

## Holland Macro Views:

# American Dynamism + Trump + Gratitude

We re-attach the piece we published in May which we would ask those of you who cannot recall its contents, or indeed might have missed it the first-time round, to take a look at. Its essence was to try and look at the reverse side of some of the issues that were prevalent at the time, i.e. we looked for a little optimism when we were surrounded by despair. Whilst the overall stock market recovery has eased some of the loss aversion fears that haunted investors during March and April the outlook is still far from easy to assess (is it ever).

We add to some of the themes expressed in the May piece and conclude:

- The economic outlook today is more about psychology we think than numbers
- Biden might not need to win the election as Trump could have already lost it
- The US population's work ethic, dedication to capitalism and desire to consume should not be underestimated. Its combination could yet drive a faster recovery than expected
- Global policy makers' promise to 'do whatever it takes' should not be underestimated
- Low interest rates will remain the yardsticks for housing and property investments. Shorter-term uncertainty presents an opportunity

## A Cialdini-esq global study group of 7.8bn people

If 2008-2010 was as fascinating period of study for those in the world of Macroeconomics, 2020 we think will be a remarkable period for those studying crowd and market psychology. One of the claims we made in our May piece was that a potent combination of factors had created a powerful and arguably unprecedented level of fear in the minds of populations. This was created by the powerful drivers of fear, recency bias, social proof and respect for authority. This was 'Cialdini Influence' principles operating on a global stage. As a result, never perhaps has Buffett's reflection been more apt:

*"In the stock market a good nervous system is more important than a good head"*  
**Warren Buffett**

In our May piece we made reference to the global consumer not being the *wounded animal* that they are during a normal recession, but a *caged tiger*:

*"Our best guess is that in the coming days and weeks the door of the tigers' cage is opened and she is encouraged to come out. That her first steps will be cautious ones we think is both likely and understandable. However, where our view differs from others is that we think once the tiger (consumer) has found her feet she could well roar once again. The debate for us is not the 'if' but the 'when'. A lengthy delay we accept can have knock-on consequences"*

Holland Views- Cages Tiger+ Recency bias May 2020

With Covid cases in the US now spiking higher again maybe it is the caveat at the end of the quote to which we should pay attention rather than the optimism the sentence pointed to! That we think is the too easy conclusion that most commentators are jumping too, (i.e. that an economic catastrophe is upon us that will take an age to recover from).

That this view is pervasive does not make it more likely. Clearly like all investors during this period as the facts have changed so has our level of conviction/nervousness about a more positive view. Our interest however still lies in backing the reliance and innovation of billions of people to find a way to work, live and prosper especially when governments will be throwing all they can at them to help. Much as the combined psychological forces that brought global economies to a standstill were powerful so is the combination that will drive its recovery. This point we feel is under reported and thus under-appreciated.

## American politics – Changed, but could change back

As behavioural specialists will study this period to see the workings of crowds and how fear can so quickly spread, we think US political historians will look closely at this time too for much could be about to change, again!

*"In a democracy, the people end up with the government and leaders they deserve" -  
Joseph De Maistre (paraphrased)*

We have long admired this quote and now have enough grey hair to have seen numerous good examples of it in the types of leaders elected against the backdrops they arrived against. The reasons for the rise of populism we will let others analyse and hypothesise over, but the tenure of Trump (and say, Bolsonaro in Brazil) whilst it brought lower taxes which investors liked, it has also created threats to global stability on many levels. There be many phrases that reflect on the type of presidencies these two populists have had during Covid-19, but these two will do:

*The true test of leadership is how one functions in a crisis*

*Leaders are like tea bags – You don't know how strong they are until you put them in hot water*

### Political tipping points

We do not want to write extensively on the tenure of Mr Trump. However, what is becoming very very apparent to even some of his most loyal supporters is that he (and indeed Bolsonaro) have failed the test of required leadership during the Covid-19 crises, doing so spectacularly and tragically at the cost of thousands of lives; The political outcome of which we think is that Trump is almost unelectable in November.

Ahead of the UK election last year we made a prediction that Johnson would win by a good margin. (That bit at least we got right – the expected UK boom we thought might result less so!!). Tracey was instrumental in our thinking. She being the hairdresser from Cardiff who articulated so clearly why after years of voting Labour she would be backing Boris Johnson. The more and more interviews we watch with past Trump supporters who are now prepared to openly criticise this President the clearer the picture to us becomes. In their eyes, like Tracey a tipping point looks to have been reached. Biden does not need to win the Presidency per se as Trump may have already lost it.

Last year a client very kindly recommended to us the book 'The Road to Somewhere'. It is a great exposition as to why leaders of this nature (Trump, Farage et al) found support.

Your author and almost all readers will most likely see themselves as part of the "anywhere" definition that the author offers (i.e. we are multicultural, have travelled away from our family home for work and lucky enough to be well educated).

To us all, the fact that voters had not considered Messrs Trump and Bolsonaro's leadership qualities before voting for them is perhaps perplexing. But that is the way of democracy at a time when many 'somewheres' felt no one was speaking for them.

That these leaders were so extreme in their views was a reflexive vote by a body of people who felt unrepresented by the political establishment. That as a result, voters ended up with someone so unfit to handle a crisis is we think actually bodes well for the future as it suggests such a person might not be elected to office again for quite some time.

The historians we feel will reflect on this period when a person who lacked arguably almost all of the qualities to be global statesman was still elected as US President. Without Covid-19 we think it quite likely Trump may well have won a second term. Post it we think he is dead in the water. We think investors should plan accordingly both for his eventual replacement by Biden, and also for the lashing out that will surely come as he refuses to go quietly. If we are wrong, it will be because Trump somehow manages to re-invent himself with humility and statesmanlike status in the coming months (let's see).

### [The Three cycles + American dynamism](#)

In past pieces we have talked of the three distinct cycles that we think business managers and investors should consider separately. These being the **Economic cycle** that dominates many an investor and commentators thinking. The **Political cycle** that dominates our airwaves and the **Market Cycle** (stock market + credit) that can lead to bull and bear markets. We observe that for long periods of history these cycles have moved a little more independently from each other than they do today. The scale of the crises we have been confronted with in the last decade (GFC+ Covid) + the need for policy makers to intervene has tied them together.

Irrespective of our political views all of us should be able to see how the US economy has shown strength, resilience and dynamism during recent periods of both Republican and Democrat governance. The reason for this is perhaps easier to see from outside the US than inside, being that excluding Bernie Sanders, US politicians of either party are largely capitalist.

*You can always count on Americans to do the right thing - after they've tried everything else. – Winston Churchill*

The above quote is not meant to criticise the policy makers trying to fight Covid-19 in the US. Far from it (as you will see from the final paragraph of this piece, we actually think criticising those in office now is in many cases unfair due to the immense pressure they are under). In hindsight a number of US states clearly opened their economies too early and are now paying a high price for that decision. Whilst in some cases States waited for, or took, poor national leadership advice faced with a re-surgence, all now: a) will not underestimate the virus and drive new correct policies accordingly b) will not be waiting for national leadership.

As we see Trump as terminally weakened, the same fate surely also awaits State Governors (of any political persuasion) who will have not been seen to have acted in the best interest of their populations.

From an investment perspective however, we think the very driving force that led to the demand for early economic re-opening is the same one that makes us bullish on an American economic recovery. The drive of many Americans to want to work to improve themselves (and consume) remains a powerful force that has survived many challenges. An example of its resilience is below:

During the depths of the GFC in 2010 we started to wonder whether the US capitalist machine would survive the onslaught which was the housing bubble induced collapse. A single interview with a car worker in Detroit surprised us and told us it would. Against the backdrop of Detroit's economic catastrophe, the out-of-work car plant worker said "*the Unions have destroyed this town.*" To hear an unemployed worker blame 'unions', not the 'bankers', nor 'politicians' we thought was testament to the economic spirit and resilience of US capitalism.

This American dynamism we think is something not to bet against. Its collective determination to want to work even in the face of the virus was perhaps not right on this occasion, but the desire was evidence of a force that will continue to drive the US economic machine well after this virus, and the next one, are long gone.

Our May piece spoke of the caged Tiger that we thought could be the western consumer who would bounce back far more quickly than commentators suggest. The record high saving rates (US in May at 23% and 32% in April) and scale of collapse in the discretionary spending that we all enjoy as part of our modern lives informs this view. This combined with our view of fickle human nature and its desire for normality gives us more confidence in a swift recovery than those looking at GDP charts, unemployment data and business surveys. These we feel are backward looking. Whilst the stock market has recovered since we stated our optimism in May the jury is still out on whether the economic recovery will mirror that steep bounce back. The now renewed US lockdowns mean we will have to wait a little longer to find out.

## **Interest rates and whatever it takes + Mr Market**

We will also re-iterate our May view on interest rates and Government policy interventions.

As today's interest rates are used as the discount rate for predictable companies thus justifying their high starting PE multiples, they will remain the appropriate benchmarks for property backed investments as well (both investment and housing). That those with the wrong tenants (retail) or the wrong leverage will fail is of course likely, but affordability in other more secure areas like housing is excellent. We favour companies exposed to these areas and think the Western obsession with property and interest rate arbitrage is not yet broken

That Western Government policy was already moving in the direction of strong fiscal spending pre-Covid-19 was notable. The crisis has just justified such a move across the political spectrum with all sides asking for more, rather than urging restraint. Fighting this "whatever it takes" approach from policy makers by assuming they will fail to generate some form of economic activity we think is foolish. Equally assuming, as some do, that such policies imminently lead to inflation, we do not subscribe to either. This being due to the back drop that is the same as the last 10 years, ie deflationary. Of course, one day that might change, but to assume a dramatic pivot from one extreme to the other we think highly unlikely.

### Mr Market

Far too many column inches we think have been dedicated recently to the stock market level, be it right or wrong. That the US market was dominated by high priced companies that were growing fast was in evidence pre-Covid. That many of these online orientated businesses have seen three years of growth in maybe three months and that the benchmark interest rate is lower suggests they are worth more, all things being equal.

Those looking for comfort could spend time reconstructing the S&P index as it was c.30 years ago. Assuming its constituents were more dominated by bank and oil companies would give a market level perhaps commentators can relate to more.

However, this is not the reality of today as thankfully the globe has powerful businesses that are able to prosper even during such uncertain economic times. That they may or may not be overpriced is a subject for debate, but that they exist is undoubtedly a good thing.

Do we see many pricing anomalies in this faster growth, high PE area of the market? No, but nor do we feel a need to worry about it. Indeed, those looking for a future roadmap for Western market might see Japan as a benchmark. Interest rates and now fiscal spending have us moving in that direction it seems. The cheap shares get cheaper and the financials never perform due to their interest rate reliance. A flat Topix vs. a booming S+P might see many dismiss this analogy. But what might the Japanese economy and stock market have looked like in the last decade if instead of having the technology leaders of the past (Sony, Panasonic et al) they had the leaders of the future (Amazon, Apple, Google).

If there is value in equities today it is in the very sectors hit hardest by Covid-19 that are priced for long term trouble. Buying and holding the best housebuilding, hotel, airline, airport, pub + property businesses that have the brands and management to prosper and the Balance Sheets to survive we think is a money-making idea.

#### [We should know our place](#)

We are just observers of the world and we believe at such a time we should respect that fact. As such we wanted to sign off with one final quote.

As we all navigate this crisis in our private bubbles it is easy to hear or engage in criticism of those in positions of power who maybe we think have made mistakes. Arrogance and dereliction of duty we are prepared to lay at Donald Trump's door, but to most others, whatever the position of authority they hold during this crisis, we think the following quote is apt. Many will have made mistakes they would love to correct, but on average those in public service deserve our thanks now more than ever as we are just commentators. They have had the impossible job of trying to make good decisions when maybe there was none. We have all had periods of intense stress in our lives and should reflect on how hard good decision making is during those periods

*“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.” – Theodore Roosevelt*

With Best Wishes

#### **Andrew & Mark**

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