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Is this the revolution?

Despite the jingoistic rhetoric that is coming from the US Presidential primary debates, I think it is important to reflect upon how interdependent the world's economies have become, and how significant those relationships are to global and domestic investment prospects.

Consider the complementary skill sets and factors that go into today's finished products, and you might have technology from Japan, metals from South America, engineering from Germany, and manufacturing from China all in one unit. In fact, many multinational corporations might have supply chains that consist of thousands of companies spread around the globe.

Further, complementarities might span several capitalization realms, and spread amongst developed and emerging markets. The numeric advantages to these workforce harmonies drive globalization and product innovation. This division of labor between low cost manufacturing and highly sophisticated product modeling makes it possible for mass market distribution and fulfillment of consumer's needs in a variety of everyday products such as telephones, appliances, automobiles, and clothing. Recall that it was just in the last generation, the 1980's, that a halcyon call was proffered by governments, financial institutions, and ethicists that we mobilize that generation's economic recovery through *globalization* and *intra-nation commerce*. *Emerging markets* were all the rage, the topic of all commercial conversations, the savior of a stagnant economy and financial structure...or so it was hypothesized.

Most everyone agrees that these confluences and synergies produce jobs and corporate profits. As long as the economies of connected nations are growing, the trend for profits, consumer savings, and financial market activity can sustain. To withdraw from a vibrant free trade, as we are hearing in the political forums, might pass the "nationalism" test, but does little to make an integrated global marketplace whole.

Markets

The financial markets are fond of earnings. But some are fretting that global economies are actually heading down a persistently different direction, one in which earnings growth is occurring without top-line revenue growth. This worry is coming from a variety of sources not the least of which is a failure significantly to push consumer spending despite historically low interest rates. Unfortunately, the gap between *incentivizing spending* and *actual spending* is at its widest in generations. That is not good news for market (earnings) watchers, who desperately want to see an upsurge in consumer confidence and commensurate levels of inventory expansion and discretionary expenditures.

Right now, any concerns about inflation have been temporarily put on hold while bankers and politicians try to figure out the right mix of monetary and fiscal stimulus to apply.

In the meantime, investors are seeking "safe", consistent returns from an asset class (equities) not known for assuaging conservative investment objectives. Lacking anything better to do with their money, investors are forced, by default, to buy stocks, which suggests that they grudgingly are willing to tolerate short term risk for ultimate long term gains. However, as January showed, most are *not* willing....or certainly not comfortable enough to withstand capital depreciation in what they call "non-risk" assets.

Thus, the market is caught between two missions: (1) worrying about economic growth and true earnings acceleration and (2) seeking alternative vehicles with which to generate yield and capital preservation. Not exactly the kind of definitional either/or that textbooks told us is the difference between stocks and bonds!!

I have argued for a long time that the linear acceleration in stock prices over the past 3-5 years has been a counterfeit choice and mainly the product of speculation, not investment, in securities classes that could not sustain. Without commensurate increases in interest rates, economic demand, and psychological reassurance, the global bourses are in uncharted waters.

The problem with the market's performance in 2013-14...if you were to say that there was a problem....is that it set up an unrealistic range of expectations on the part of those who clearly benefitted, but who later complained the loudest when the inevitable capitulation occurred, decimating both their portfolios and their prospects.

If only the fundamentals, not just the lowest valuations, had been the engine of equity price appreciation....

Strategy
Digging below the obvious set of data, however, I anticipate a sea change occurring which might offer a different set of interpretations about the current and future landscape.

"As tangible assets go, so goes the market". This is not simply a phrase or slogan, but a statement about the relationship between how we burn fuel, raise cattle, harvest corn and other crops, horde gold, mine for metals, produce "safe" chemicals, build steel bridges, construct homes, etc. These are the indicators of political policy and economic vitality that might reinvigorate a moribund basic materials sector and a stagnant economy.

The same goes for a turnaround from the credit markets. Additional yield, although initially punitive to borrowers, would add significant value to savings accounts and bond portfolios, and perhaps spur an equilibrium between stocks and bonds, also known as the ***"alternative investment scenario"***. Rather than the markets being engulfed by panic and anticipation, rising rates might leave only the "players" to buy stocks while the rest of the field could find a stable, more serene, place to park non-risk monies.

The psychological compensation, alone, would be incalculable, not to mention the trillions of dollars worldwide that would be amassed from return on bond yields.

Additionally, our research posits an economic shift developing from technology that inspires a greater efficiency in healthcare, aerospace, industrial development, and alternative energy. These generational shifts are different from our grandparents' industrial revolutions. These paradigm transfers signal that new and innovative tools are being applied to old concepts to produce better results. My research into agriculture and water topics, for example, has generated a host of corporate brands which epitomize an optimization of social and financial trends along with maximum capital gains opportunities. This type of "quantitative" target modeling has worked in the past, and will work going forward, to uncover a variety of sectors and stocks that parallel the unique opportunities for our future.

Conclusion
So, what's holding back the markets and global economies from expanding widely beyond the borders of their own current limitations?

I believe it is the way we, as consumers, have held check on our hope and expectations. Despite the best efforts of scholars, religious leaders, and politicians to inspire us, there is much less hope...and less altruism...than at any time in our generation. We act as if we have seen this before, *"been there, done that", "what's the point",* and *"who is there to protect my interests?"* Lingering public anger at politicians and financial institutions is blunting the efficacy of policies and programs orienting around economic revitalization.

There is so little empathy in the world today that any expression of sympathy is looked upon as weakness, and with skepticism and disdain. It seems as if the citizenry is mistrustful of anyone who thinks differently than they do.

The financial markets are being held hostage to that lack of empathy. Consumers buy only the necessities, not just because that seems only to be what they can afford, but because they are turned off by the greed and profit motivation of the companies from which they are purchasing.

Freeing up interest rates is the domain of the Federal Reserve and global central banks. Releasing our suspicions is another sphere of influence, altogether.

Suggested Balanced Account Asset Allocation, Q2, 2016

Equities:	**55%**
Fixed Income:	**25%**
Cash:	**20%**

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

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