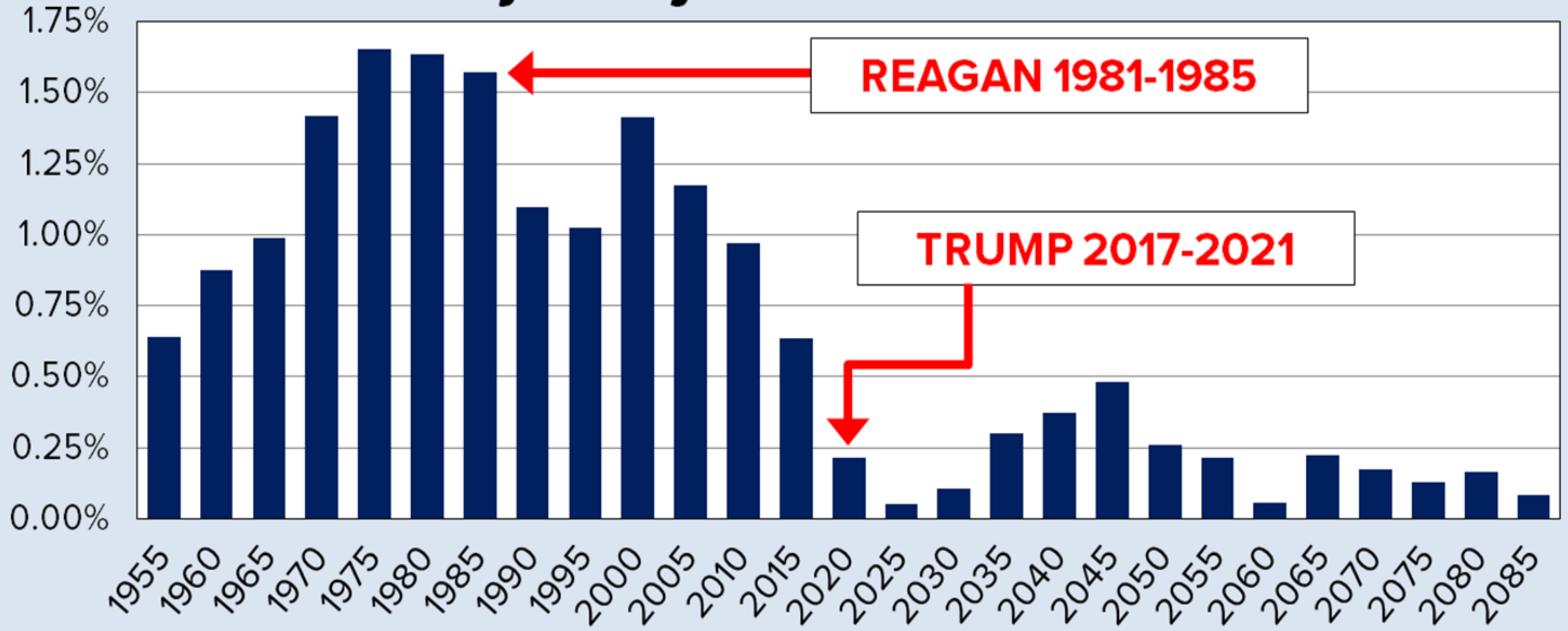
lore?)

# Recent U.S. Generations

Generation	Birth Years	Coming of Age Era	TURNING
Puritan	1588-1617	The Puritan Awakening	2
Cavalier	1618-1647	Reaction and Restoration	3
Glorious	1648-1673	Glorious Revolution and War of Spanish Succession	4 ←
Enlightenment	1674-1700	Augustan Age of Empire	1
Awakening	1701-1723	The (First) Great Awakening	2
Liberty	1724-1741	French & Indian Wars	3
Republican	1742-1766	American Revolution	4 ←
Compromise	1767-1791	Era of Good Feelings	1
Transcendental	1792-1821	The (Second) Transcendental Awakening	2
Gilded (1)	1822-1842	Mexican War and Sectionalism	3
Gilded (2)	1822-1842	U.S. Civil War	4 ←
4Progressive	1843-1859	Reconstruction and Gilded Age	1
Missionary	1860-1882	The Third Great Awakening	2
Lost	1883-1900	World War I and Roaring 20s	3
G.I.	1901-1924	Great Depression and World War II	4 ←
Silent	1925-1942	The American High	1
Boom	1943-1960	The Consciousness Revolution	2
Gen X	1961-1981	Culture Wars and 90s Boom	3
Millennial	1982-2004	GFC and Geopolitical Disintegration (still unfolding)	4 ←
Homeland	2005-202?	yet to come, starting in 2030s	1

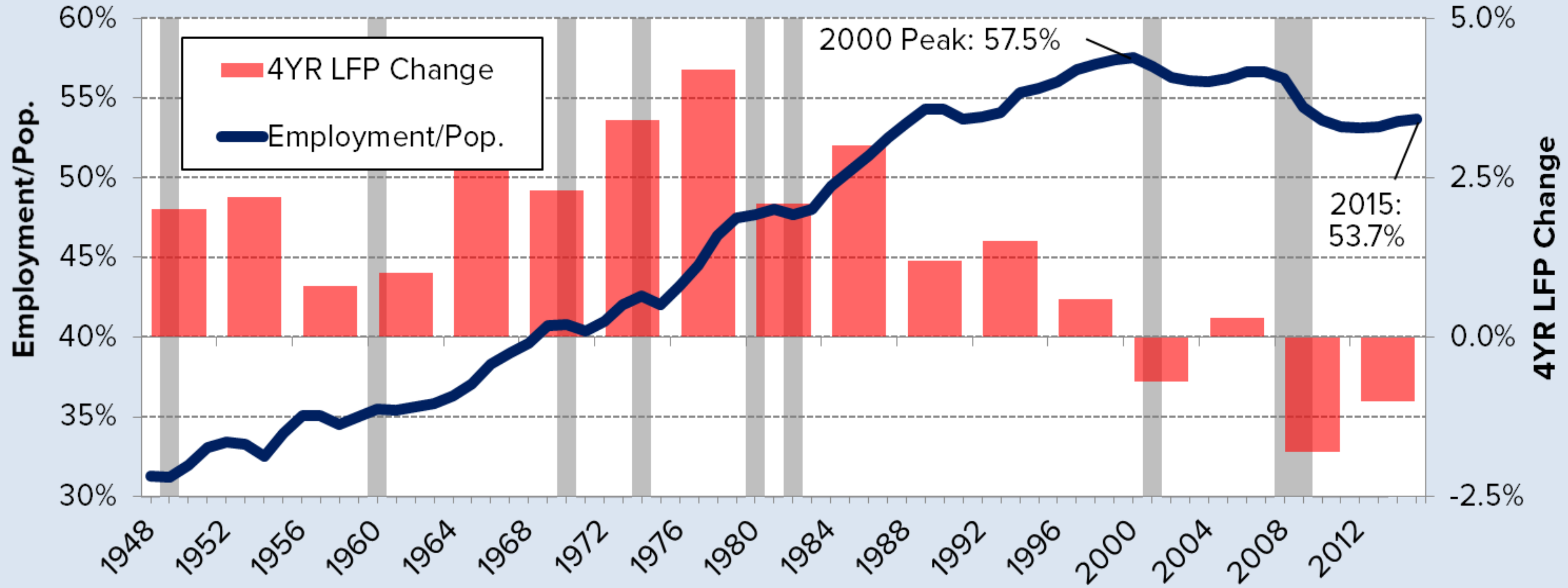
- ❑ **Demographic Stagnation** (*fertility, LFP, immigration*)
- ❑ **Productivity Deceleration** (*savings, infrastructure, business dynamism*)
- ❑ **Poor GDP Performance** (*and low real rates of return*)
- ❑ **Liability Overhang** (*private & public debt, entitlements*)
- ❑ **Populist/Authoritarian Backlash** (*and communitarian revival*)
- ❑ **Global Anarchy** (*and rise of nationalism*)
- ❑ **Lofty Valuations** (*i.e., crash vulnerability*)

## U.S. Population Age 20-64, 5YR CAGR, History & Projections: 1950 to 2085



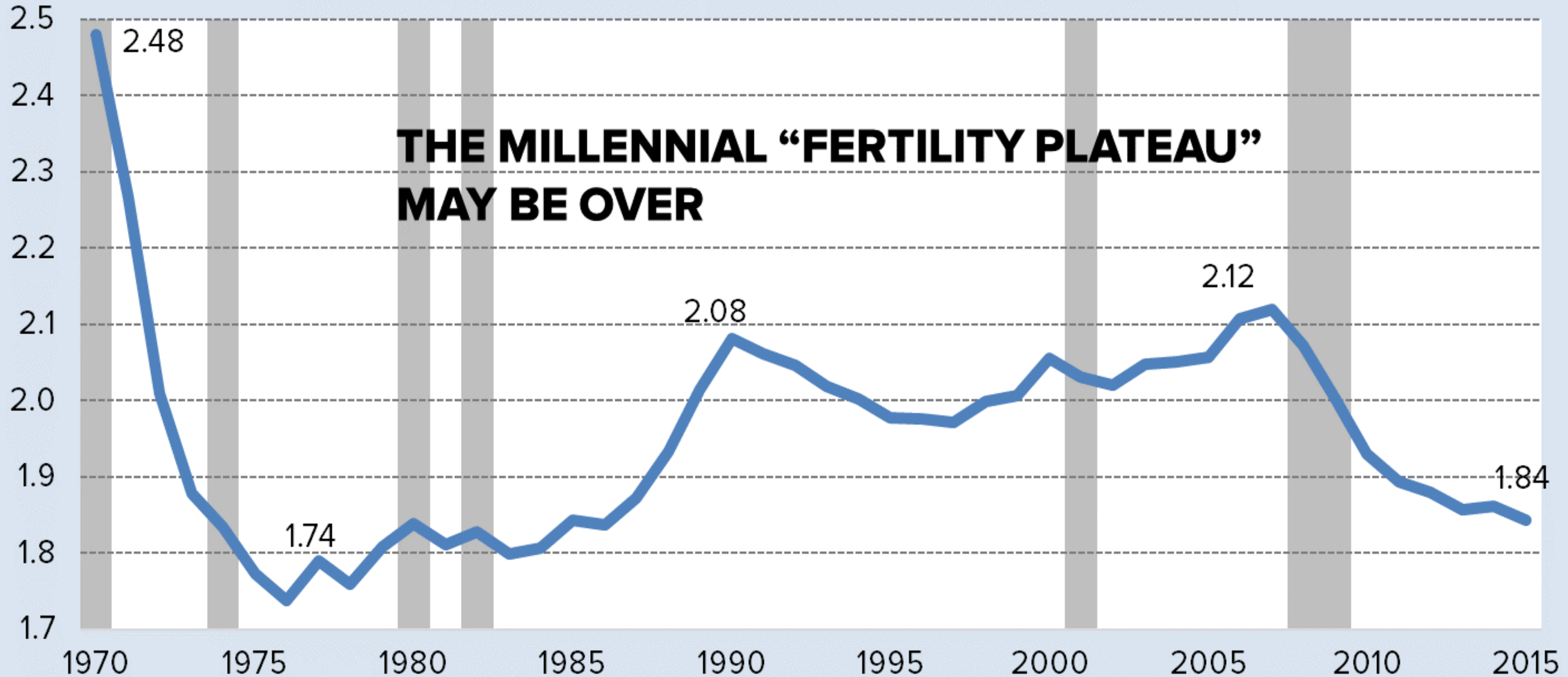
Source: UN Population Division (2016)

## U.S. Women Ages 16+: Employment/Pop. Ratio and 4YR Change in LFP Rate (1948-2015)

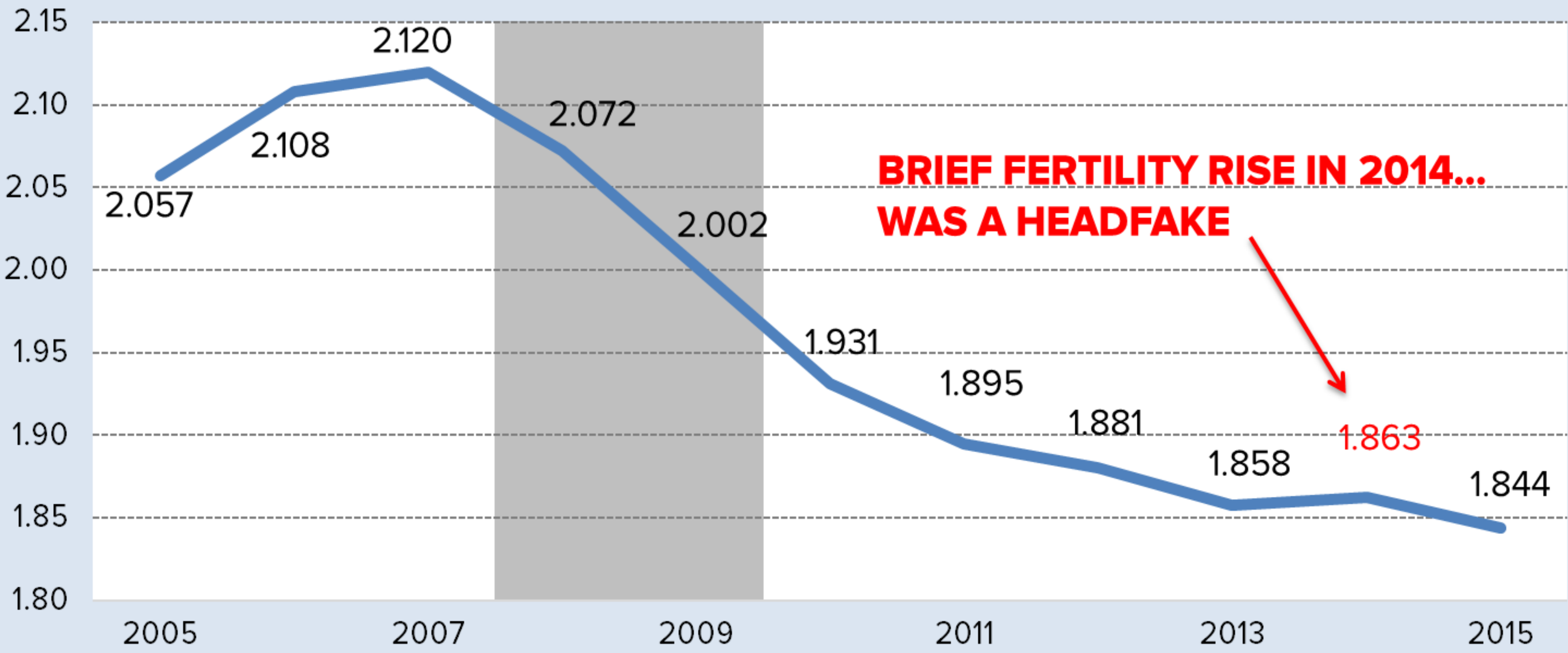


Source: U.S. Bureau of Labor Statistics (2016)

## Total Fertility Rate (1970-2015)



## Total Fertility Rate (2005-2015)

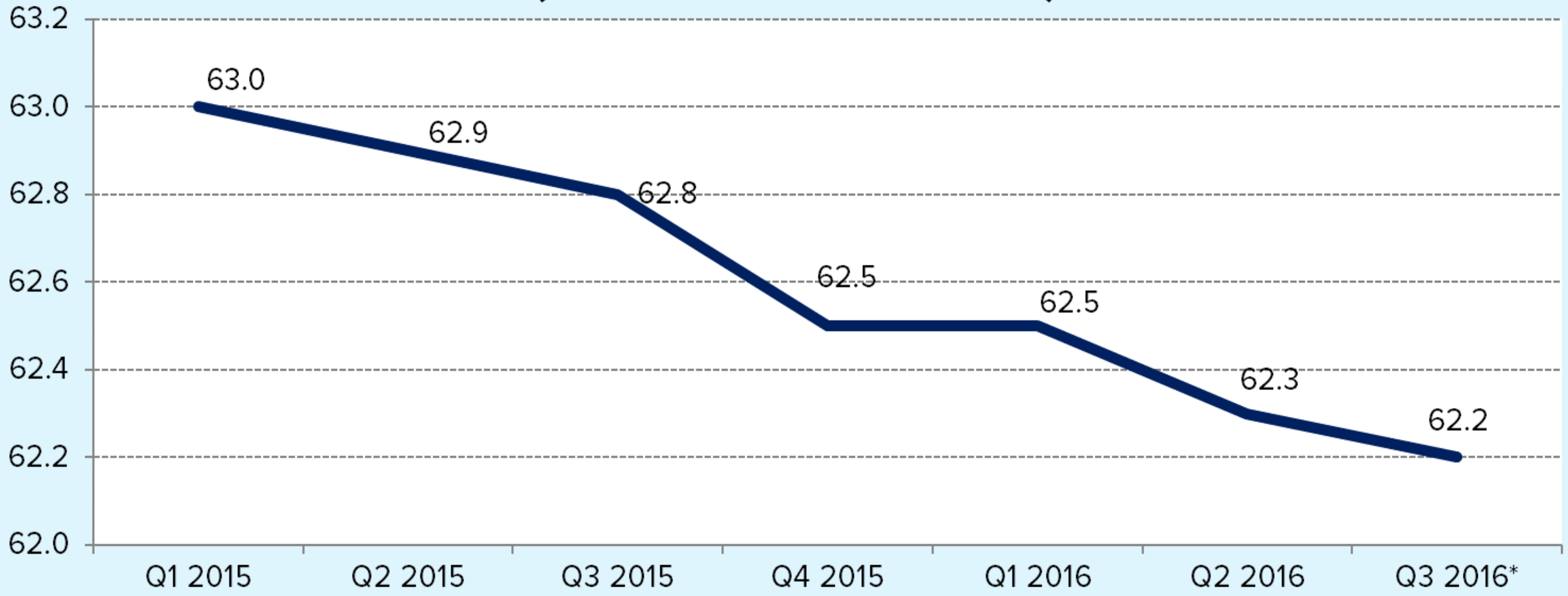


Source: CDC (2017)

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## 12 Month-Ending General Fertility Rate (Q1 2015 to Q3 2016)



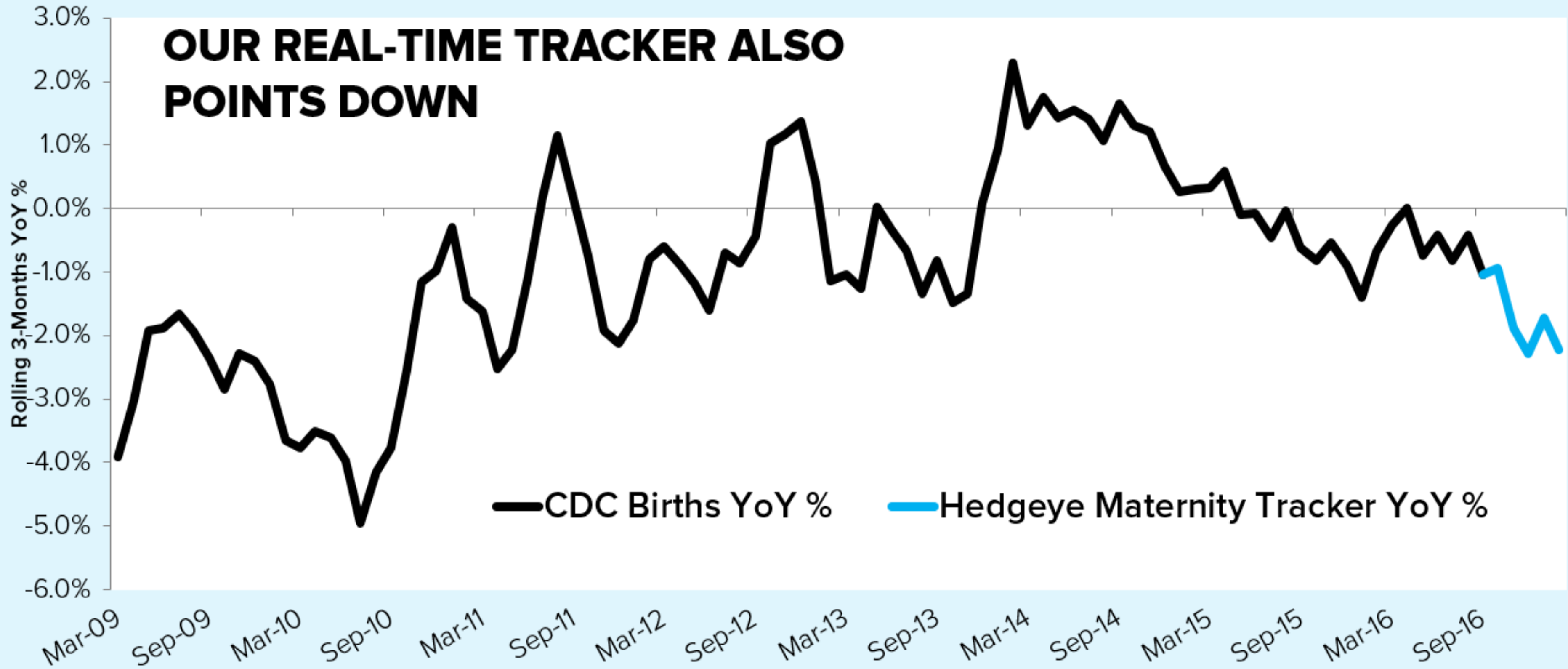
Source: CDC (2017)

\* Provisional figures for Q3 2016.

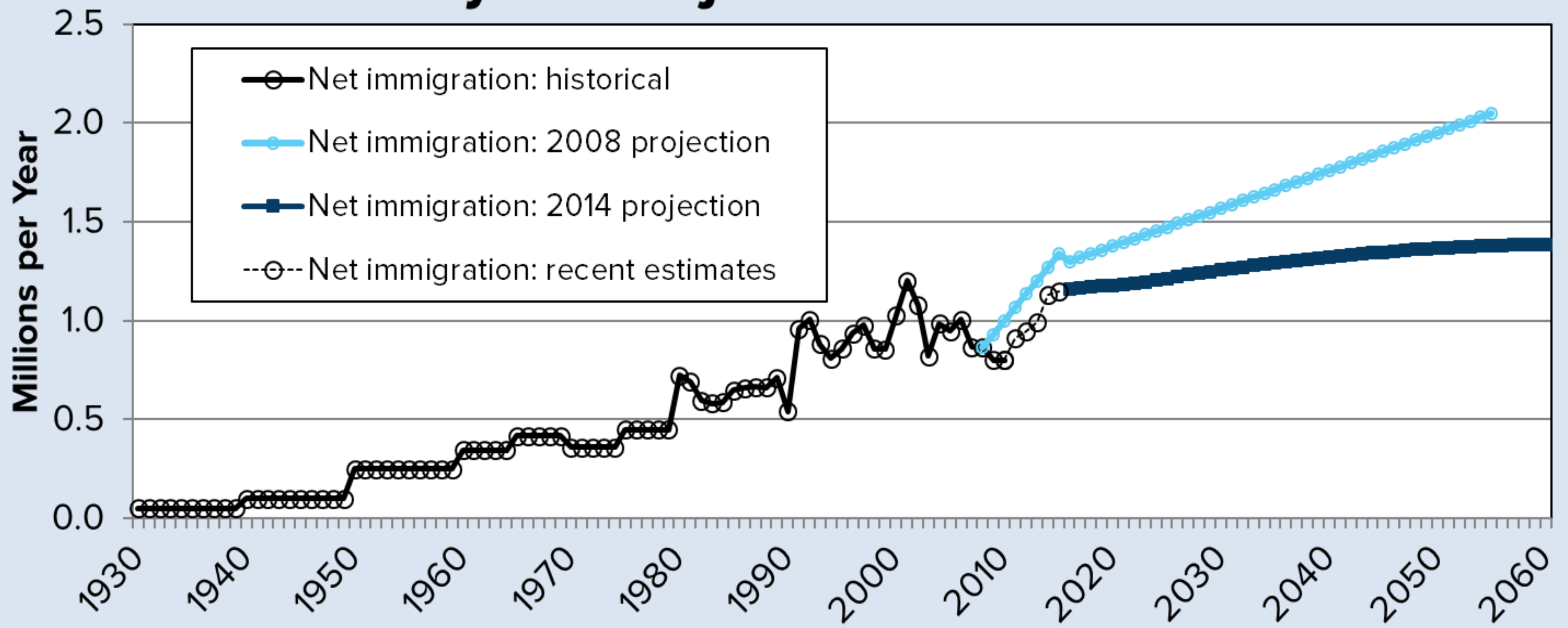
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## Hedgeye Healthcare Maternity Tracker Through 2/1/2017

**OUR REAL-TIME TRACKER ALSO POINTS DOWN**

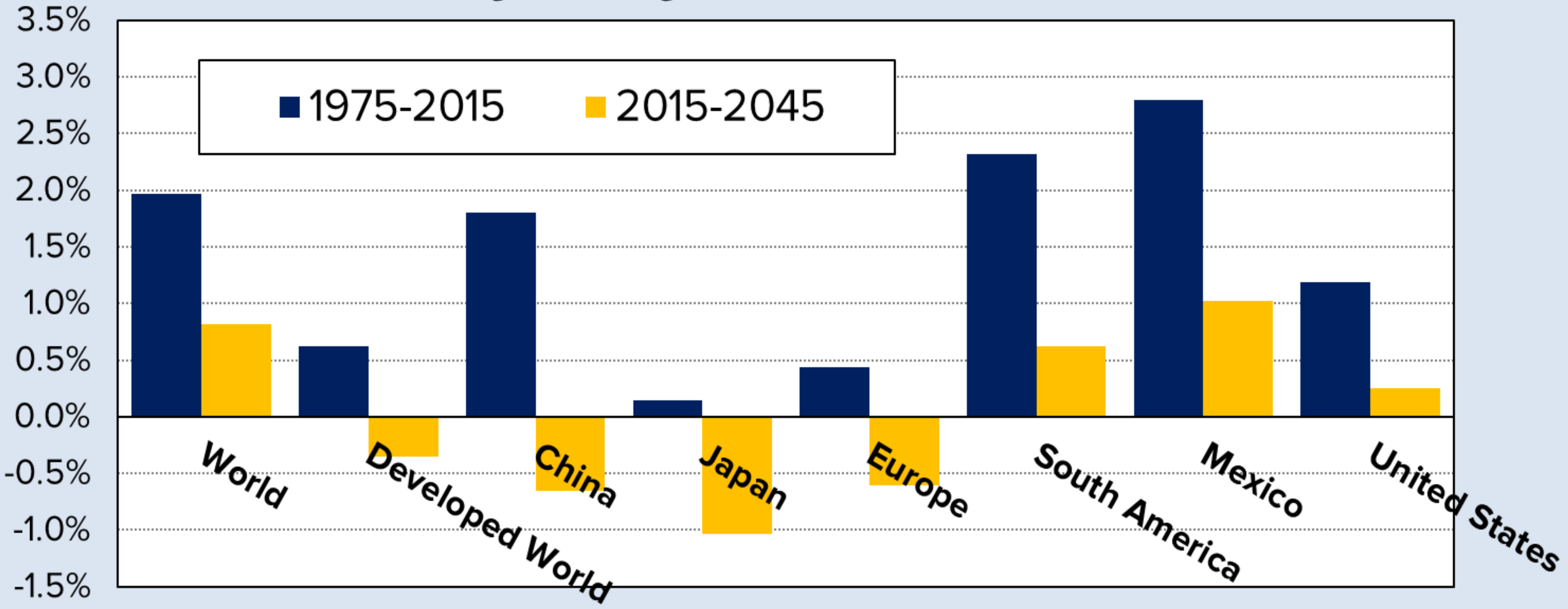


## Annual Net Immigration, History and Projections: 1930 to 2060



Source: U.S. Census (2008-2016)

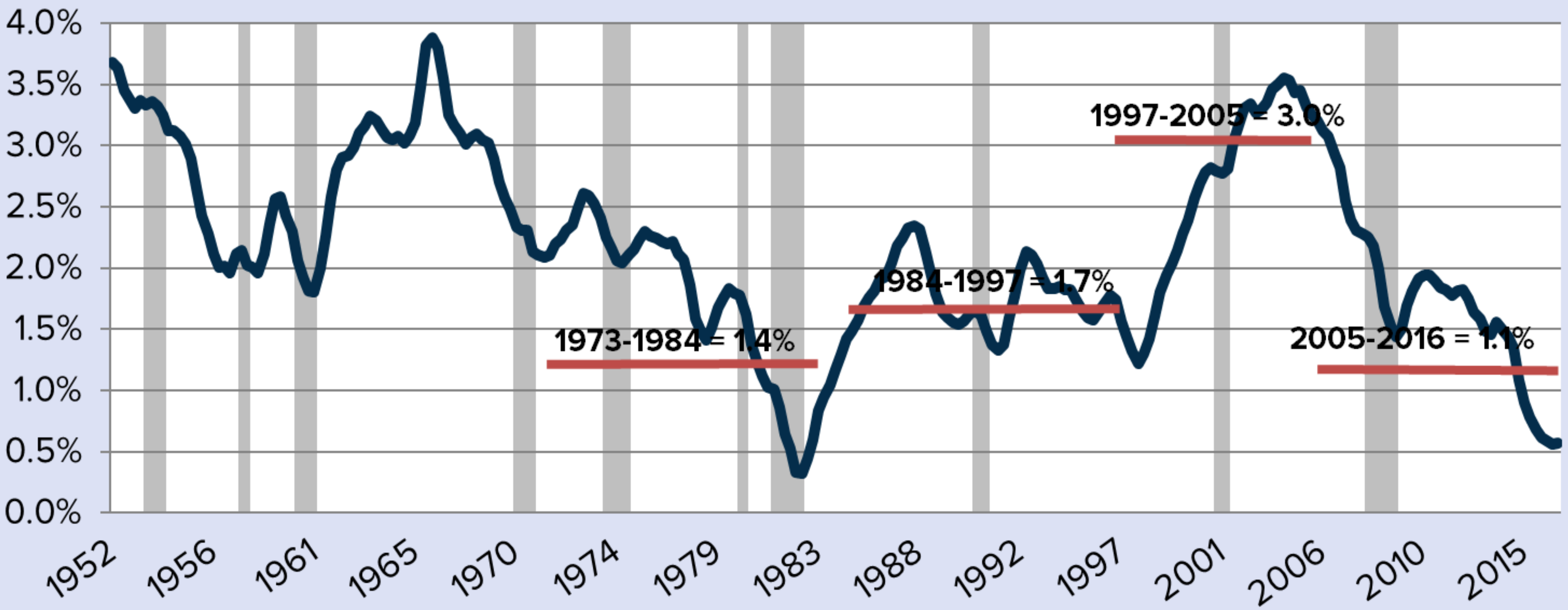
## Global Population Age 20-64, CAGR by Region, History & Projections: 1975 to 2045



Source: UN Population Division (2016)

# PRODUCTIVITY DECELERATION

## Quarterly U.S. Nonfarm Business Sector Real Output Per Hour, YOY, 5YR Moving Average (1952-2016)



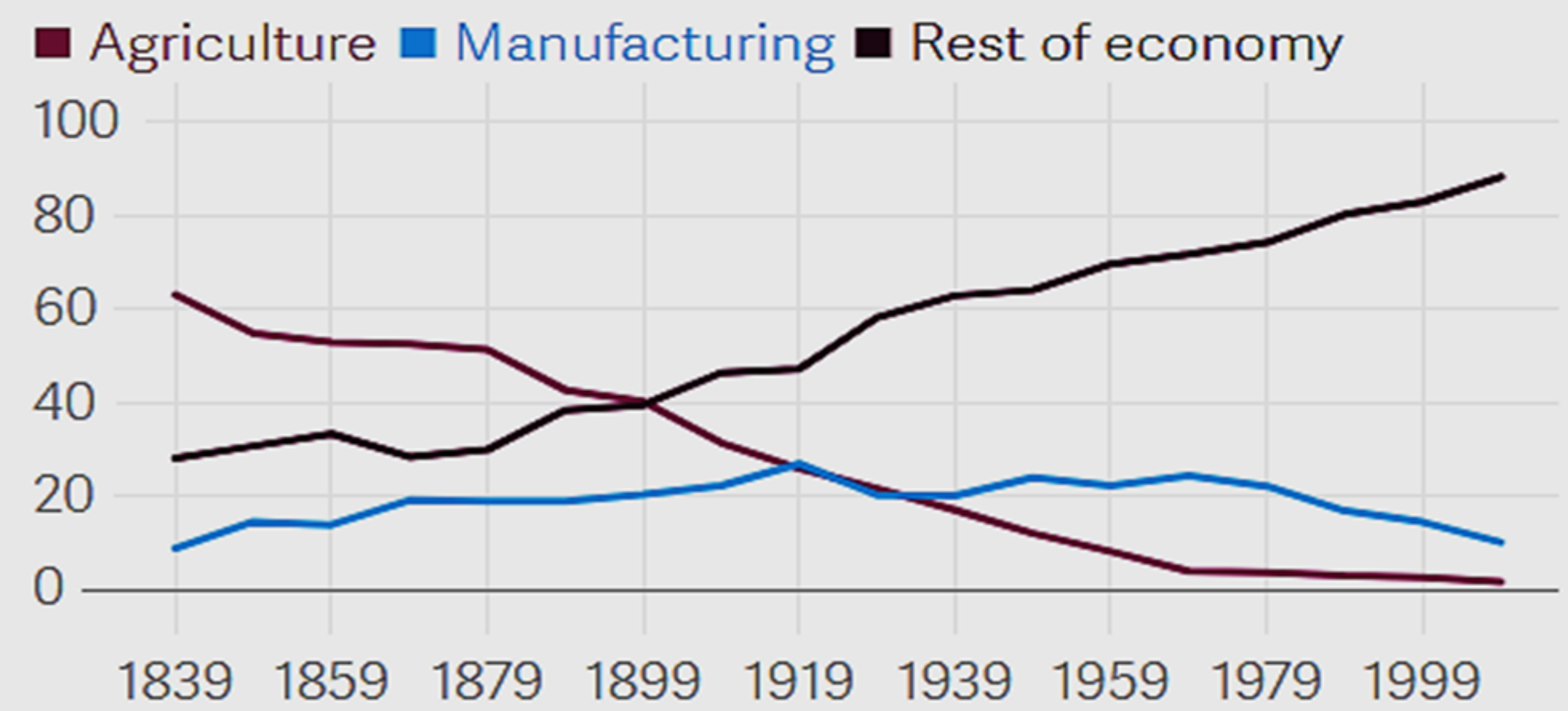
Source: BLS (2016), BEA (2016)

## WHAT'S DRIVING THE SLOWDOWN?

- ❑ **Inadequate Investment & Infrastructure**
- ❑ **Poor Macro Performance** (*in wake of GFC*)
- ❑ **Policy/Regulatory Uncertainty & Gridlock**
- ❑ **Sectoral Failure of Success** (*“Baumol’s Cost Disease”*)
- ❑ **Declining Business Dynamism** (*start ups, mobility, risk appetite*)
- ❑ **Rising Market Concentration** (*natural & regulatory monopolies*)

**BAUMOL'S COST DISEASE: AGRICULTURE, MINING, & MANUFACTURING FROM 75% TO 10% OF EMPLOYMENT**

Employment in agriculture has fallen to less than 2% of workers



ATLAS | Data: McKinsey

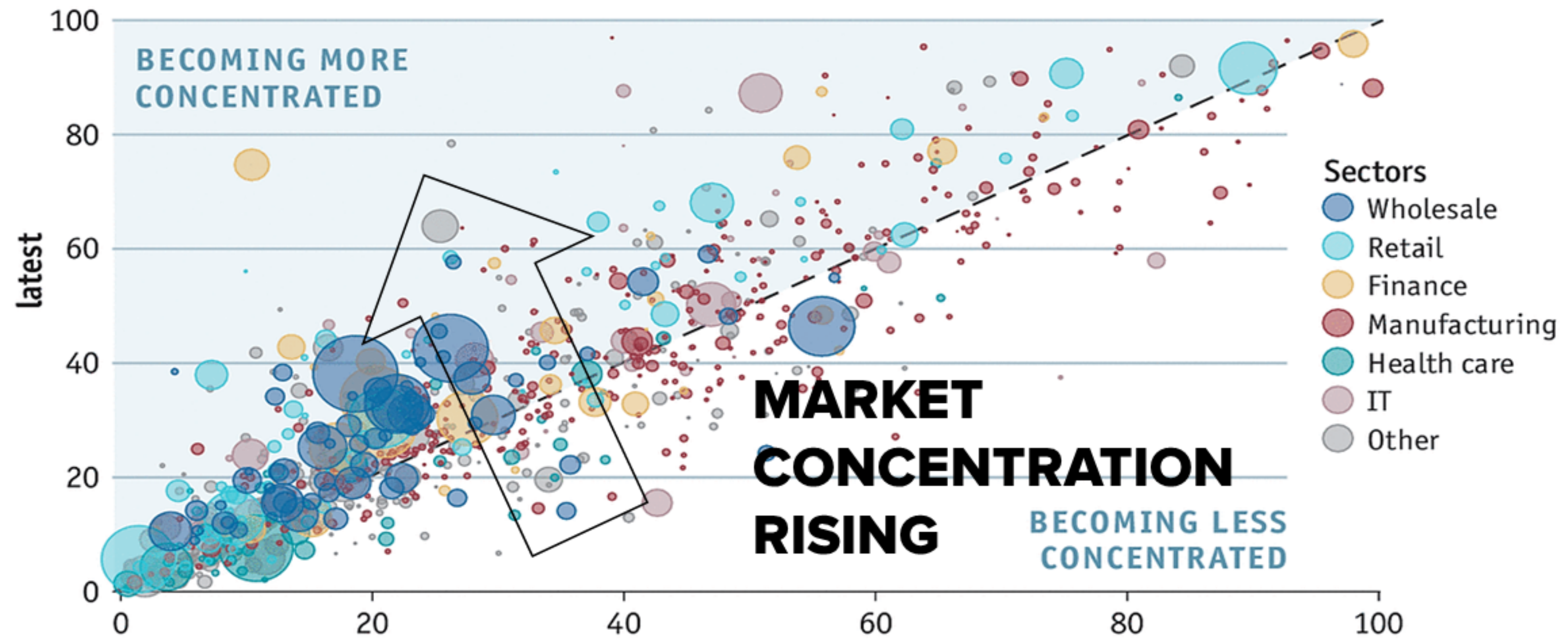
Share

# PRODUCTIVITY DECELERATION

## A widespread effect

Top four firms' share of total industry revenue, United States, %

Total industry revenue\*, \$bn



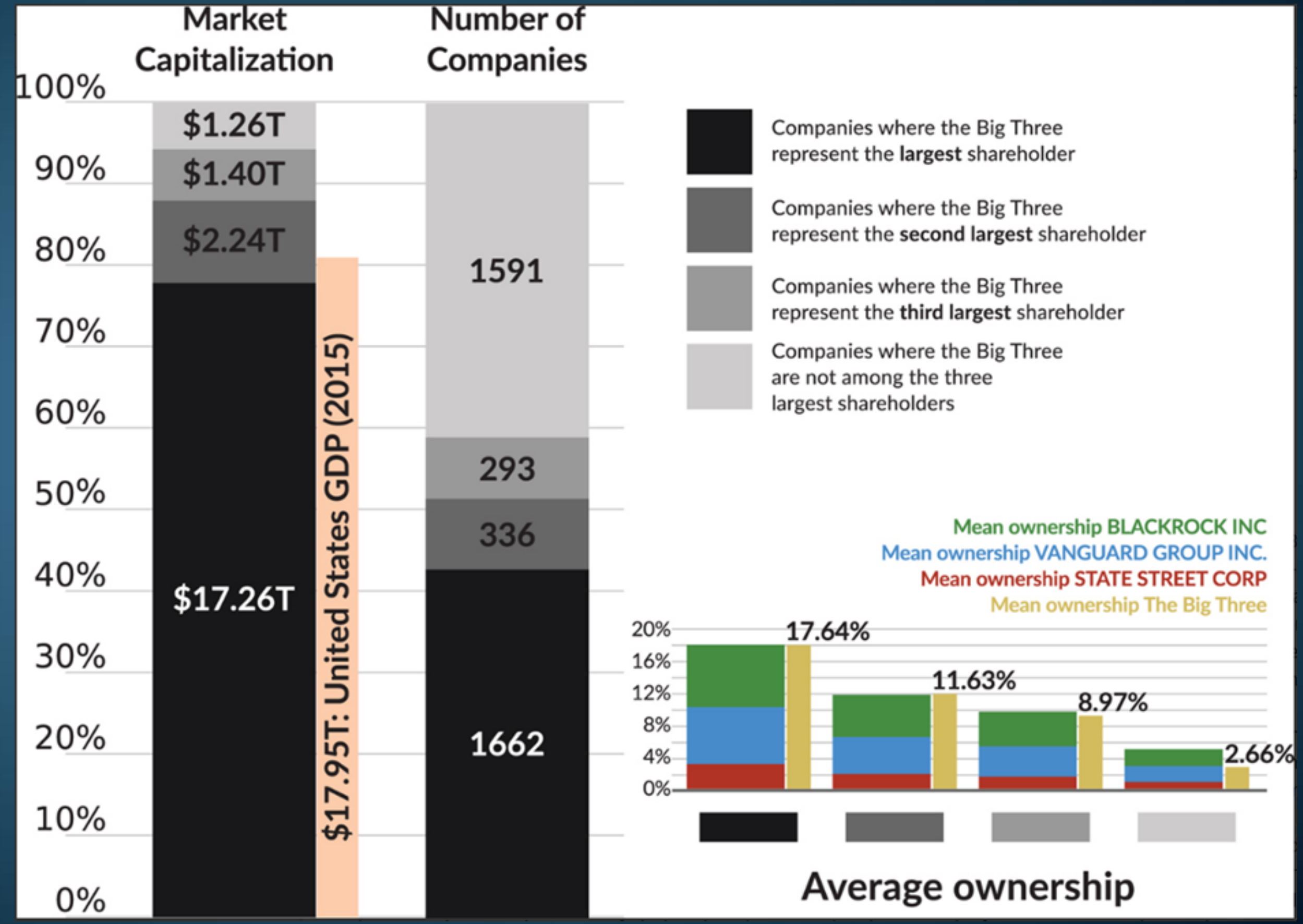
Sources: US Census Bureau; *The Economist*

Economist.com

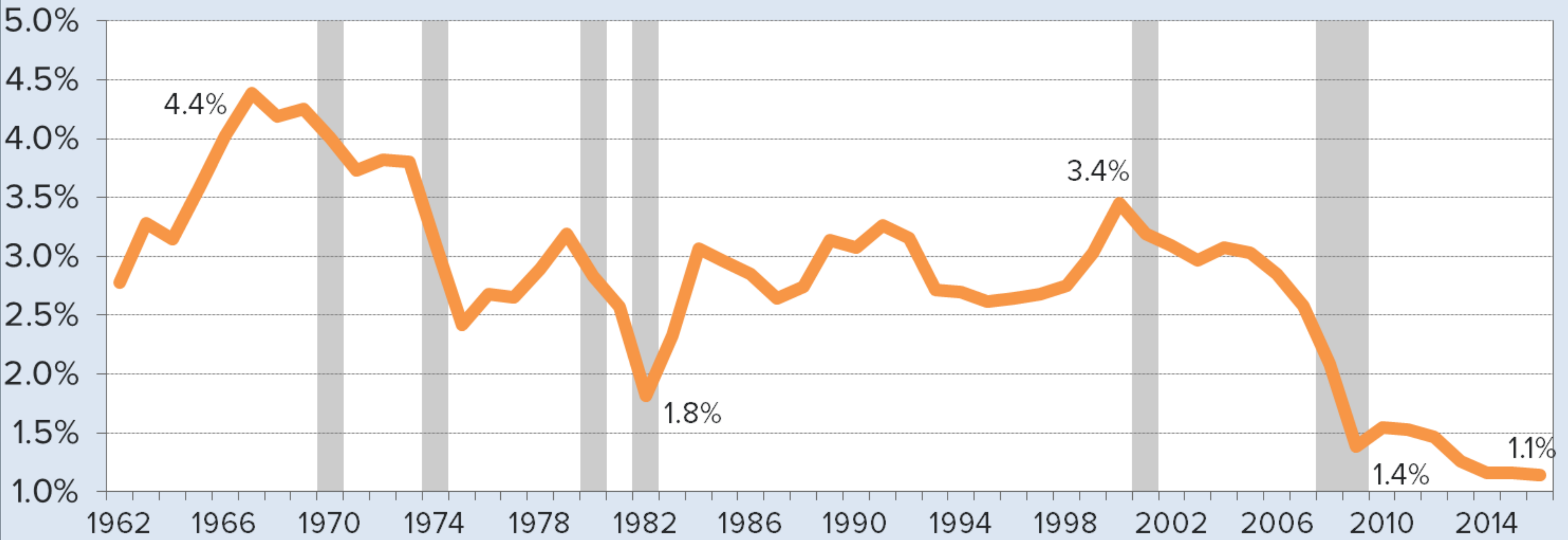


# PRODUCTIVITY DECELERATION

**PARADOX OF TOTAL RISK DIVERSIFICATION: MAJOR PASSIVE INDEXES ARE BIGGEST OWNERS ACROSS EVERY INDUSTRY, COMPETING AGAINST... WHOM?**



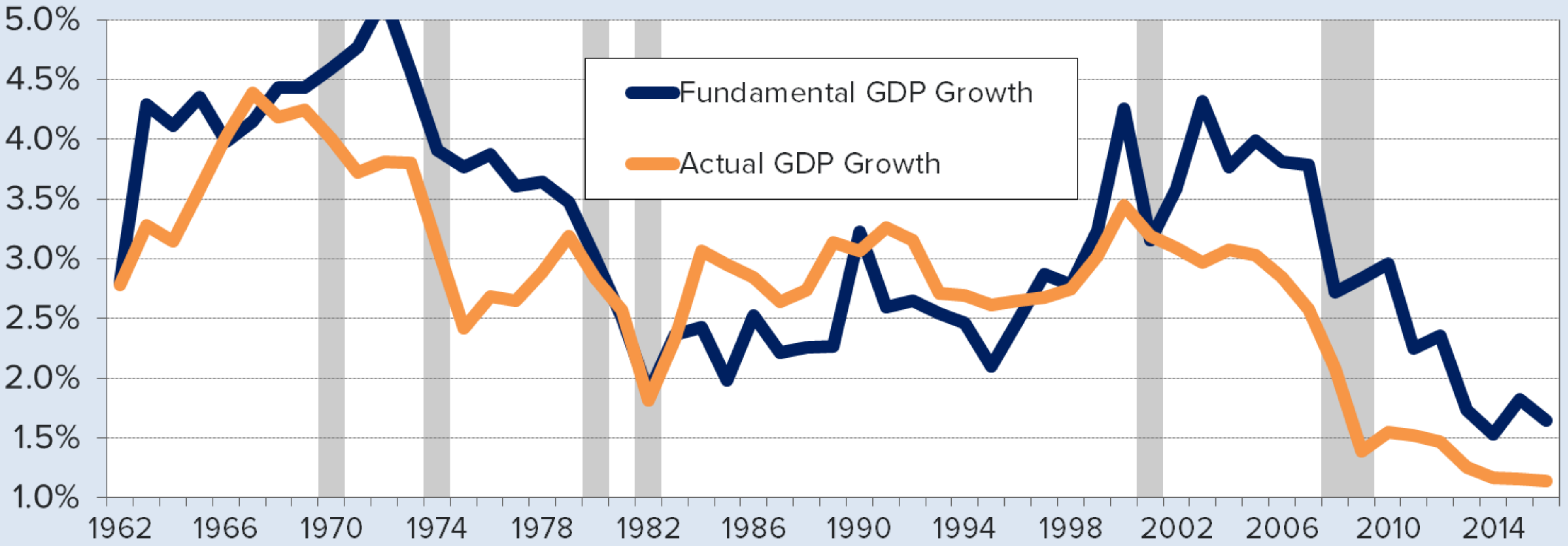
## GDP Growth: Trailing 10-YR CAGR (1962 to 2016)



Source: U.S. Bureau of Economic Analysis (2017)

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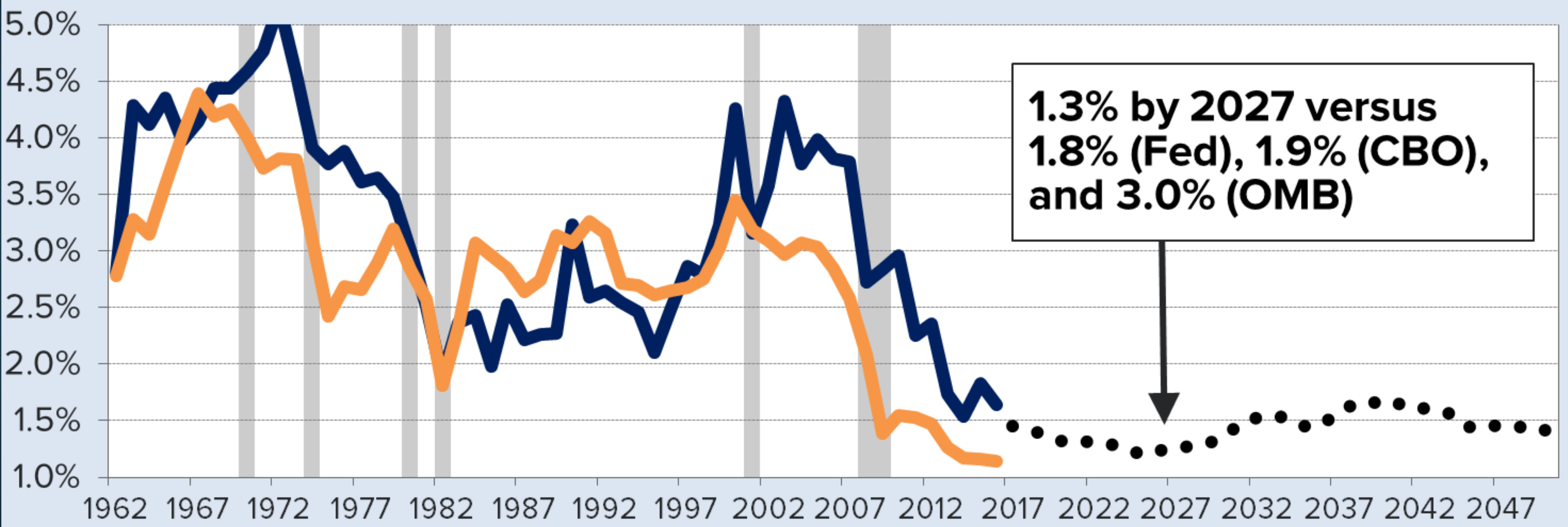
## Fundamental\* vs. Actual GDP Growth: Trailing 10-YR CAGR (1962 to 2016)



\*Bottom-up GDP growth = 10-YR trailing productivity CAGR multiplied by YOY working-age population growth rate.

Source: BLS (2017), BEA (2017), OECD (2017), U.S. Census Bureau (2017)  
© Hedgeye Risk Management

## Fundamental\* vs. Actual GDP Growth and Projections\*\*: Trailing 10-YR CAGR (1962 to 2050)



**1.3% by 2027 versus  
1.8% (Fed), 1.9% (CBO),  
and 3.0% (OMB)**

\*Bottom-up GDP growth = 10-YR trailing productivity CAGR multiplied by YOY working-age population growth rate.  
 \*\*Projections assume a constant 2016 10-YR trailing productivity rate.

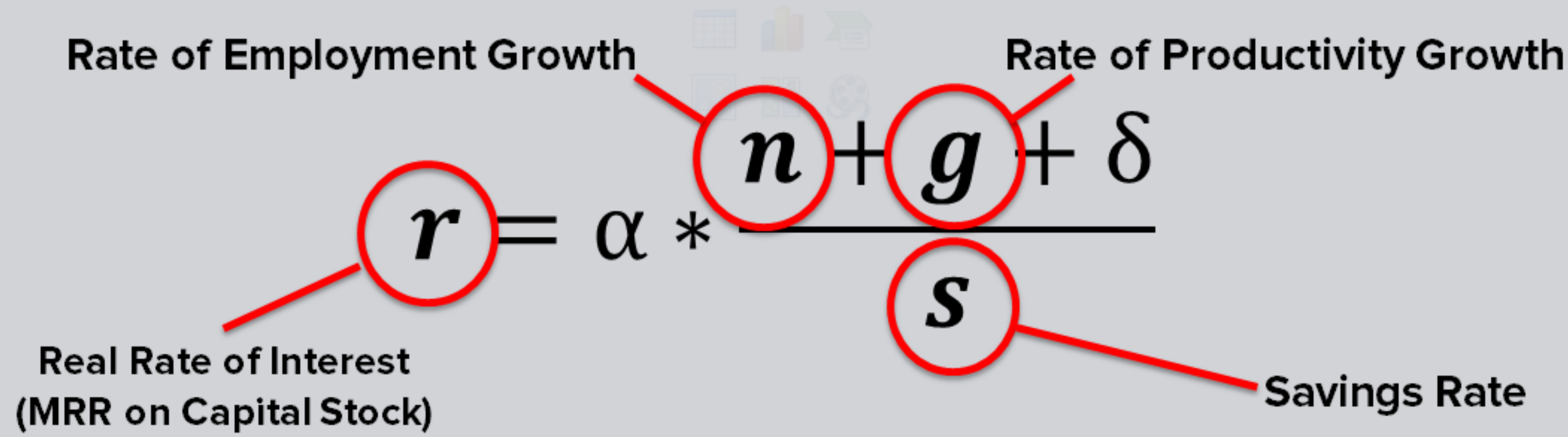
Source: BLS (2017), BEA (2017), OECD (2017), U.S. Census Bureau (2017)  
 © Hedgeye Risk Management

## 10-Year Treasury, Constant Maturity: Expected Real Interest Rate



## Solow-Swan Growth Model (1956)

Formula for the Equilibrium Real Rate of Return in a Growing Economy



Rate of Employment Growth

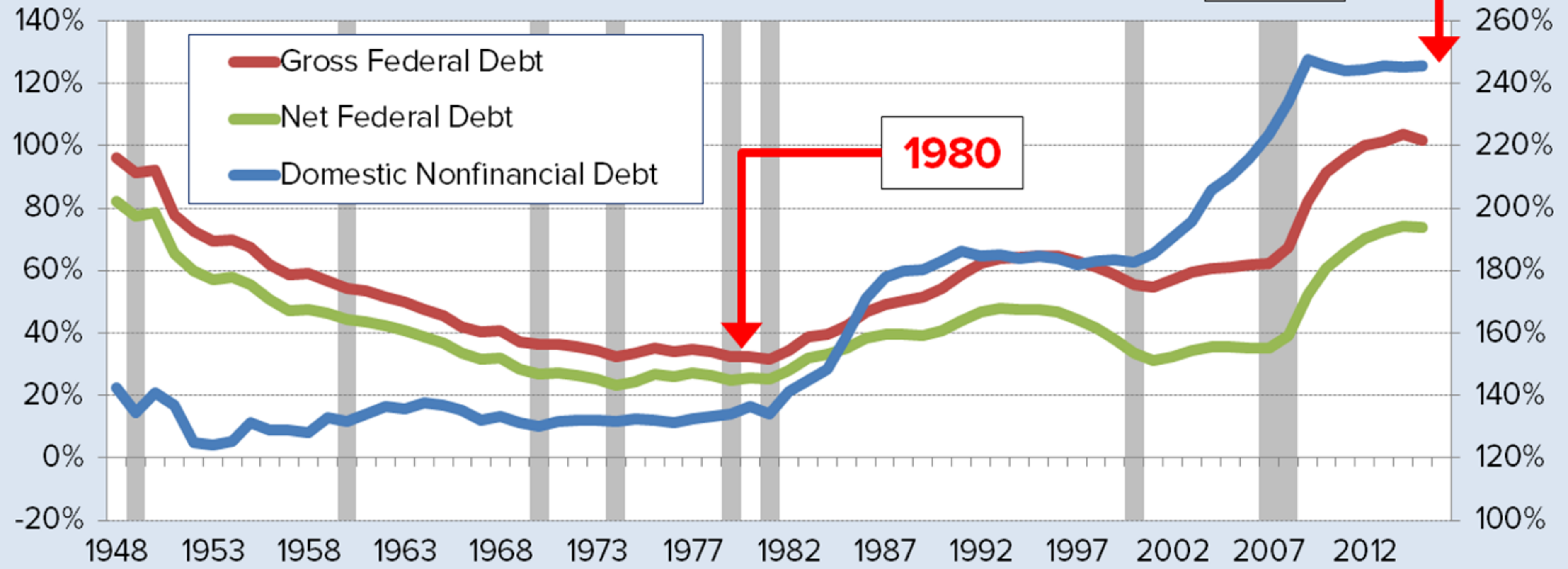
Rate of Productivity Growth

$$r = \alpha * \frac{n + g + \delta}{s}$$

Real Rate of Interest (MRR on Capital Stock)

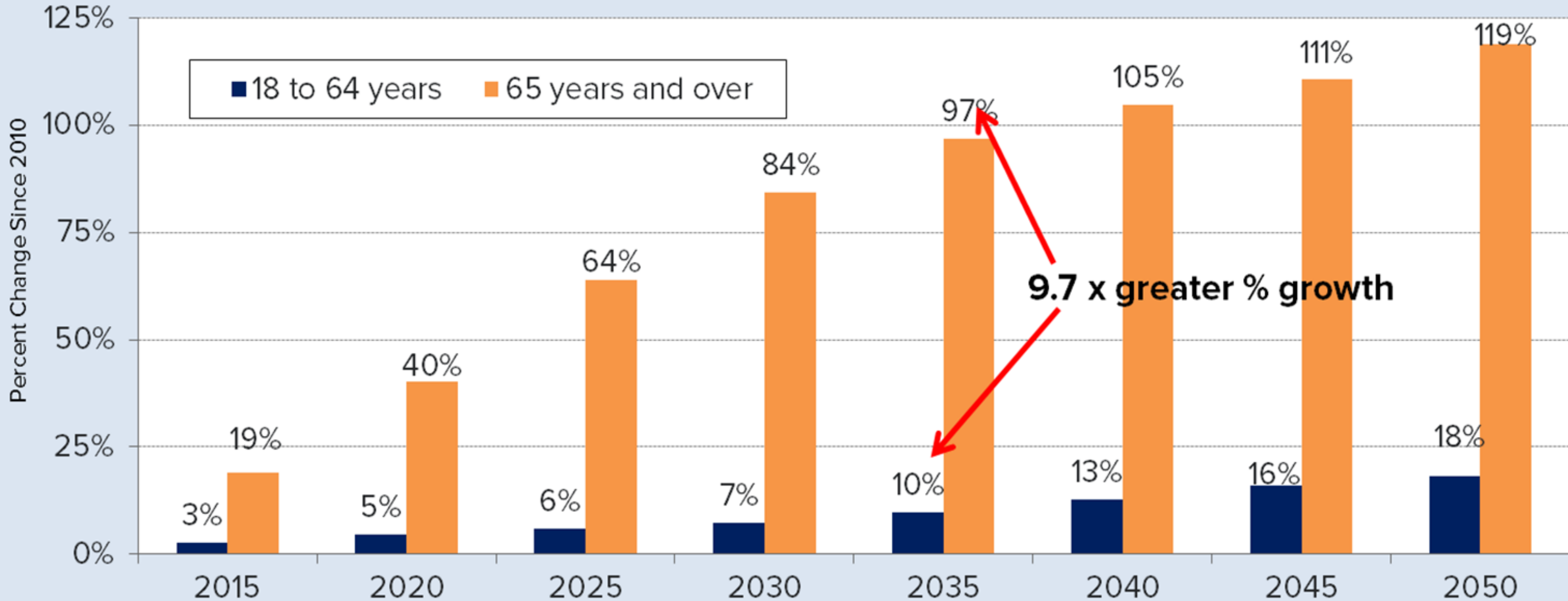
Savings Rate

## Net and Gross Federal Debt and Total U.S. Nonfinancial Debt as a % of GDP (1948 to 2015)



Source: Federal Reserve (2016)

## U.S. Population Projection: Census Estimate in 2014



Source: U.S. Census Bureau (2014)

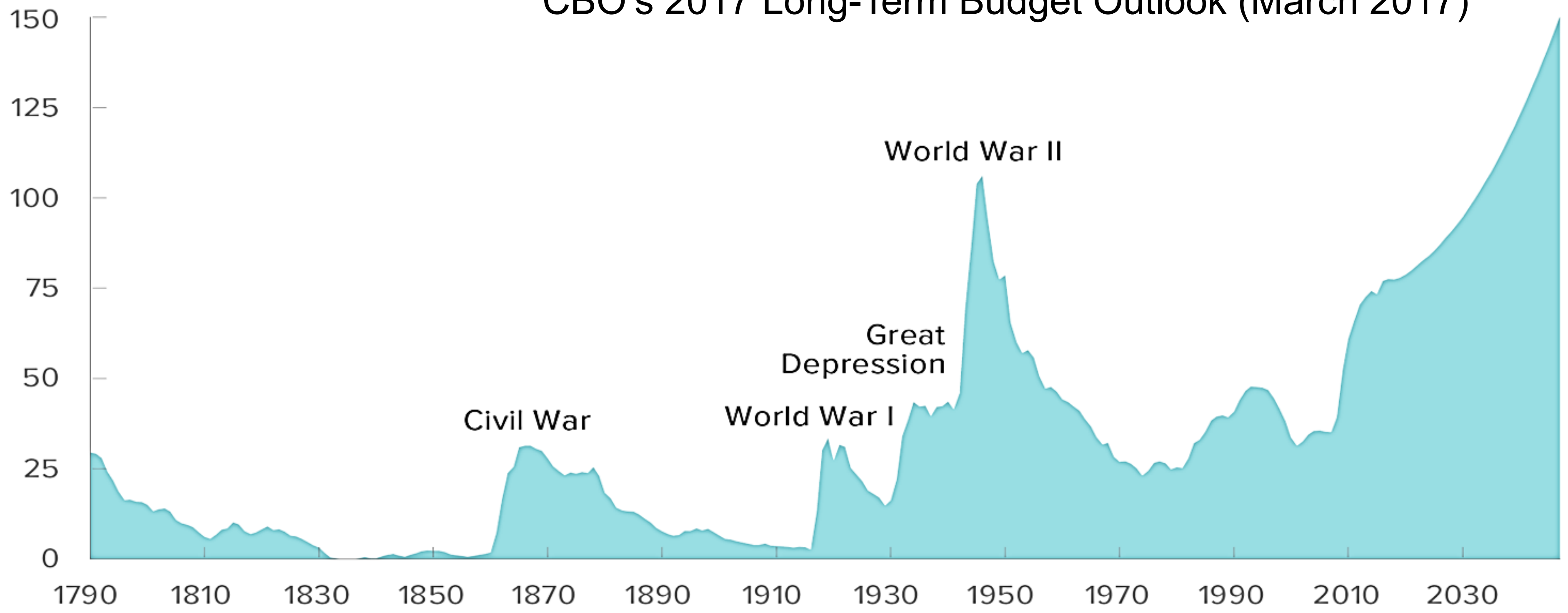
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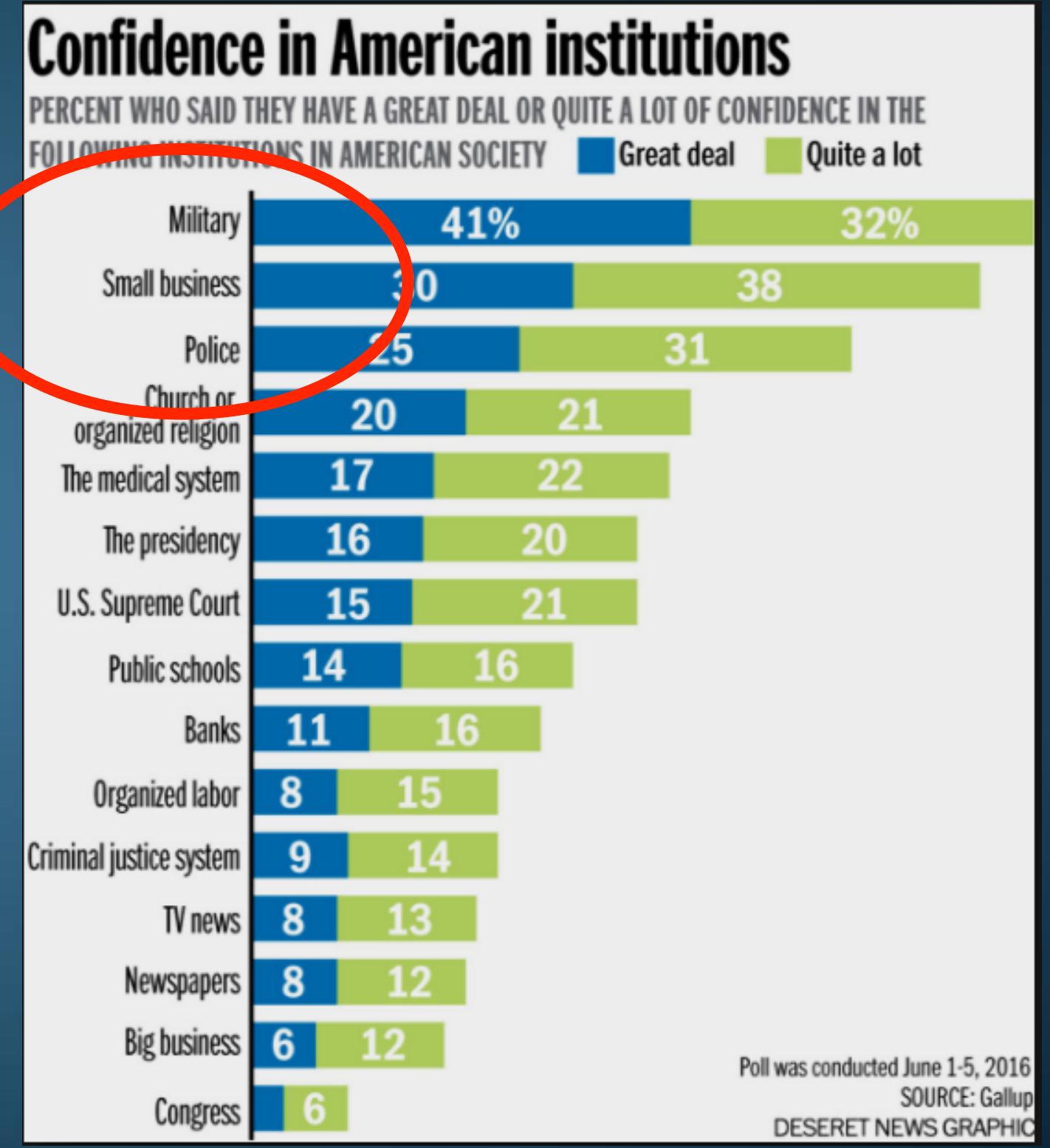
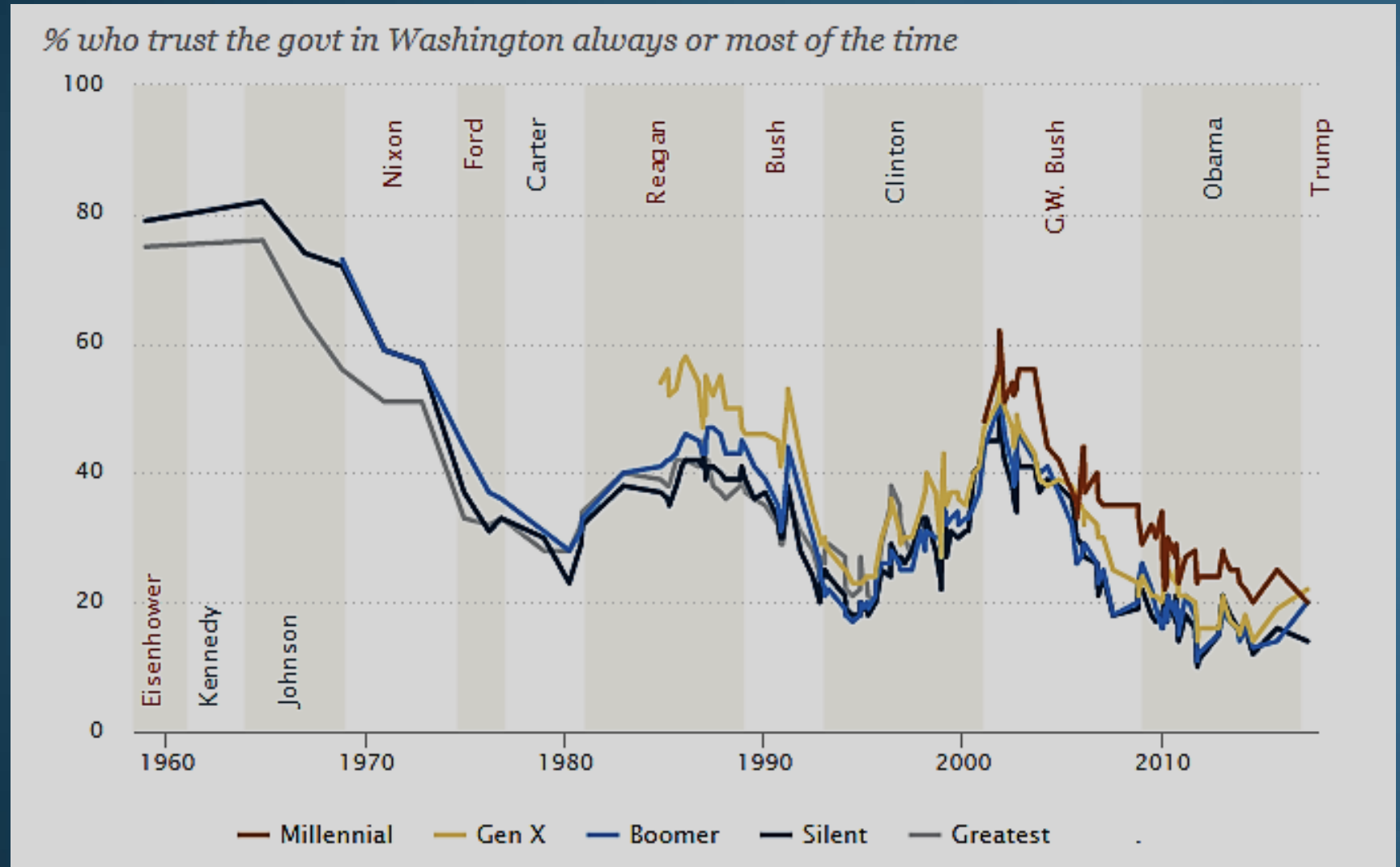
## Federal Debt Held By the Public

Percentage of GDP

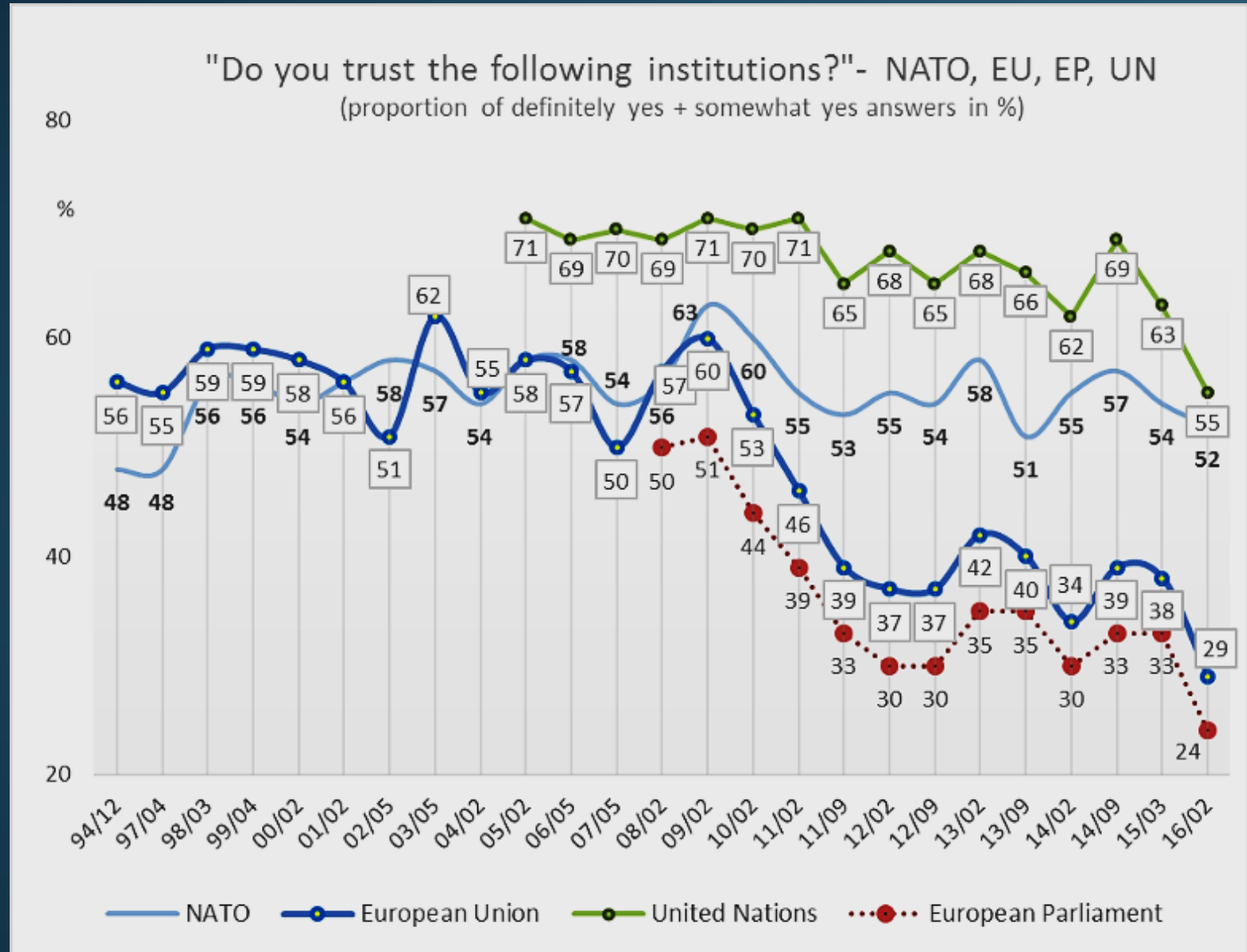
CBO's 2017 Long-Term Budget Outlook (March 2017)



# POPULIST/AUTHORITARIAN REVIVAL



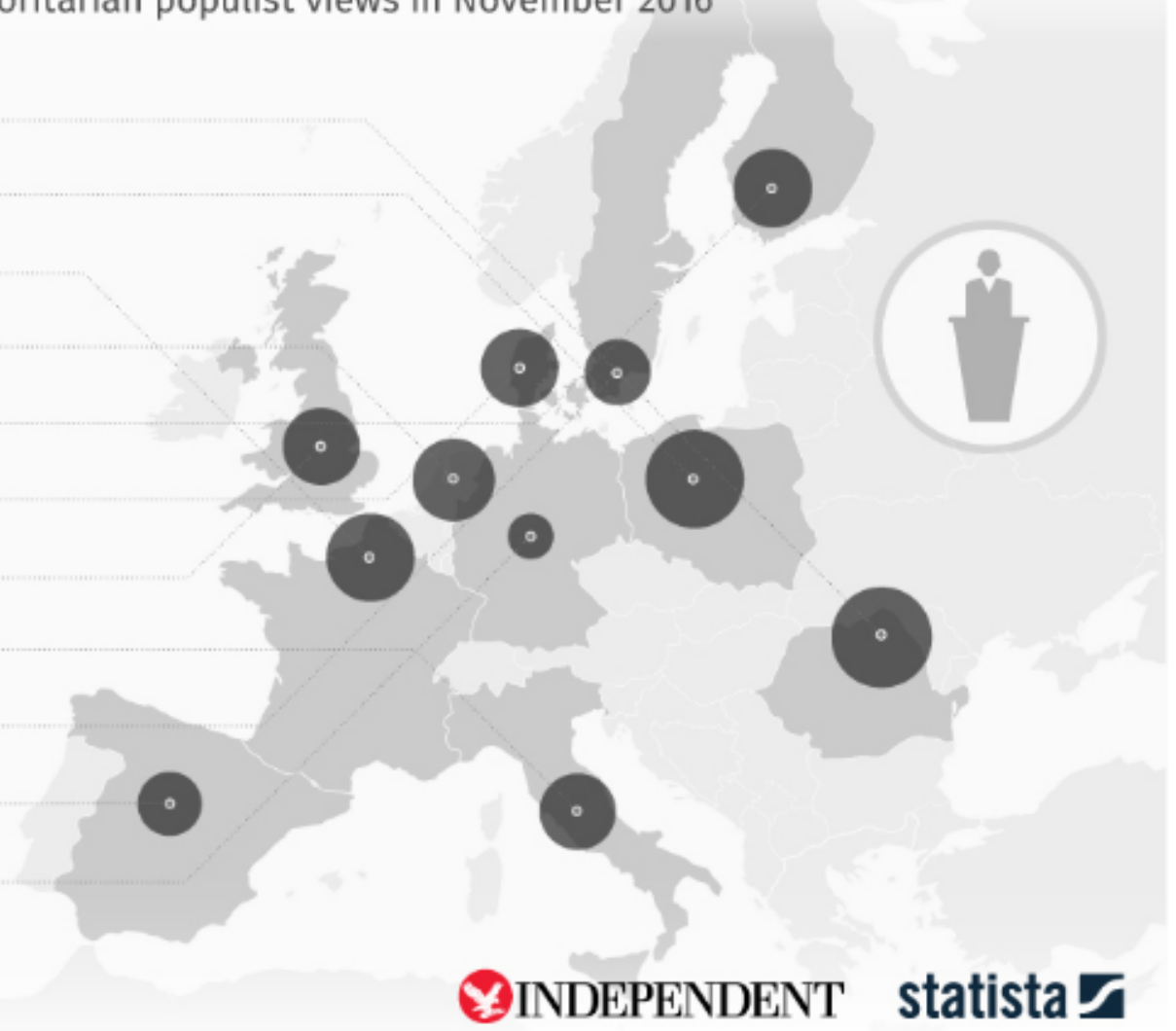
# POPULIST/AUTHORITARIAN REVIVAL



## Right-wing populism's enormous potential across Europe

% of Europeans with authoritarian populist views in November 2016

- Romania 82%
- Poland 78%
- France 63%
- Netherlands 55%
- Finland 50%
- Denmark 49%
- United Kingdom 48%
- Italy 47%
- Sweden 35%
- Spain 33%
- Germany 18%

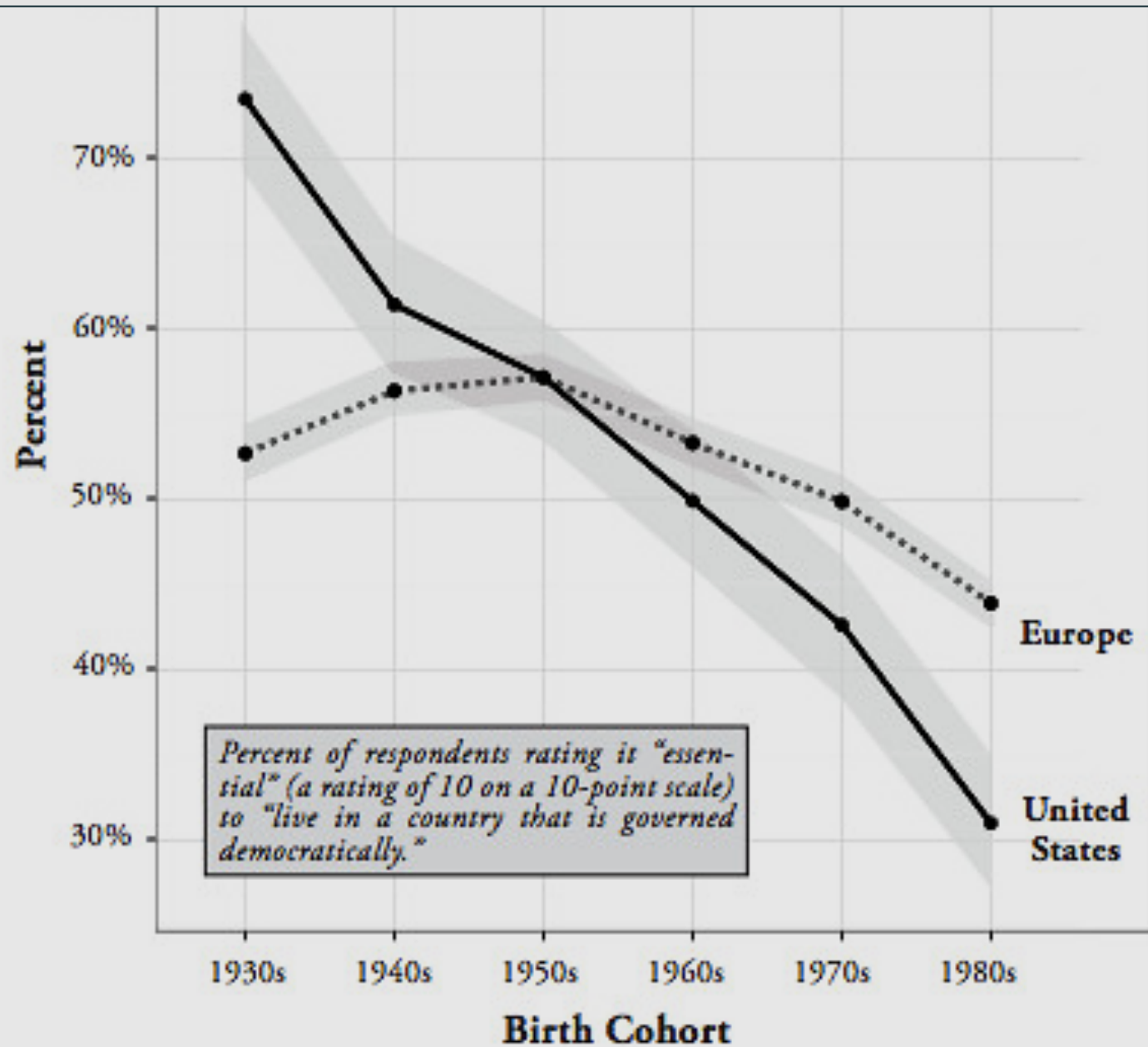


© StatistaCharts Source: YouGov

INDEPENDENT statista

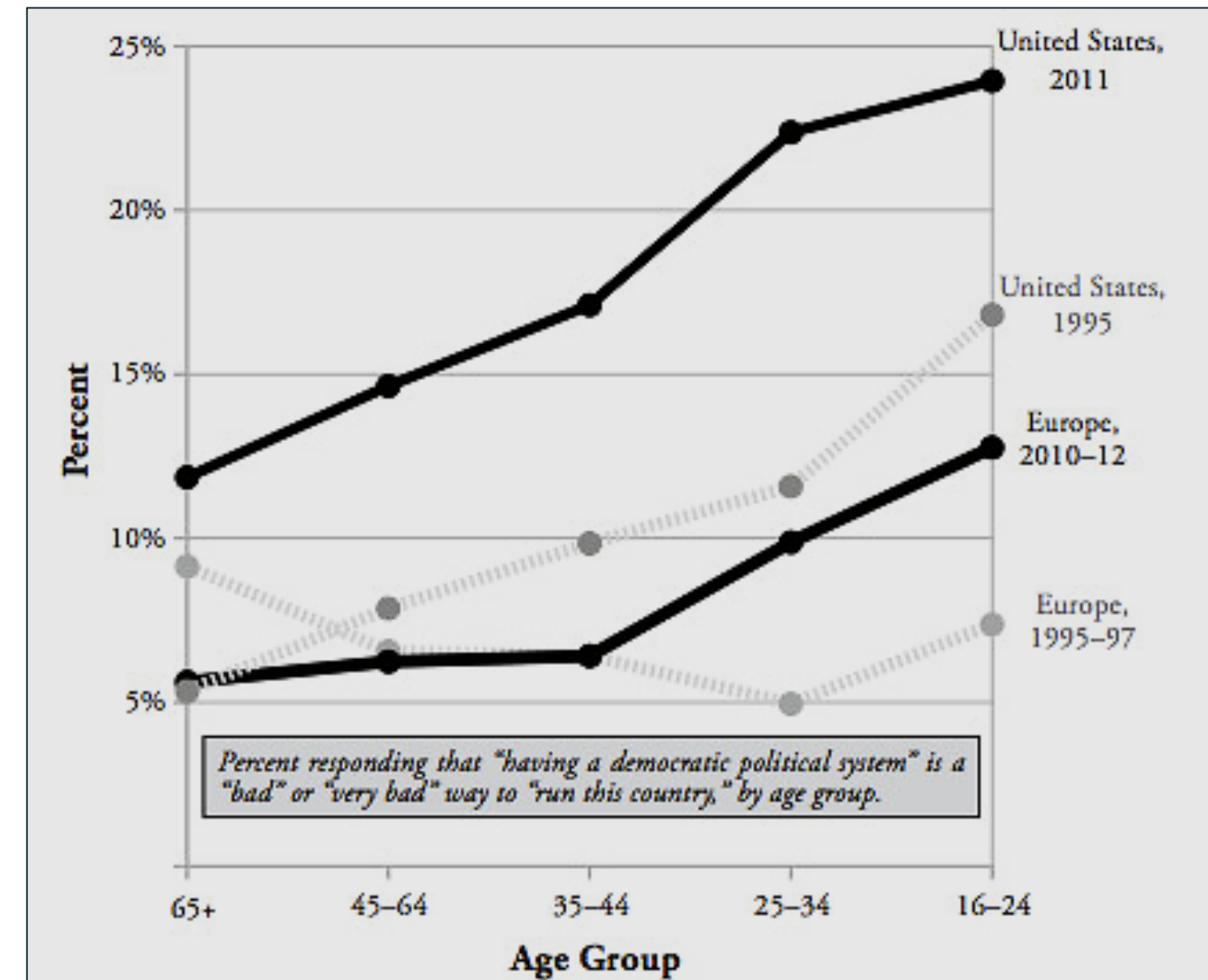
# POPULIST/AUTHORITARIAN REVIVAL

*“It’s Essential to Live in a Country That is Democratically Governed”*: 2014, by Birth Decade



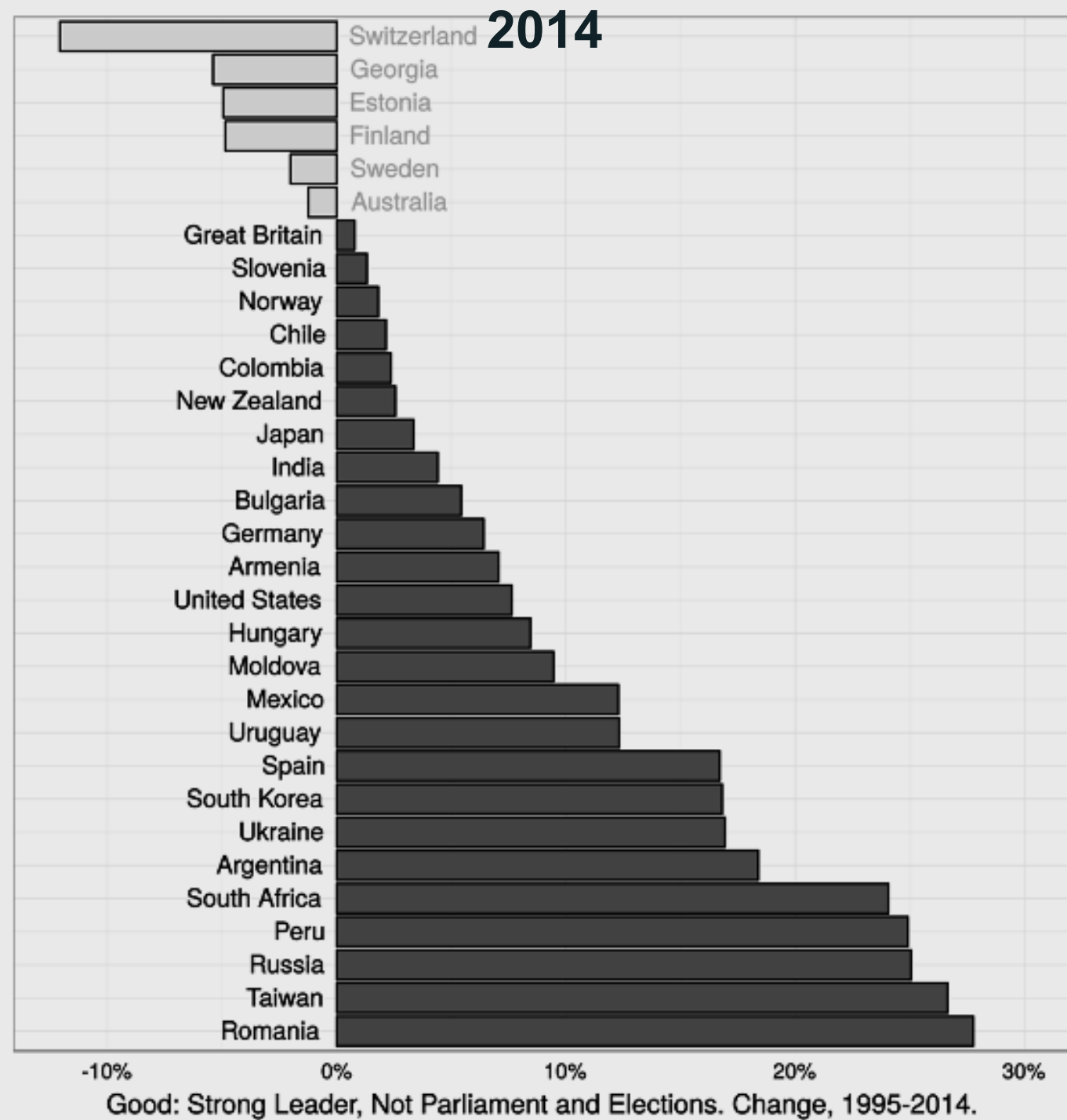
Source: World Values Surveys, Waves 5 and 6 (2005–14). Data pooled from EU member states. Valid responses: United States, 3,398; European Union, 25,789. Bootstrap 95 percent confidence intervals are shown in gray.

*“Having a Democratic Political System” is a “Bad” or “Very Bad” Way to “Run This Country”*: 1995 and 2011, by Birth Decade



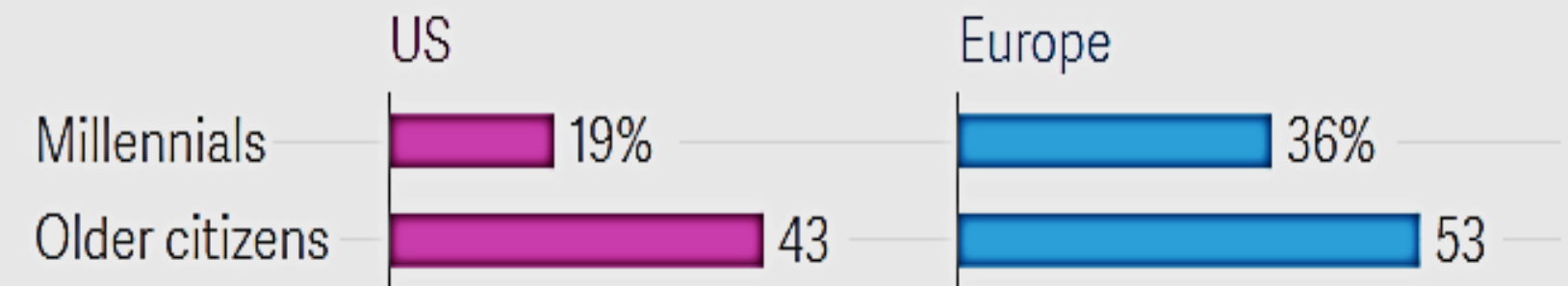
Source: World Values Surveys, Waves 3 to 6 (1995–2014). Data for Europe includes a constant country sample in both waves: Germany, Sweden, Spain, the Netherlands, Romania, Poland, and the United Kingdom. Valid responses: United States, 1995: 1,452; United States, 2011: 2,164; European countries, 1995–97: 6,052; European countries, 2010–12: 8,197.

## In Favor of “Strong Leader, Not Parliament and Elections,” % Point Change, 1995 to 2014



Source: World Values Survey

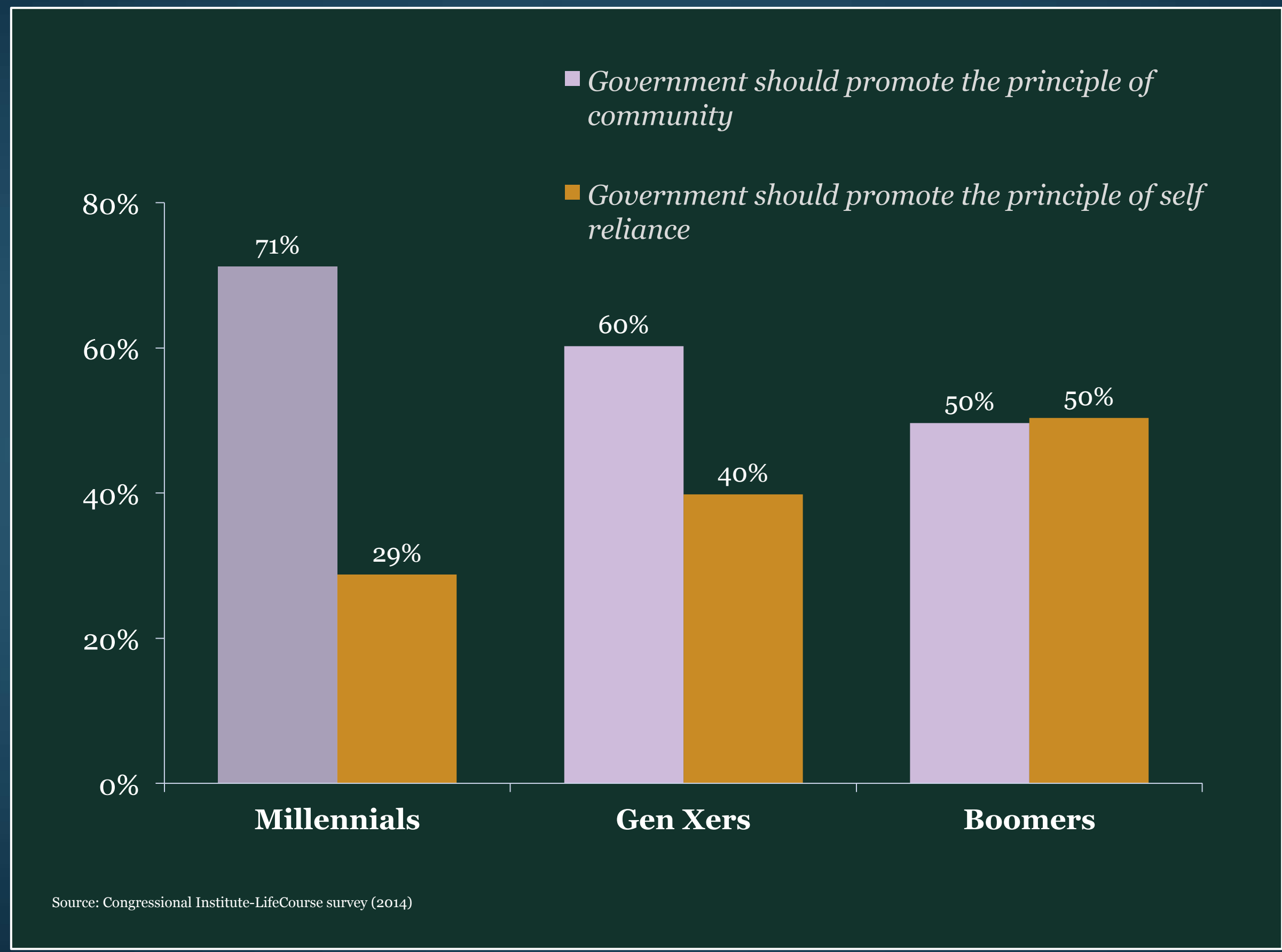
## Believe military takeover is not legitimate in a democracy

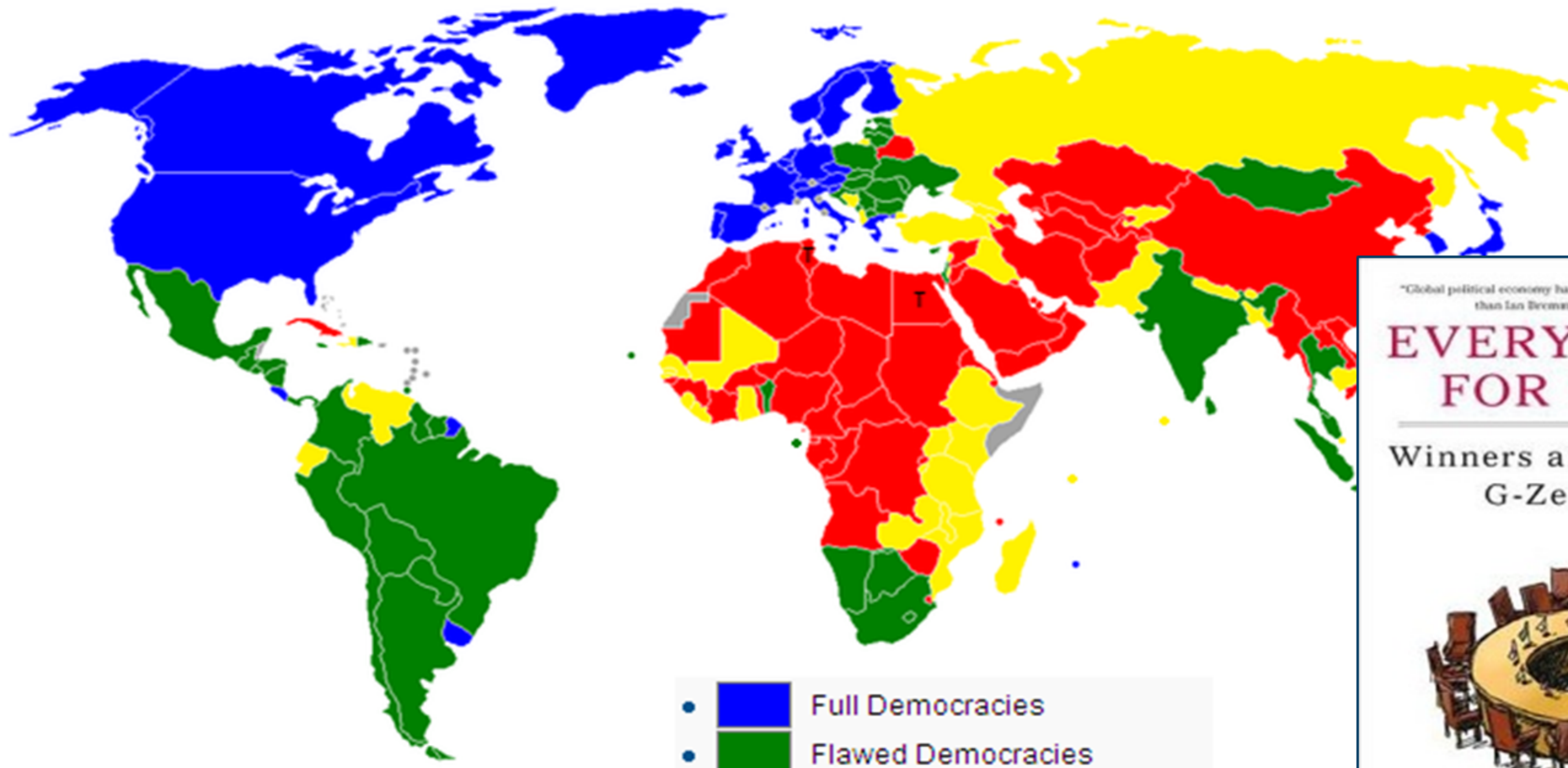


ATLAS | Data: Mounk & Foa 2016

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# POPULIST/AUTHORITARIAN REVIVAL






-  Full Democracies
-  Flawed Democracies
-  Hybrid Regimes
-  Authoritarian Regimes

"Global political economy has no sharper or more prescient analyst than Ian Bremmer." —Lawrence Summers

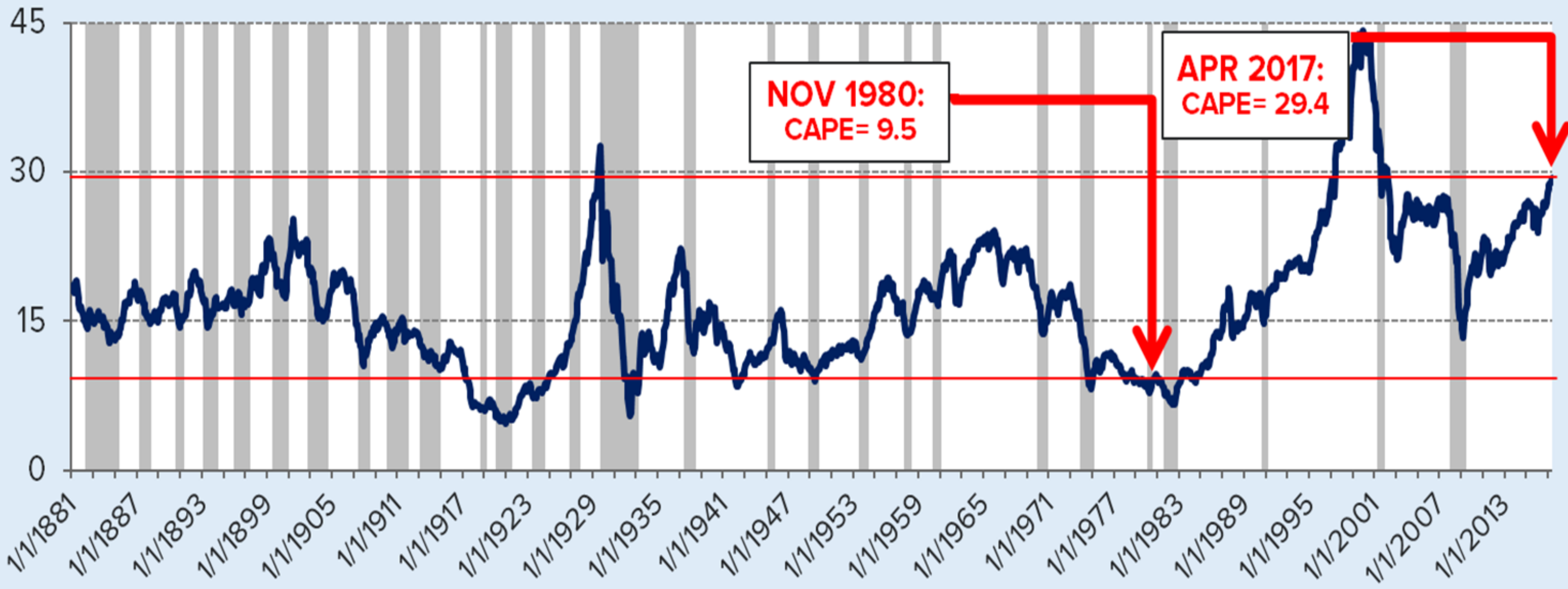
## EVERY NATION FOR ITSELF

Winners and Losers in a G-Zero World



IAN BREMMER  
*Author of The End of the Free Market*

## Shiller Cyclically Adjusted PE Ratio, Monthly (1881 to 2017)

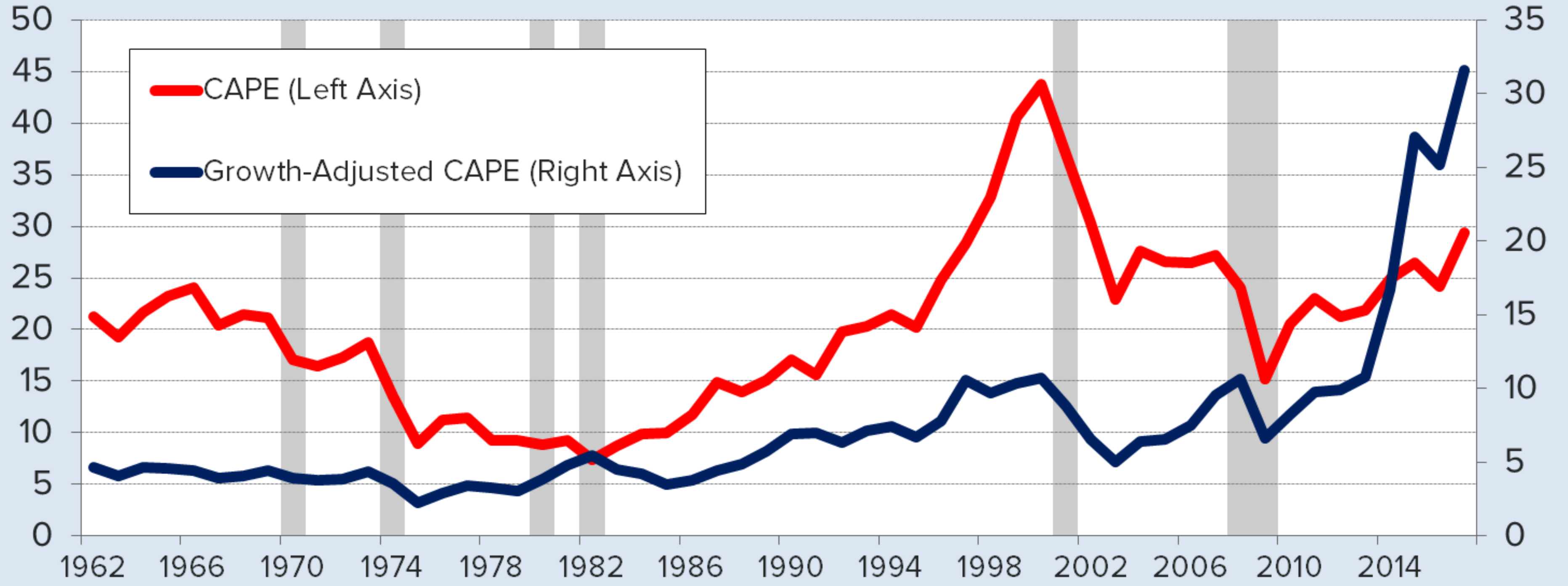


Source: Yale Economics Department (2017)

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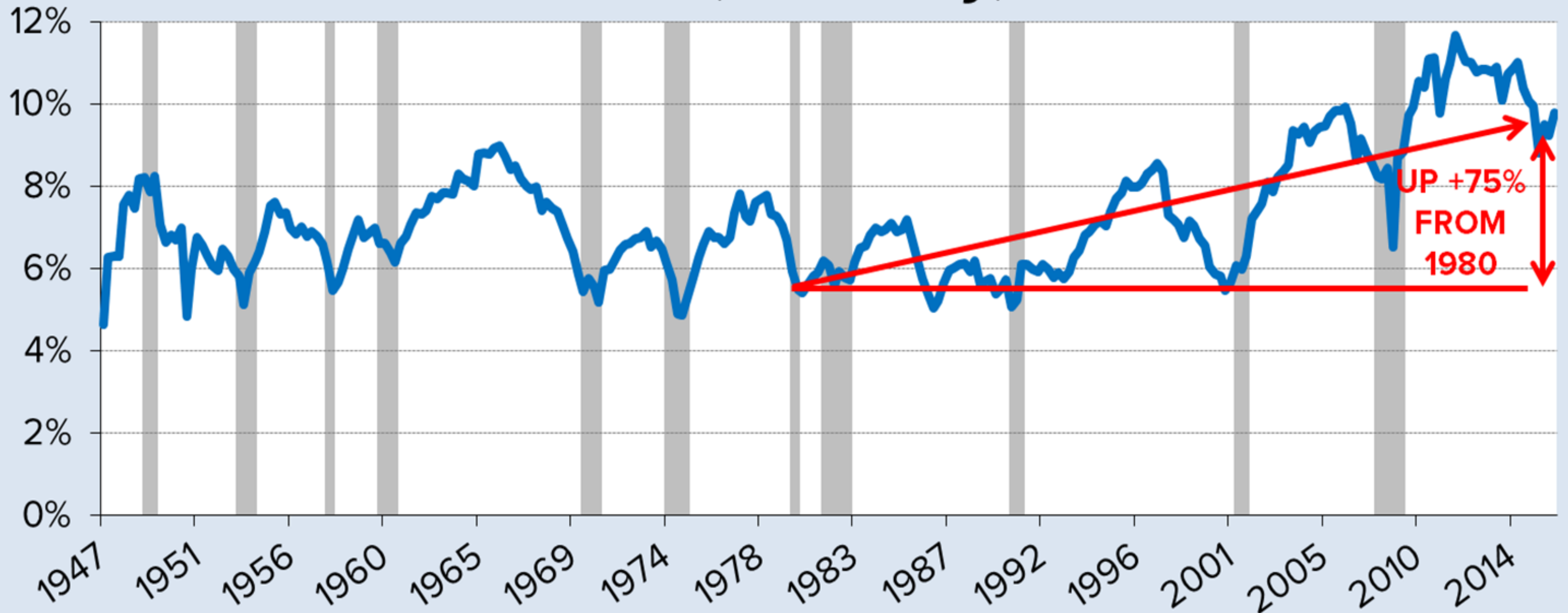
## Shiller's CAPE vs. "PEGed" CAPE\* (1962 to 2017\*\*)



\*Growth-adjusted CAPE = (CAPE/expected growth), where expected growth is calculated using 5-YR forward working-age population growth and 5-YR trailing output per hour CAGR.  
 Source: Yale Economics Department (2017), U.S. Census Bureau (2017), BLS (2017)

\*\*As of May 2017.  
 © Hedgeye Risk Management

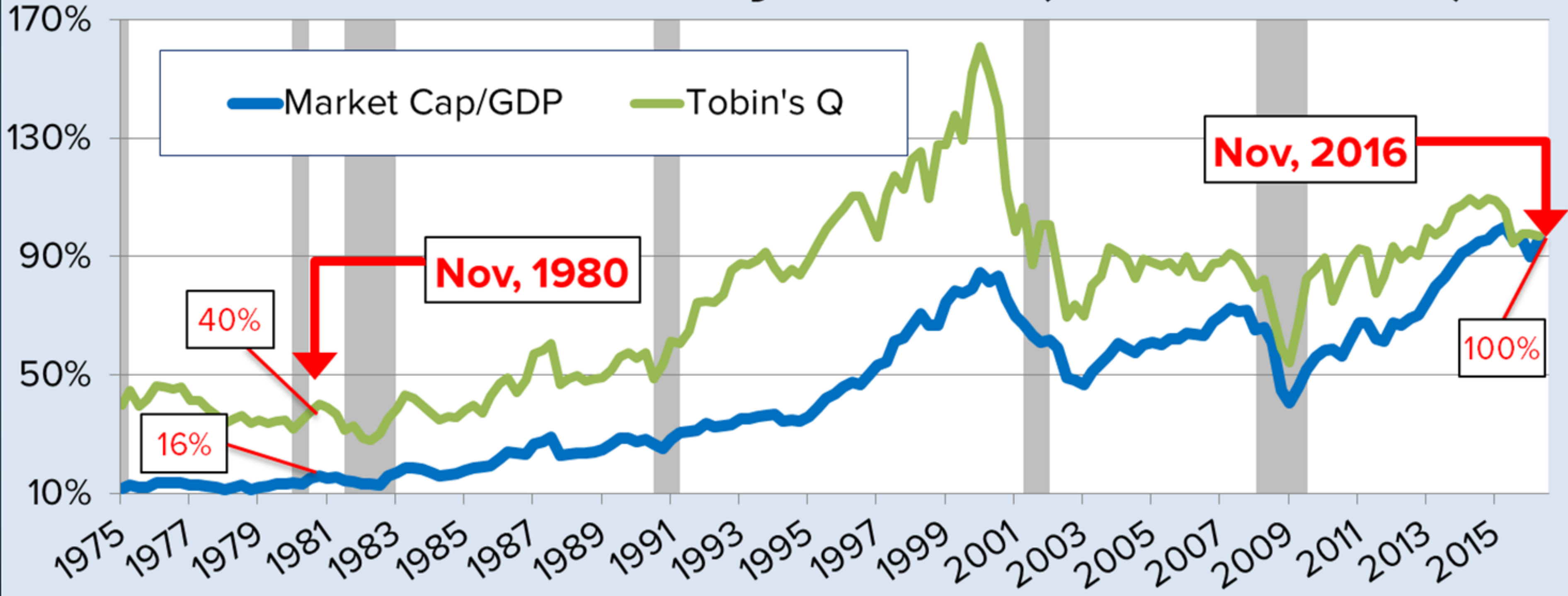
## U.S. Corporate Profits After Tax\* as a Share of National Income, Quarterly, 1947-2016



\* with CCA<sub>adj</sub> and IVA

Source: U.S. Bureau of Economic Analysis (2016)

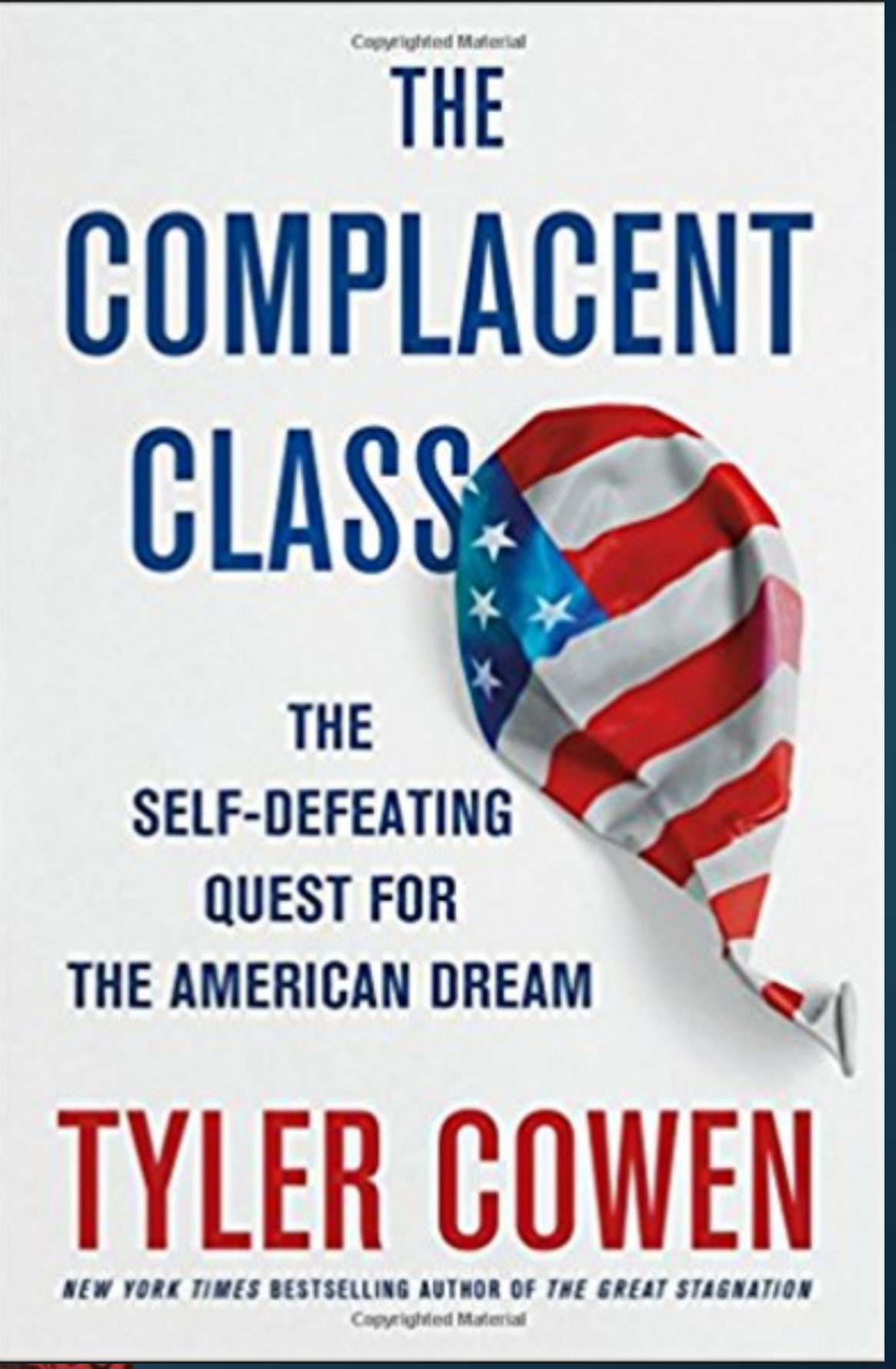
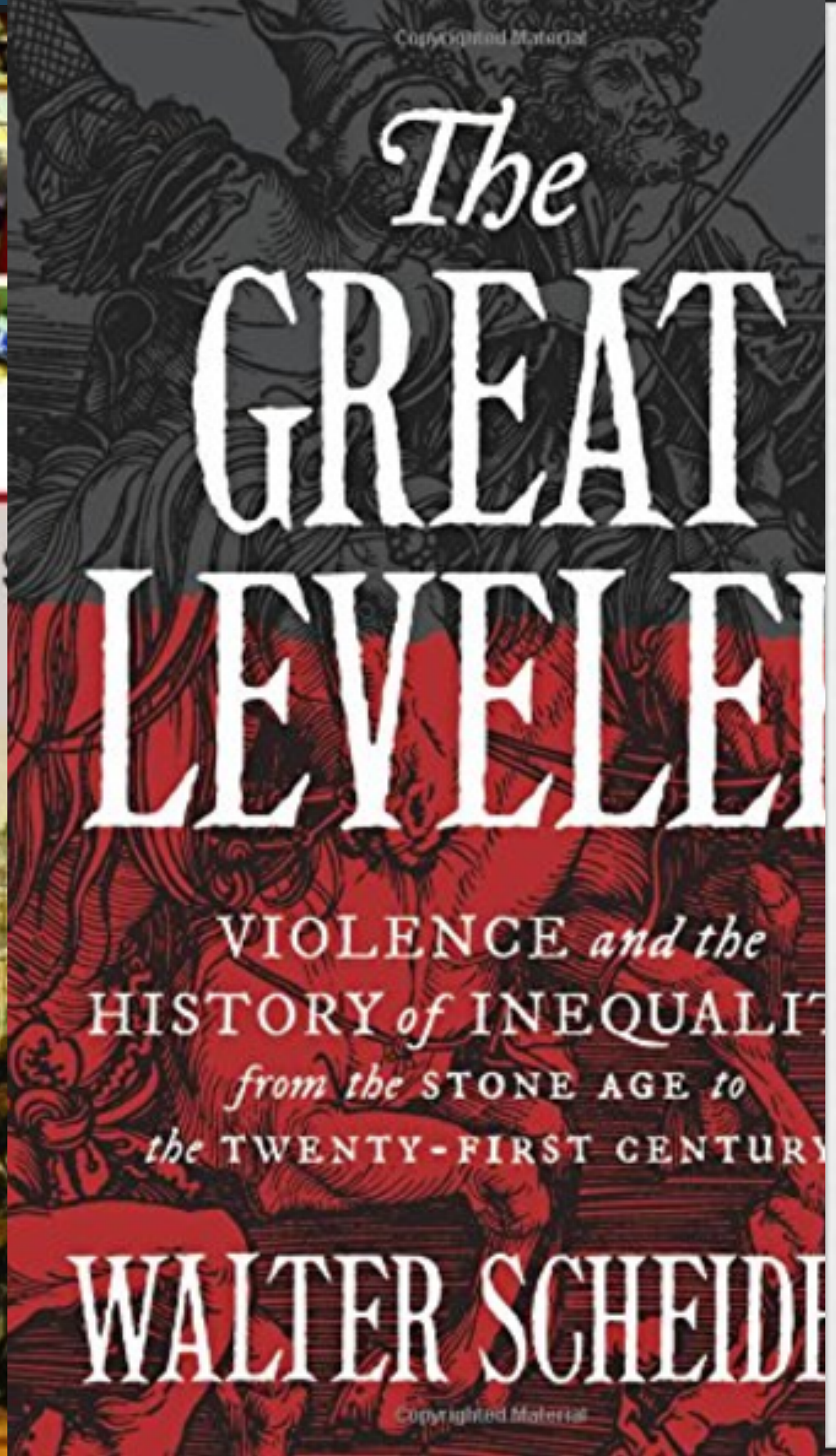
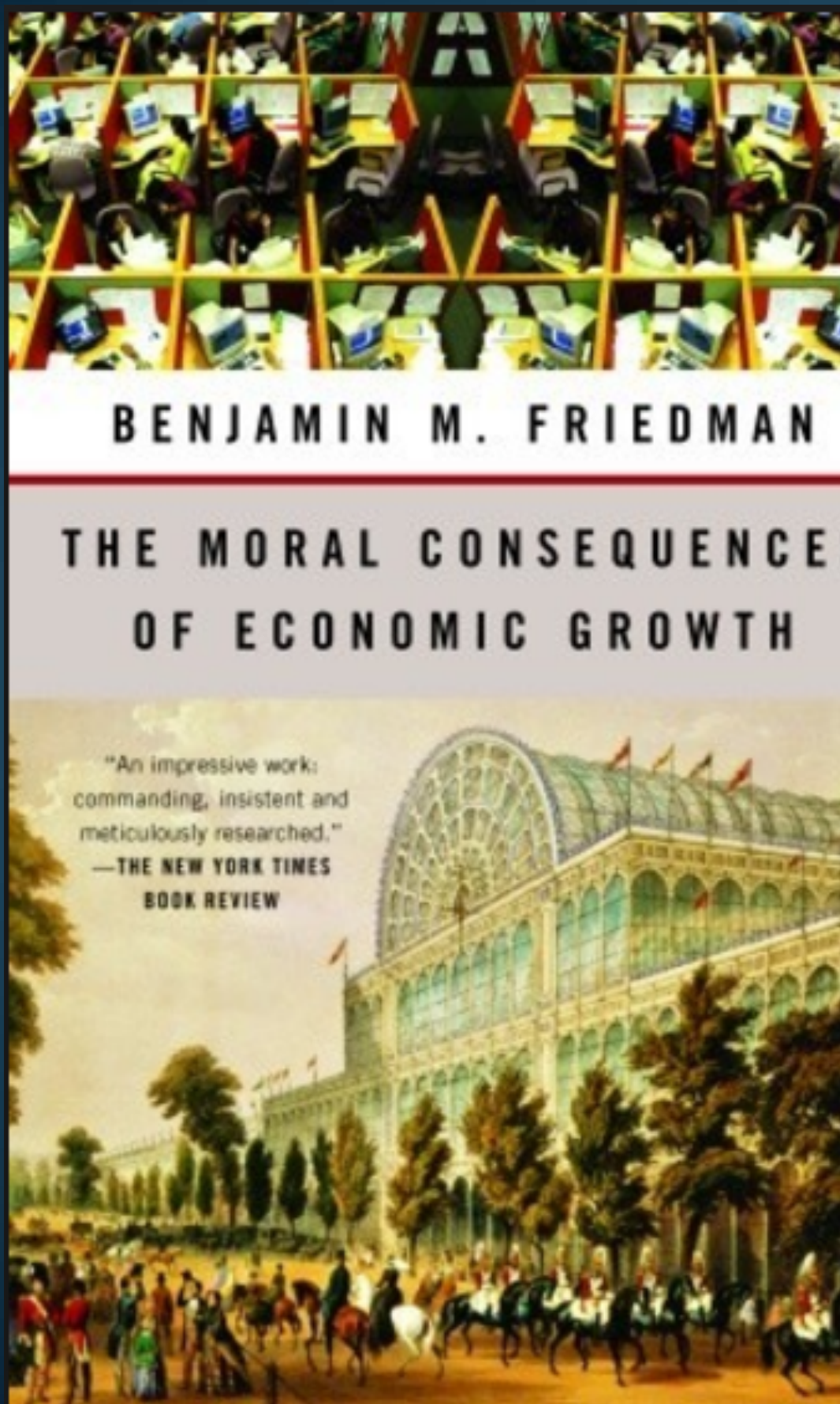
## Wilshire 5000 Total Market Full Cap Index and Tobin's Q, Quarterly, Indexed (100 = 7/1/2016)



Source: Wilshire Associates (2016), U.S. Federal Reserve Board of Governors (2016)

- Another “Great Devaluation” in 2017-20, followed by decade of aggressive “civic regeneracy” and extreme geopolitical turmoil. China crash; breakup of EU; authoritarian regimes emboldened; major power conflict in Korea, South China Sea, and/or Mideast.
- Strong \$; temporary return of ZIRP and financial repression—ended by fiscal stimulus and inflation; reverse carry trade; many EMs in trouble.
- Regeneracy in U.S.—left-wing economics and right-wing social values—will probably be led from the left, starting Democratic resurgence in 2018. Trump is going nowhere (caretaker regime after 2018). Exception: near-term crisis that re-energizes POTUS.
- Boomer Presidents through climax; then Xers take over. Starting in 2020, Millennials become main target for anyone running for office.

- ❑ **Fourth Turning ends (in late 2020s) with national winners and losers; new global agreements and new balance of power. Collective security to prevent use of devastating new cyber, nuclear, & biological weaponry.**
- ❑ **Domestically, makeover of public spaces and infrastructure; falling income inequality; new technologies taken to scale, triggering productivity burst; new paternalism by government and employers.**
- ❑ **Gen-Xers will be pragmatic senior leadership generation. Millennials enter midlife with strengthening middle class, strong families, and fertility rebound. Homelanders will comprise a “new silent” generation compliantly coming of age.**
- ❑ **Era will feature order, convention, community (and will be weak on risk-taking and cultural creativity).**



To some generations much is given,  
Of other generations much is expected.  
This generation has a rendezvous with destiny.

—*Franklin D. Roosevelt, nomination speech (1936)*

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