

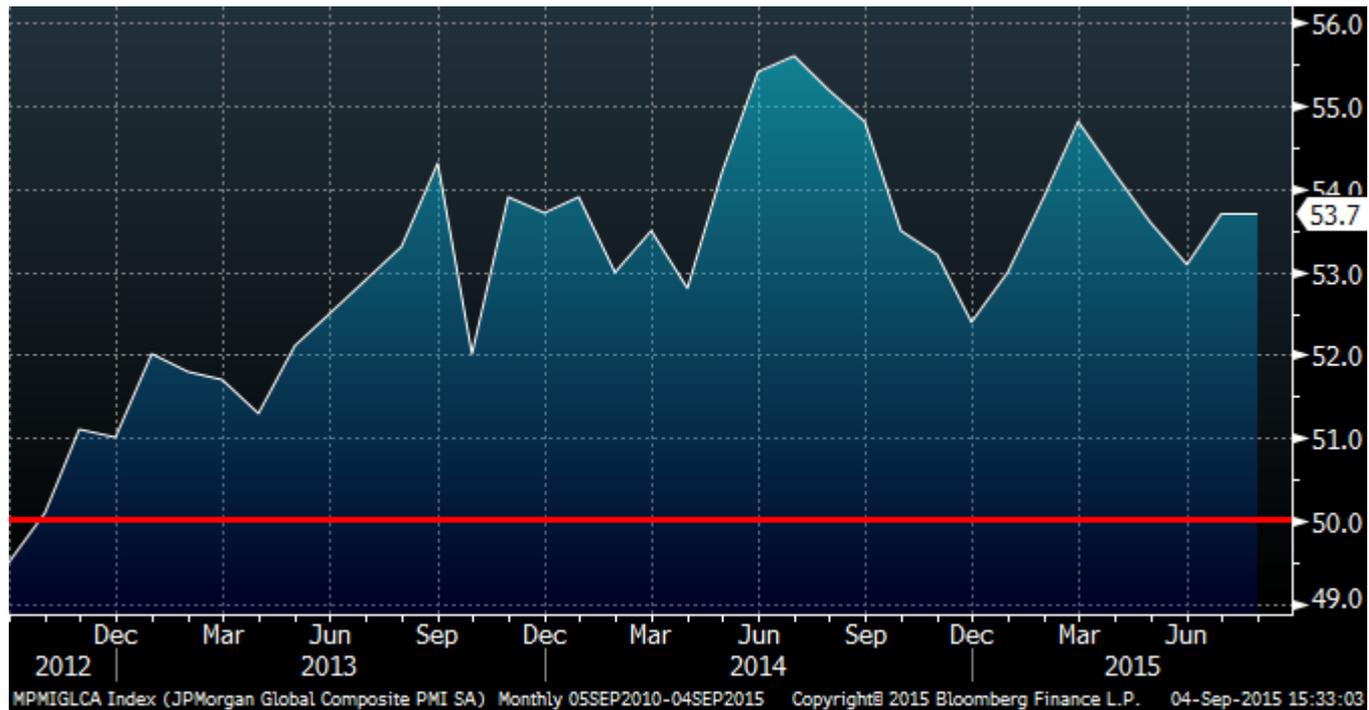
Simply Money:

A (Not-So-Relaxing) Trip around the World



A (Not-So-Relaxing) Trip around the World

- Good news first
 - The world is not coming to an end!



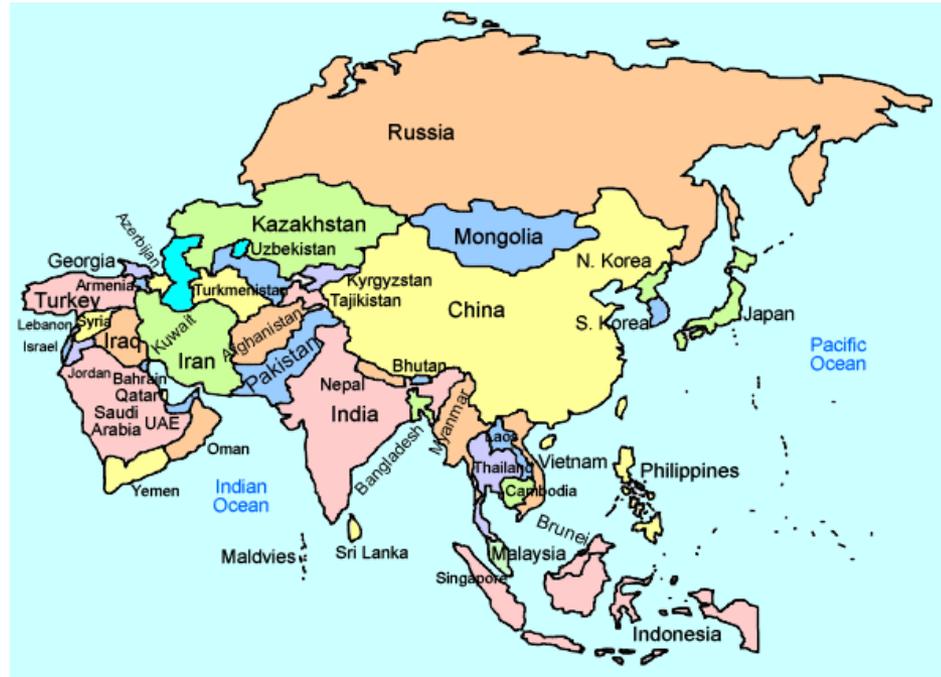
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- Now the bad news
 - There are some areas that are concerning

Country	Composite PMI
Brazil	44.8
China	48.8
Russia	49.3



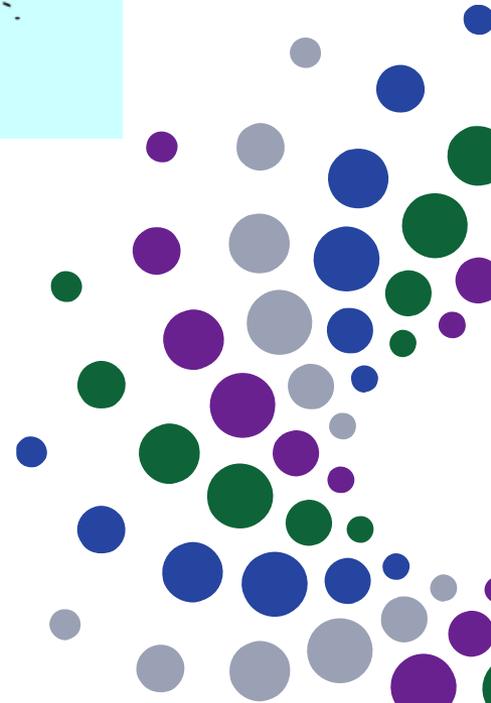
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Asia

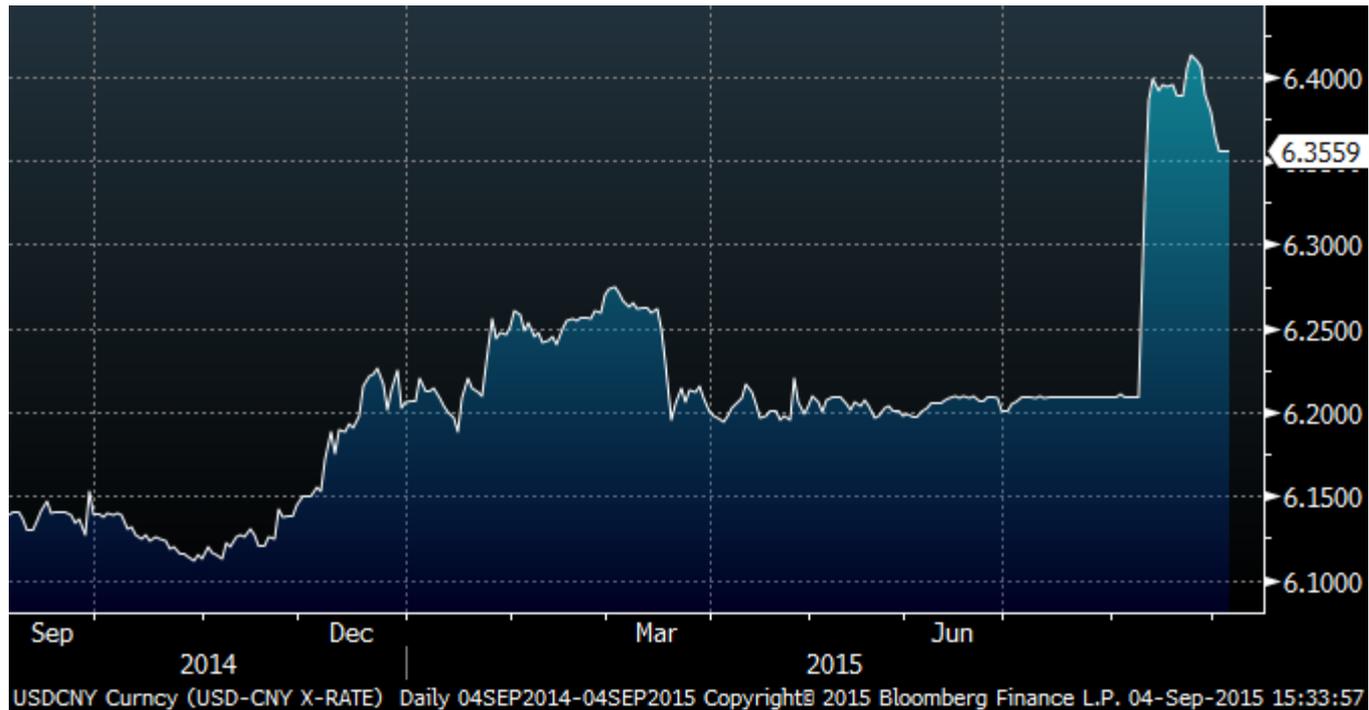


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A (Not-So-Relaxing) Trip around the World

- China
 - Yuan devaluation rocked markets



A (Not-So-Relaxing) Trip around the World

- China
 - Why'd they devalue?
 - Exports stalling
 - Offset Fed raising rates
 - Inclusion in the IMF's currency basket
 - Are they done?
 - Chinese agencies economic assumptions



- China

- What does it mean for the Chinese economy?
 - A 3% devaluation... very little benefit
 - A 10% devaluation... exports up to previous levels, but also capital outflows soar
- What does it mean for the World ex-USA?
 - Weakens other countries' export competitiveness
 - Potential escalation of Asian currency wars





- China

- What does it mean for the US economy?
 - A wider trade gap, but a potential 10% move also means little to the \$17.8 trillion US economy
 - Exports to China are \$154 billion
 - Imports from China are \$467 billion

Scenario	Effect on US GDP
10% yuan devaluation	-0.1%
1% decline in China's GDP	-0.1%





■ China

- What does it mean for the US economy?
 - The bigger concern would be related to US multinationals that do a lot of business in China
 - Only 2% of S&P 500 revenues come from China, but the technology sector is a different story... 10%

Companies	% of Sales in China
Skyworks	83%
Wynn Resorts	70%
Qualcomm	61%
Broadcom	55%
Micron Technology	55%
Nvidia	54%
Yum! Brands	52%



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- China
 - Other countries at risk of de-pegging:

Country	Risk Association	Pegged to...
Equatorial Guinea	Oil	Euro
Libya	Oil	IMF's SDR
Brunei	Oil	Singapore Dollar
Belarus	Russia	US Dollar
Hong Kong	China	US Dollar



■ China

- Will they go nuclear (with our debt)?
 - They are the largest foreign holder of our debt, owning \$1.27 trillion or 9.7%
 - If they were to sell all at once, interest rates would spike, but they probably won't because:
 - China would lose a lot of money – trade with US and debt value
 - China would lose allies
 - China would lose global economic influence



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■ China

- Secret: China has been reducing their US debt over the past few weeks, and interest rates are still very low



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■ China

- A few things to keep in mind:
 - China is slowing, and their official data is suspect:
 - Hard or soft landing... how about a long landing
 - China will continue to pump their economy with fiscal stimulus and lower interest rates
 - China is in the pivot of a generation, going from an export led to domestic demand driven economy

Country	2014 GDP	GDP per capita
China	\$10.4 billion	\$7,589
United States	\$17.4 billion	\$54,597



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■ Japan

- Problem: no inflation for 25 years
- Solution: Abenomics?
 - First arrow... monetary stimulus
 - Second arrow... fiscal stimulus
 - Third arrow... structural reforms
- Tax hikes... the good and the bad



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- Japan

- Will Abenomics work?
 - Probably not... the demographics and debt headwind are too much



- Even if it doesn't work, at least they are committed to low interest rates, bond buying, and buying stocks with government money

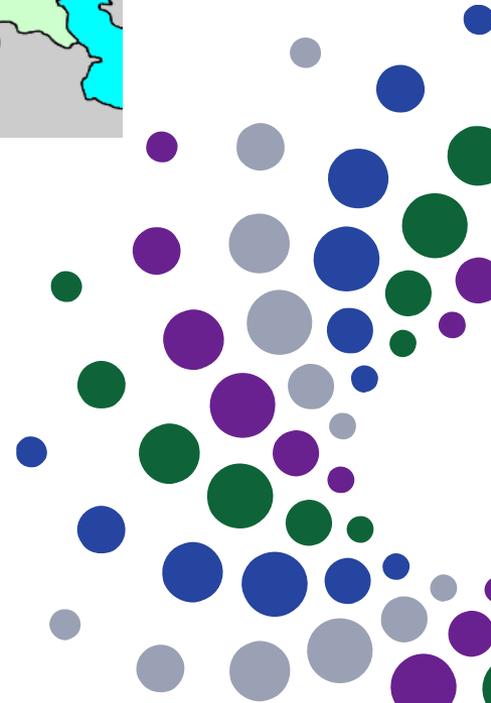
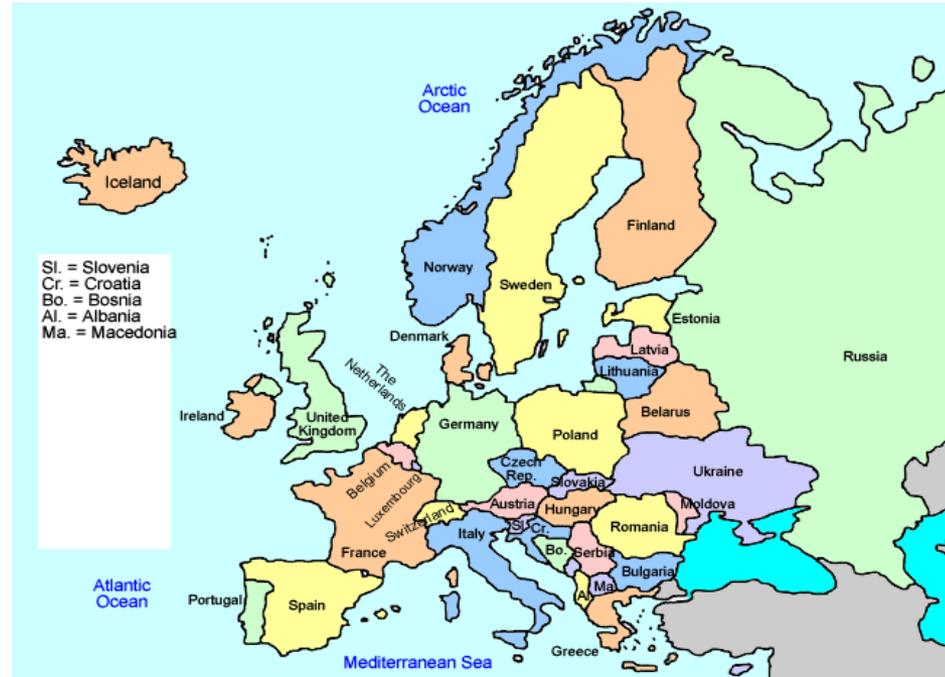


- India and Russia... a tale of two BRICs
 - Modi's reforms have pushed their economy forward with GDP hitting 7%
 - Putin has ostracized Russia because of the Ukraine situation, resulting in severe economic sanctions
 - These couldn't have come at a worse time since Russia gets about half of their tax revenue from oil
 - They are in a deep recession with Q2 GDP of -4.6%



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Europe



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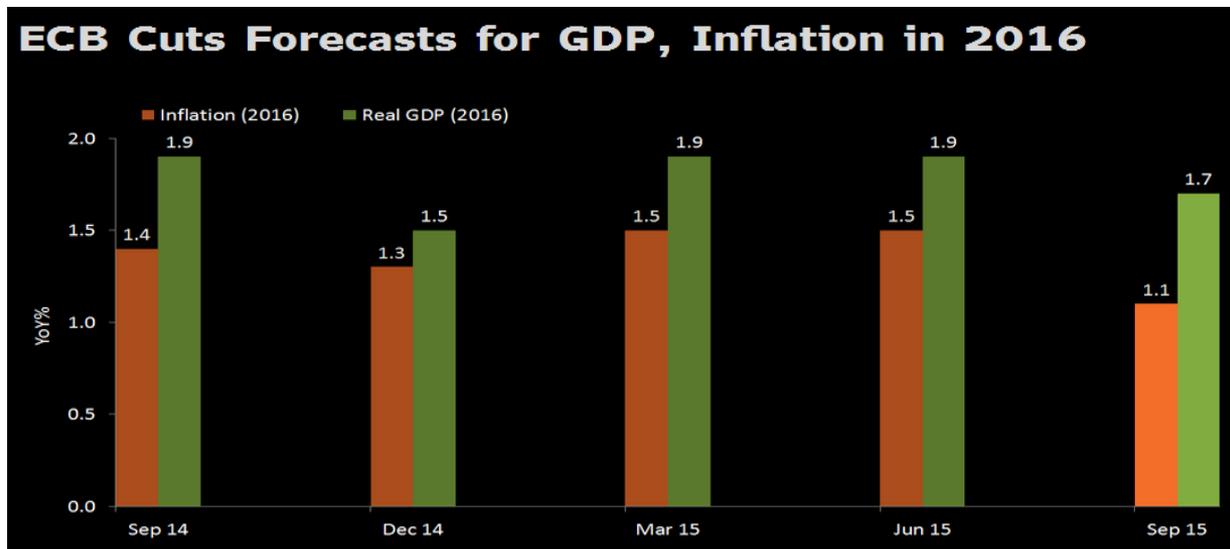
- Greece

- Risk is off the table... for now
 - We'll do it again in 3 years unless...



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- Europe
 - More QE?
 - Whatever It Takes Part II



- Immigration is a big problem... or is it?
 - Demographics is the real long-term problem



- Great Britain

- The biggest short-term European risk is a  Brexit
 - Britain wants more control over social and labor laws
- Possible vote on EU membership in Summer 2016
 - Potentially very good or very bad for Britain
 - Nerves would skyrocket with high hurdles, and risk would be significantly skewed to the downside



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South America



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■ Brazil

- Mired in recession since June 2014
- What's gone wrong lately?
 - Export prices plummeted
 - Distrust in government (scandal)
 - No consumer confidence
- What lies ahead?
 - Debt likely downgraded to junk status
 - Rate hikes
 - Recession well into next year



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North America



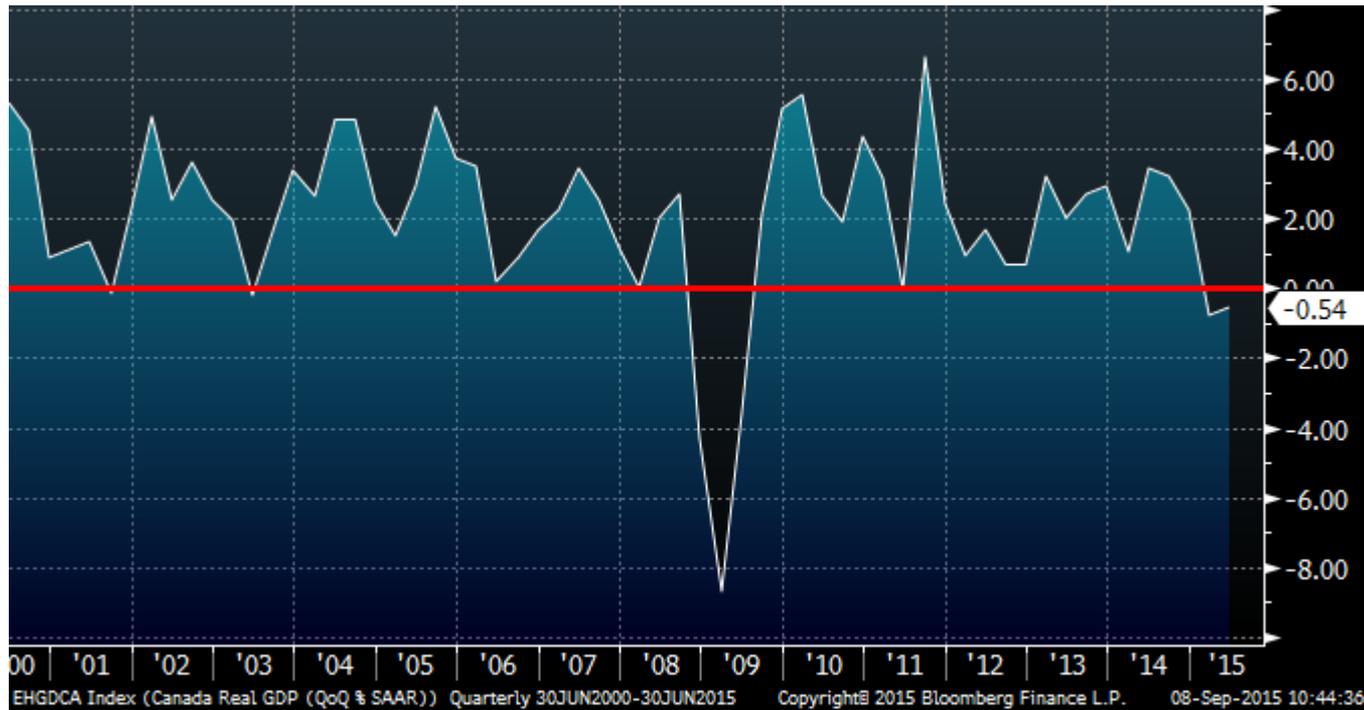
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■ Canada

- Reliance on oil has resulted in a recession for our largest trading partner
- Prime Minister election on October 19th



■ Simply Money Point

- We've hit a BRIC wall
- Chinese growth will continue to moderate over the coming years because of the pivot (and demographics)
- More Chinese yuan devaluation
- Demographics and debt will hinder Japan for years
- The door is open for expanded Euro QE
- European migration will cause headlines, but have limited economic impact
- Watch for Brexit risks to escalate
- Don't expect much from Brazil, Russia, or Canada until commodity prices rebound



- **Simply Money Point**

- These are the known risks
- It doesn't mean investors should run and hide
- Investors will need to decide if they think these problems will get worse or better... it's all about expectations
- The global economy is slowing, but not shrinking... this is not 2008



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