

Market Outlook:

Next generation

"Globalization", a buzz-word of the 1980's, was supposed to be a good thing. Think about it...more markets open to more vendors, with profits not limited solely to one specific region. Unfortunately, we are getting a more comprehensive look at the real effects of this noble idea.

We now know, firsthand, the pain that can be inflicted upon all economies when even one minor player fails to hold up its end of the bargain. Opening markets to goods, capital investment, and various services either can ignite wealth upon the population or demolish it in the span of a few business quarters.

The concept of integrated marketplaces is still valid. Generations of investors and traders during the last century set in motion a transformation in commerce whose net effect has been remarkable improvements from "local" trading stations and "tribal" bazaars to sophisticated networks of commercial traffic. Global exchange has created access to new geographies and brought down political/social systems that repressed free trade, as well as converting once impoverished nations into economic juggernauts. Unfettered capital markets have increased per capita income all around the world, while expanding opportunity and GDP amongst countries once thought fallow.

These benefits have come, in part, because demand for goods has created a new economic paradigm shift, from *local access only* to minerals, commodities, and products previously unobtainable.

But, as mentioned earlier, current and widening financial crises, political tensions, and regional terrorist activity have also imposed a major setback to global trade. When leaders fail to protect the "*global*" part of globalization, choosing to focus instead upon jingoistic objectives, integrated markets retreat into reverse. Protectionism is bound to arise when nations feel threatened or isolated. After all, leaders are elected to protect their own country's welfare.

Yet, despite verbal and moral commitments to "free" trade, financial and political institutions in this decade have effected a dire self preservation model, and have chosen to rein in spending and lending by discriminating against borrowers from all quarters. This retreat from the capital markets occurred most blatantly after the credit crisis of 2008, exacerbating and elongating the very problem they were hoping to avoid. As a result, the recovery worldwide has been slow, if not cautious.

For example, persistent unemployment owing to this global slowdown has forced a self fulfilling negativism upon the marketplace. As the recession persisted, institutions, persons, and governments hunkered down, held on to cash, and, in effect, imposed "penalties" upon their global cohorts by refusing to play with them anymore. So what do their global partners do as a result? They hunker down even more, and get angry, or try to get even.

Winners and losers

Why the history lesson? **Because the likelihood of the current recovery accelerating is primarily dependent upon currency, lending, commercial, and commodity synergies robustly developing again.**

If the US "suspects" China of over-regulating its currency to retaliate against imports/exports, the US will act accordingly to protect its interests. If the social, cultural, and economic differences of countries within the EU makes them vulnerable to one member's failure to adhere to the rules, the whole continent must mobilize into remedial action. If a regional cartel chooses to hoard valuable commodities, the world's economic viability becomes hostage to the whims of a potentate or General.

Multilateralism requires facing up to certain moral, ethical, and economic responsibilities. As nations become more "isolationist", I would expect the capital markets to freeze up as they have recently. We do not find this to be encouraging for the prospect of earnings and capital gains from multinational corporations.

Competition is vital for free markets to flourish. But as spitefully intentional surplus develops in necessary products (e.g. foodstuffs, energy, hard goods, and commodities) the stage is set for boom and bust economic cycles like the kind we have recently been experiencing, as well as an exaggerated and expanding global wealth gap fraught with conflict consequences for years ahead.

The markets know we are on this redundant merry-go-round. That's why volatility has increased dramatically. The outcome is not yet certain. Although the *ideals* are without reproach, it is the *execution* of globalization that requires further rehabilitation.

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