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Are we at square one? Why are these policies not working?

Are we at square one? After 6 years of emergency measures, what was deemed at the time to be a “once in a thousand” years event – the worst financial crisis and recession since 1929- now appears to have mutated into a chronic ailment.

IMF not upbeat on global growth – EM slowdown not a blip!

The IMF keeps lowering its global growth forecasts, a large part of the global economy is contending with falling prices and the output gap is widening. Exports – which were considered – the last hope are frittering away as reflected in crumbling global trade.

We are looking at slow growth, flat to falling prices and massive overcapacity as the key ingredients in the global economy going forward.

No more buybacks! Just hand over the money!

This is notwithstanding an endless cornucopia of monetary measures, zero interest rates and massive “asset bubbles” across the planet. Needless to say, cash balances at large companies are at record levels – with some arguing that we are beyond buybacks and that the next step should be a direct return of capital.

We are witnessing the ultimate paradox of unbridled capitalism, a massive crisis of overcapacity reminiscent of the pre -1914 Marxist critiques. That ended in the First World War, this shall hopefully not be the outcome of the present round.

ECB QE has not worked – increase the dose!

Turning to the Euro Zone, markets are subdued following a fall in German exports. This is the steepest drop in foreign trade since the worst moments of the recession in 2009. We are starting to see further corroboration of the impact of the emerging markets slowdown. For good measure, French business confidence has fallen.

Euro Zone deflation a time bomb for the banks

Amidst this good cheer, we are seeing increased expectations of further ECB QE – it has had scant effect up to now – try some more! The Euro Zone central bank’s aim is focused not on growth but on impeding a massive revaluation of debt in a context of quasi flat growth. With storm clouds gathering over global growth, an increase in bad bank debts is the last thing the single currency area needs.

Where is the Chinese consumer?

*With regard to China, the consumers appear to be more cautious. This was much in evidence in the massive disappointment by Yum brands – Chinese consumers reeling from the stock market crash are turning their backs on Pizza Hut. The concern is that reluctance to buy has shifted from the “big ticket” items such as cars to the mundane, everyday level. **We see more surprises in store placing at risk the earnings expectations of companies contesting the Chinese consumer market.***

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Brazil – are we at a turning point?

Turning to the emerging markets, in Brazil the non – approval of last year’s government accounts has opened the way for impeachment proceedings. This marks both the first event of this type since 1937 and reflects the catching up of institutions and separation of powers with economic growth.

We view Brazil as distinct from the other emerging markets and see the term as inappropriate for a country which was one of fastest global growing economies in the post-war period. There is nothing emerging about an economy which by the late 1970’s was already boasting world famous industries. The crisis in Brazil is predominantly political.

Free Trade or Fair Trade?

Are we seeing the battering down of the hatches regarding Free Trade? Unfettered commerce and the division of labor – once considered hallmarks of the progressive are now increasingly being assailed by the presidential candidates. The critiques range from not defending the workers sufficiently – to inadequate safeguards for US businesses.

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