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THE FOUR HORSEMEN OF THE APOCALYPSE
Agenda

The Four Horsemen of the Apocalypse:
- Brexit
- Trade War
- Hong Kong
- Oil

Apocalypse: Global Recession

Investment Outlook
Horsemans 1: Brexit
Letting inertia to do the dirty work

- Deadline: 31 October
- Prorogue
- Options
  - Hard Brexit
  - Negotiated Brexit
  - Elections
  - New Referendum
- Effect of hard Brexit
Horseman 2: Trade War

Timeline

Figure 4
Trump’s tariffs will cover almost all US imports from China by December 15, resulting in special trade protection coverage unmatched in last 40 years

Percent of US imports from China covered by special trade protection

- 96.8% December 15, 2019
- 68.5% September 1, 2019
- 8.1% 2017
- 50.6% September 25, 2018 to current

Note: Special trade protection includes tariff and nontariff protection under Section 301, 232, 201, antidumping and countervailing duties, and other forms of voluntary export restraints.


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**Horseman 2: Trade War**

**Goals**

**US**
- Preserving Tech leadership
- Capping China’s move up the value chain
- Question mark on Alliances
- Preventing China’s economic and geopolitical rise
- External enemy to unite voters
- Encourage democracy

**China**
- Gain Tech leadership
- Move up the value chain
- Build Alliance Network
- Continue economic and geopolitical rise
- External enemy to unite citizens
- Maintain communist power

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David Llewellyn-Smith
Tim Fuller
Damien Klassen

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Horseman 2: Trade War
How does it play out?

• Tit for tat tariffs = China loses
• Huawei = China loses
• Global Supply chain shift = China loses
• China boycott of US goods
• Rare Earths
• China devaluation

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Horsemam 2: Trade War

Risk Scenarios

Quick Resolution
Twin Keynesian Booms?
Escalating Tariffs
Outright sanctions
Proxy wars
Real War

More negative effects
Horseman 3: Hong Kong
Youth driven revolution

One people, two identities
Hong Kong, "How would you identify yourself?"
By age group, % of adults*

All ages
18-29
30-39
40-49
50-59
60+

Source: Hong Kong Public Research Institute
The Economist

*Representative sample of 1,000 adults

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Horseman 3: Hong Kong
Summer fling or something deeper

- University holidays
- Chance for quick resolution lost?
- Chinese negotiating tactics – parallels with Trade war?
- Outcomes

Source:

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Horseman 4: Oil
Demand, meet Supply

Oil market balance
Source: CEIC, OPEC, IEA, MB

www.macrobusiness.com.au
Horseman 4: Oil
Capex > Demand

US Crude Production

US Oil Rig Count

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Apocalypse: Global Recession
Weak economy + external shock = Global Recession

Global manufacturing PMI surveys

Sources: IHS Markit, JPMorgan.

Global manufacturing output

Sources: IHS Markit, JPMorgan, Datastream.
Apocalypse: Global Recession

Vulnerability

Nonfinancial corporations are carrying slightly more debt today than just before the Great Recession (as a percentage of GDP)

- Nonfinancial, noncorporate businesses debt outstanding (US$ trillion, left axis)
- Nonfinancial corporate debt outstanding (US$ trillion, left axis)
- Nonfinancial corporate debt outstanding as percentage of GDP (% right axis)

Source: Haver Analytics; Deloitte Services LP; economic analysis.
Investment Outlook

Early days

• Largely positioned for more negative outcomes
• Not deploying cash yet
• Have a target list of stocks, looking at picking up bargains
Nucleus Investment Insights : Secret Special Guest

next
Thursday 5th September @
12:30pm AEST

Nucleus Wealth Live Webinar page