

The World Economic Forum recently completed its 50th annual meeting in Davos as global business and political leaders gathered to discuss the challenges and opportunities they see in the coming year. Donald Trump and Greta Thunberg emerged as the two stars of the event. Trump drew massive crowds at each presentation while the 17-year old Swedish climate activist, and Time Magazine 2019 Person of the Year, commanded the attention of the media. Having participated in the WEF in the past, there are some key takeaways from this year's gathering, but before delving into those I want to touch briefly on what I see as the greatest risk to global economic expansion we have faced since the Great Recession.

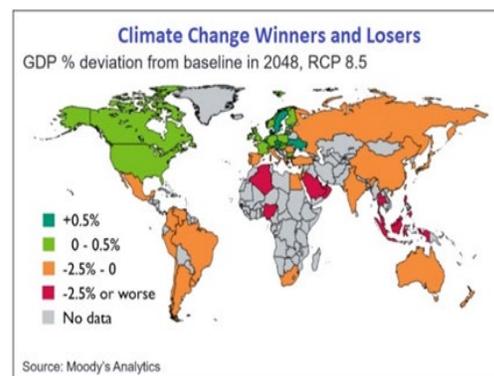
In his book titled, "The Wealth of Nations" Adam Smith proffered a concept known as the Invisible Hand, an unobservable market force that helps supply and demand in a free market economy achieve equilibrium. This is widely accepted today but many do not understand how fragile this equilibrium is. Too much demand and the economy overheats (think of surge pricing from Uber) and Central Banks are forced to step on economic brakes to avoid devastating inflation. Too little demand and contraction occurs leading to recessions.

The coronavirus, originating from Wuhan, China, has the potential to unsettle the fragile equilibrium in the global economy with disastrous effects. The virus, originally spread from contact with snakes, is now being transmitted from human to human in a SARS-type fashion like the epidemic that happened in the early 2000's. While it appears world and national health organizations have been quick to address the risks and an astonishing 56 million people have already been quarantined, the economic damage may already be done.

As a very small example, I had planned to travel to Hong Kong in early March for a historic wine auction that business partners of mine are sponsoring, but have canceled that trip. The economic impact of lost travel for airlines, taxis, restaurants, hotels, etc. when multiplied by the number of people who will change plans because of the outbreak, can become an economic Tipping Point as brilliantly described by Malcolm Gladwell. Some people, out of fear or because of compromised health, will alter plans to go out to eat or go to a movie to avoid potentially being exposed. If not contained or a vaccine created soon, this could be the "off the radar" event that disrupts the global economy.

Getting back to Davos, there were 3 dominant themes that investors would be wise to be aware of:

**Climate Change** – this was the dominant theme in 2020, leading some to refer to the meetings as the World Climate Forum. The media often portrays climate change as if an overwhelming majority of people view it as the existential threat to human survival; but in reality, the opinions are extremely varied. Angela Merkel referred to global warming as "matter of survival" while Trump refers to climate activists as "prophets of doom." Most participants at the WEF held positions somewhere in the middle, but recognize the impact climate discussions will have on the economy and markets. For example, it is likely that the EU proposes tariffs based on the carbon footprint that would lead to retaliatory tariffs by other countries. What seems clear is this debate will influence economic policy soon and the markets are going to have to account for the economic impact and ignore the hypocrisy of the world's elite who are willing to travel around the world on large private planes to have their picture taken with the 17-year old activist.



**Global Trade** – the markets breathed a sigh of relief and surged to new highs when phase 1 of the trade deal with China was signed, but many at Davos believe the trade truce between the world's two largest economies will not last long. More concerning, however, was the likelihood that the US and EU are headed for a trade impasse. Trump was widely quoted as saying dealing with the EU was "frankly more difficult" than dealing with China and many saw that as becoming a self-fulfilling prophecy. The EU is going to push for a digital tax on American companies and the Trump administration will likely counter with tariffs on European steel, aluminum and cars. Stylistic differences will make finding agreement difficult. Trump, like President Xi, are seen as negotiating bullies, leveling threats for failure to adopt what they believe is "fair." Europeans negotiate very differently. They are focused on finding consensus and are more conciliatory. These differences are likely to lead to "lines in the sand" in 2020 negotiations between the trading blocks. Trump, coming off perceived wins with China and the USMCA, will feel he has the upper hand in negotiations. The US exported approximately \$340 billion to Europe in 2019 or about 20% of total exports (compared to \$100 billion to China), while we imported just over \$500 billion

from Europe. (census.gov) If retaliatory tariffs were introduced between the US and EU it would have an immediate impact on the economy and markets.

**Techlash** – this word will increasingly appear in lexicon and was widely discussed at the WEF. Instead of being viewed as the darlings of the digital economy, Facebook, Google and Amazon are increasingly being viewed as threats to social and economic stability. Gone are the days where crowds overflow small venues in Davos to hear about cryptocurrency and ICOs (initial coin offerings), as “BigTech” is increasingly seen as the enemy of progress. George Soros, long time WEF participant, accused Facebook of secretly helping to reelect Donald Trump, something that would come as quite of a surprise to the left-leaning employees of Facebook. Everyone in Davos seems aware of the problems created by Facebook, Google and Amazon dominating our lives, but there are few solutions being offered at this point. All three companies are currently being investigated by State AG’s, Department of Justice, FTC, and the EU, but there is no centralized authority on how to reign in BigTech’s reach. The EU considers itself the leading global regulator of data privacy, but the issue today is more the deployment of AI (artificial intelligence) across social media platforms, something Europe vastly trails the US and China in. Political rhetoric draws cheers from crowds when announcing intentions to break up BigTech, but those same crowds instantly go to Twitter and Facebook to acknowledge their agreement while simultaneously ordering groceries from Amazon. Regulators often find themselves fighting the last war, and as long as that is the case I expect Techlash to be more bark than bite for the foreseeable future.

Politics are always front and center in Davos as business leaders understand the political climate often dictates how economies and markets will function. Trump is far more in his element and positively received than people might expect from news headlines emanating from the Forum. Leaders in Davos overwhelmingly expect Trump to be reelected with most taking a favorable view because of his pro-business and deregulation priorities. Geopolitical guru Ian Bremmer was quoted as saying, “Trump doesn’t drive people crazy at Davos. They think he is going to win a second term and there was zero panic about the prospect that might happen.”

The data today suggests they are likely to be right. Each side of the political divide has loyal followers, but elections are typically determined by the middle, often referred to as Independents. This group, more often than not, votes based on their economic outlook and if they are positive about the economy. Look at these data points:

- The Misery Index (unemployment and inflation) is the lowest since the 1950’s (Cato Institute)
- Highest Consumer Sentiment in the year before reelection since 1963 (University of Michigan)
- Homebuilder Optimism is the highest since 1999 (NAHB)
- Lowest average unemployment through first 3 years in US history (BLS)
- Wage growth for the lowest 25% of workers is the fastest since 2008 (BLS)
- Stock market is at an all-time high

Not convinced? Much is made of Trump’s job performance surveys (first President to fail to get to 50% approval in first 3 years) but the Economy Job approval tells a different story. The latest survey shows 52% approve of Trump’s job with the economy, well ahead of the 3-year mark for Obama (40%), Bush (50%) and Clinton (42%), according to Real Clear Politics.

All signs suggest the global economy is poised to accelerate in 2020 as long as the economic impact of the coronavirus does not become contagion and politicians limit the damage from trade negotiations.

Antitrust investigations by:	GOOG	AMZN	FB
State attorneys general	√		√
US Dept. of Justice	√	√	√
Federal Trade Commission	√	√	√
House Judiciary Committee	√	√	√
European Union	√	√	√

Source: Mehlman Catagnetti