

Market Observations July 2018

GLOBALIZATION

Globalization has increased incomes and activity in emerging economies while disrupting employment and public policy in developed economies. The USA-led push to change terms with major trading partners has raised concerns over future rates of economic growth, inflation and investment returns. A trade tariff is a tax that can have one or more effects including: higher price for the buyer, lower profit for the seller, and reduced activity overall. A review of global trends can provide perspective.

Perspective

Globalization - people interacting across borders - has grown over time. A quick interpretation of **Chart I** would be China is “winning” and the USA is “losing”. However, the economies of both countries have grown over the past 50 years: USA +6.4%, China +10.8% (compound annual growth rates). But the growth rate picture is quite different for the first 25 years (USA +10.2%, China +7.3%) versus the last 25 years (USA +4.7%, China +14.4%). And the world economy growth rate slowed from +8.4% to 4.4%. The impact of globalization would seem uneven at best.

Trade concerns have taken a large share of recent headline news but trade for the latest country-specific data was a moderate share of China’s economy (19% exports, 14% imports) and an even smaller share of the USA economy (8% exports, 12% imports), as shown in **Chart II**. The concern is with the net trade differential for each country with China at a net +5% surplus and the USA at a net -4% deficit. The gaps between each country and the other are even more pronounced (see arrows).

Improving standards of living is a globalization goal. Changes for the first decade of the millennium, as analyzed by the Pew Research Center, are shown in **Chart III**. The world generally and China specifically have experienced meaningful population shifts to middle income from low income. A remarkable 14% of the world has been lifted out of poverty. Changes for the USA are less remarkable, with a modest decline in high income and a modest increase in low income. (Note the income definitions are skewed to the downside to fit world conditions. USA-specific definitions would meaningfully increase low and middle, and decrease high.)

Investment Implications

Improving portfolio returns is a global investing goal. Over rolling 12-month periods since 1987, emerging market stock returns have average +14.4% versus +11.8% for the U.S. stock market. At the same time, emerging market returns have been more variable. A disciplined approach to assessing opportunities is a key to enhancing portfolio returns through globalization.



Chart I

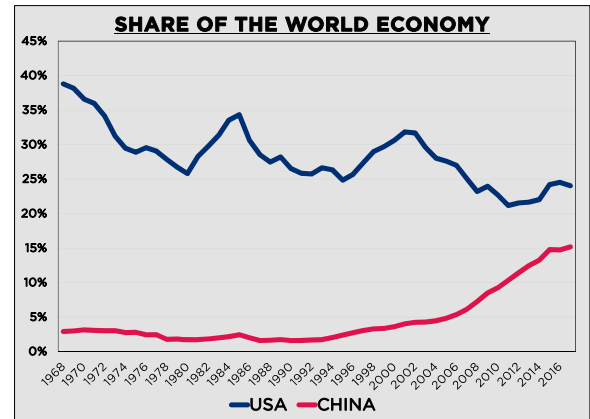


CHART II

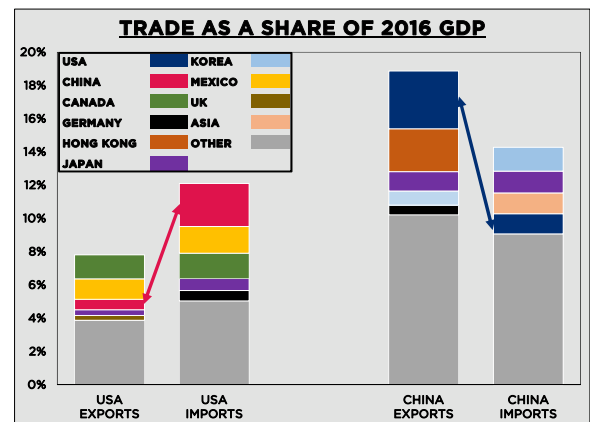


Chart III

