LUNDGREEN'S
ECONOMIC SPOTLIGHT

WEEK 12 2018



REACHING GLOBAL MILESTONES

Lundgreen's Capital constantly grows its business and continues to gain international recognition



LUNDGREEN'S CAPITAL:
Advising large and professional clients about investments and financial risk management.



PETER LUNDGREEN:
Founding CEO of Lundgreen's Capital and a trusted advisor for clients. Peter is also a conference speaker and an experienced source for the global media with 100+ appearances annually.



LUNDGREEN'S CHINA FUND
A mutual investment fund listed in Luxemburg investing in carefully selected value stocks and attractive growth stocks plus bonds.

The market never sleeps - we're always up for a conversation.

Lundgreen's Capital
professional investment advisory

Hammerensgade 1, 2nd Floor, DK – 1267 Copenhagen K, Denmark – Phone +45 70 26 88 55 – www.lundgreenscapital.com

Lundgreen's Capital is a licenced investment advisor regulated by the Danish FSA

A TRADE WAR IS A RISK, **BUT NOT THE BIGGEST RISK**

The U.S. tariff on steel and aluminum has generated fear among investors, but what the financial market fears the most is not necessarily the greatest risk.

The first thought I have regarding the tariffs is in line with the general consideration among investors, namely the risk of an escalation into a genuine trade war. It certainly is worrying that President Donald Trump's senior economic advisor Gary Cohn and U.S. Secretary of State Rex Tillerson have been fired. Clearly, the hawks around Trump have won the internal battle, so the world can expect more thunder via tweets from the White House. This is not equal to a trade war, but the risk for an escalation is increasing.

The U.S. steel tariff serves at least two purposes. As graphic one shows, it is China, the EU and South Korea that the United States intends to hit. But my consideration is whether the U.S. government is right with the claim that the global WTO agreement regulating import duties is obsolete. The agreement was last renegotiated in 1994 i.e. for approximately 25 years ago and one has to keep in mind how the world looked like then. The whole bloc around the Soviet Union had collapsed economically, and therefore the United States had a security policy interest in an economically strong Western Europe. For this reason, the United States may have granted the EU a number of benefits at its own expense back then.

Several analyses I have seen point out that the EU has significantly more advantages from the WTO agreement than the U.S. has. For the same reason, I see it as an increasing probability that a renegotiation could be a reality. The three major economic zones: EU, U.S., and China would under new negotiations, protect their most important business sectors the most. Conversely, there is a risk that some minor sectors may be sacrificed.

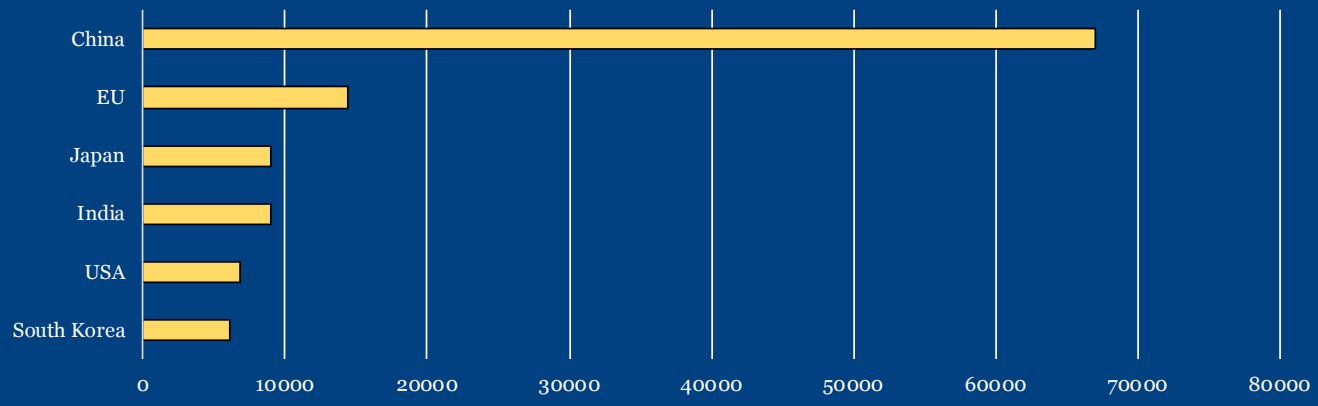
Now it is far from certain that there will be a renegotiation of the WTO agreement, but as mentioned, the possibility is increasing. Despite new negotiations can be years ahead the stock markets will take this into account very quickly though it will be a difficult prediction, in particular to judge which sectors that could be squeezed.
Trump's new import tariffs also has a domestic angle, or political mission so to say. The mid-term elections on 6th November are coming closer and everything concerning steel is closely linked to the areas with Trump's core voters. The potential escalation towards a trade war partly depends on how President Trumps popularity in the opinion polls develops towards the mid-term elections. If Trump comes under pressure in the polls, then there is a rising risk that more products will be affected by American import tariffs.

But the question is whether Trump's latest import tariffs is actually a manifestation of a global move towards more countries increasing a domestic or a protectionist orientation of their economies?

WTO confirms that global trade is still in a healthy development. Last month, the organization released its „Outlook Indicator" at index 102.3 which is „growth above trend". Based on this reading the organisation concludes that global GDP

Graphic 1:

WORLD LARGEST STEEL PRODUCERS (1.000 TONS IN JANUARY)



Source: WTO

growth will also be cheerful in Q1.

But still, a growing number of countries are trying to boost the GDP growth via public spending. In Japan and India this it outspoken, and in China the country's political leadership has gained significant influence towards major business decisions, including investments. These are Asia's three largest economies, and in Europe, the next six months will show if Germany and France can find together. If it succeeds then it becomes a key issue how EU via a new joint budget can initiate new growth – based on a political template.

This development I regard as an old-known attempt to create domestic growth without giving other countries an improved export opportunity. My concern is that many countries increasingly try to shield their growth by initiating more public investment, but at the same time it increases the risk of unhealthy growth. I pay attention to this development as this kind of GDP-growth is not necessarily an argument for higher share prices.

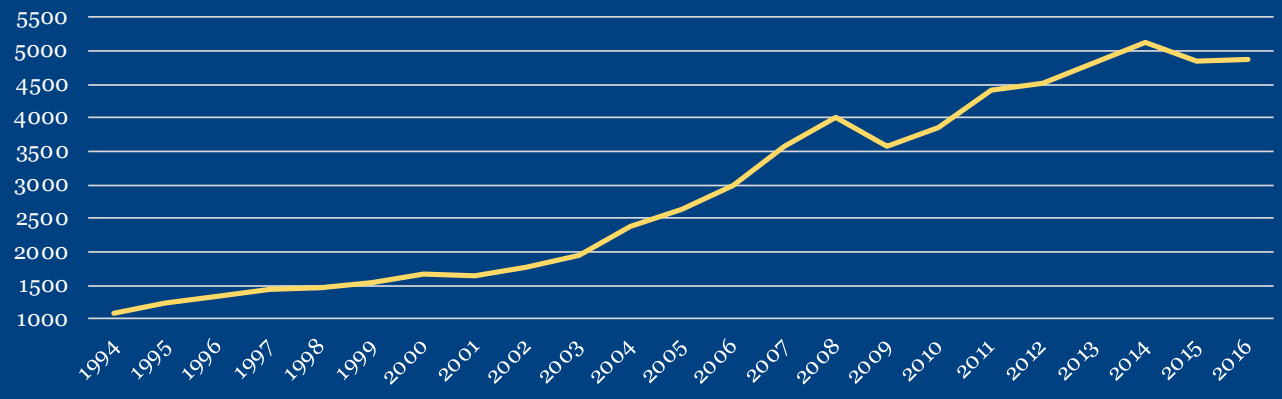
It will be more difficult for investors to navigate in a tighter strait with a threat of escalating trade tensions, the rising risk of a renegotiation of the WTO agreement and an increasing number of countries with more unhealthy GDP growth.
Many global companies will surely stay stable as always, simply because they are global, which is a safe haven for investors. Another option for investors is to invest more in countries with increasing flexibility and a willingness towards reforms. These countries have become rare because the development goes the other way with increased national protectionism.
The U.S. tax reform was a true reform, but it probably loses the positive GDP growth effect after 1½ year. Afterwards, the country is burdened by an even higher government debt that will dominate the economy and limit the flexibility.

Despite increasing public investment, the Philippines is one of the few countries that appears to continue the reform process for several years ahead – I argue that this is one of more reasons why private consumption in the Philippines will move the economy forward the coming years. The biggest unknown factor is in my opinion the British economy. Either the whole economy falls apart as a result of the Brexit decision. Alternatively the political level in U.K. finds the way forward with an open and flexible economy that will attract capital and investment, and thus labour. I consider the chances to be quite reasonable and therefore consider U.K. to provide interesting investment opportunities down the road.

The final way for investors to maneuver is of course to have an increased focus on sectors that do not produce goods. It is of course service sectors and they grow as shown in graphics two. This shows the value of global export services, but converted into a relative comparison then, service now accounts for almost 25 pct. of global exports. The sectors with the highest growth are the travel industry, IT and web-based service and telecommunications, where my fondness is for IT and web-based service.

Graphic 2 **:**

GLOBAL EXPORT OF SERVICE IN TRILLION U.S. DOLLARS



Source: Verdensbanken, Washington D.C.

Disclaimer: This report has been prepared by Lundgreen's Capital ApS for information purposes only. It is not an offer or solicitation of any offers to purchase or sell any securities, currency or financial instrument. The evaluations, calculations, opinions and recommendations of this magazine should not replace the making of own opinions about whether to make any such transaction. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Lundgreen's Capital ApS, its affiliates or staff may perform business services, hold, establish, change or cease to hold positions in any securities, currency or financial instrument mentioned in this report. Additional information is available from Lundgreen's Capital ApS. This report is not intended for anybody outside the European Union. Lundgreen's Capital ApS, Copenhagen, is acting as an Investment Management Advisor under the inspection of Finanstilsynet / Danish FSA. This publication is published pursuant to Executive Order No. 1234 of 22 October 2007 on the compilation and dissemination to the public of certain investment research. It is strictly prohibited to use the photos in this publication in any way. Short quotes from the publication are allowed if the source is mentioned. In case that a whole section or article is used it can only happen if it has been approved by Lundgreen's Capital ApS. The contact details can be found on the website www.lundgreens.com.