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THE FOUR HORSEMEN OF THE APOCALYPSE

Agenda

The Four Horsemen of the Apocalypse:

- Brexit
- Trade War
- Hong Kong
- Oil

Apocalypse: Global Recession

Investment Outlook

David Llewellyn-Smith
Tim Fuller
Damien Klassen

Horseman 1: Brexit

Letting inertia to do the dirty work

- Deadline: 31 October
- Prorogue
- Options
  - Hard Brexit
  - Negotiated Brexit
  - Elections
  - New Referendum
- Effect of hard Brexit

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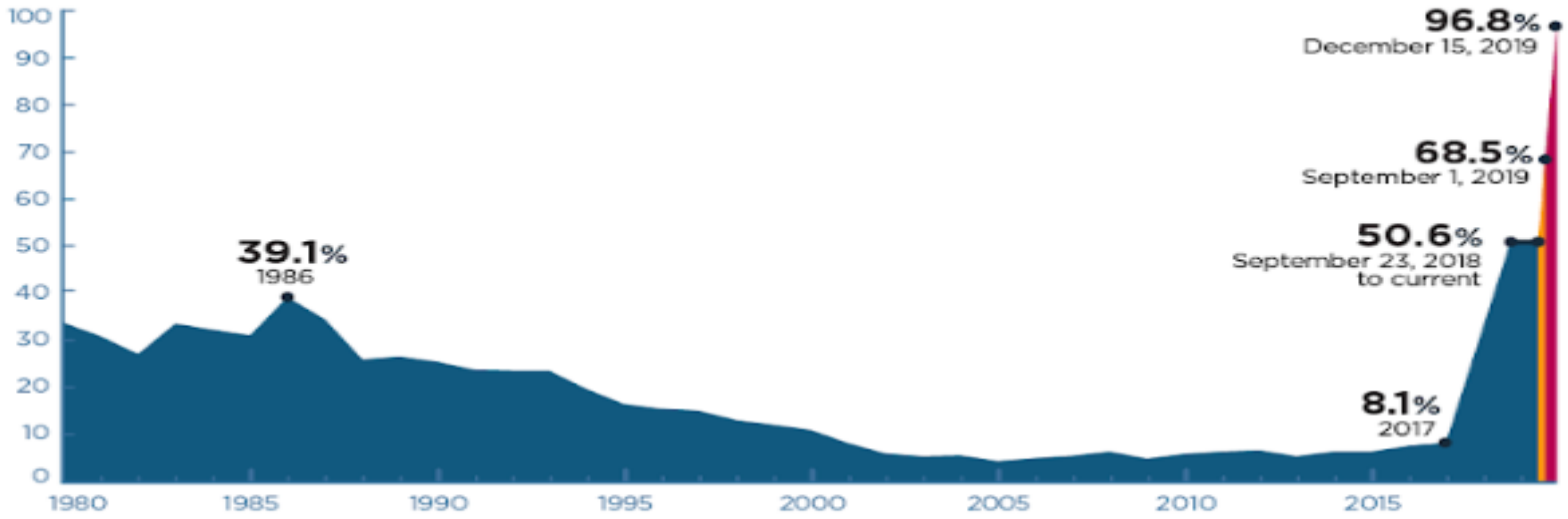
Horseman 2: Trade War

Timeline

Figure 4

Trump's tariffs will cover almost all US imports from China by December 15, resulting in special trade protection coverage unmatched in last 40 years

Percent of US imports from China covered by special trade protection



PIIE

Note: Special trade protection includes tariff and nontariff protection under Section 301, 232, 201, antidumping and countervailing duties, and other forms of voluntary export restraints.

Sources: Updated from figure 3 in Chad P. Bown, 2019, *The 2018 US-China Trade Conflict After 40 Years of Special Protection* (PIIE Working Paper 19-7). Author's calculations based on products listed by the US Trade Representative at https://ustr.gov/issue-areas/enforcement/section-301-investigations/section-301-china/300-billion-trade-action.

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Horseman 2: Trade War

Goals

US	China
• Preserving Tech leadership	• Gain Tech leadership
• Capping China's move up the value chain	• Move up the value chain
• Question mark on Alliances	• Build Alliance Network
• Preventing China's economic and geopolitical rise	• Continue economic and geopolitical rise
• External enemy to unite voters	• External enemy to unite citizens
• Encourage democracy	• Maintain communist power

David Llewellyn-Smith
Tim Fuller
Damien Klassen

Horseman 2: Trade War

How does it play out?

- Tit for tat tariffs = China loses
- Huawei = China loses
- Global Supply chain shift = China loses
- China boycott of US goods
- Rare Earths
- China devaluation

Horseman 2: Trade War

Risk Scenarios

~~Quick Resolution~~

~~Twin Keynesian Booms?~~

Escalating Tariffs

Outright sanctions

Proxy wars

Real War

More negative effects

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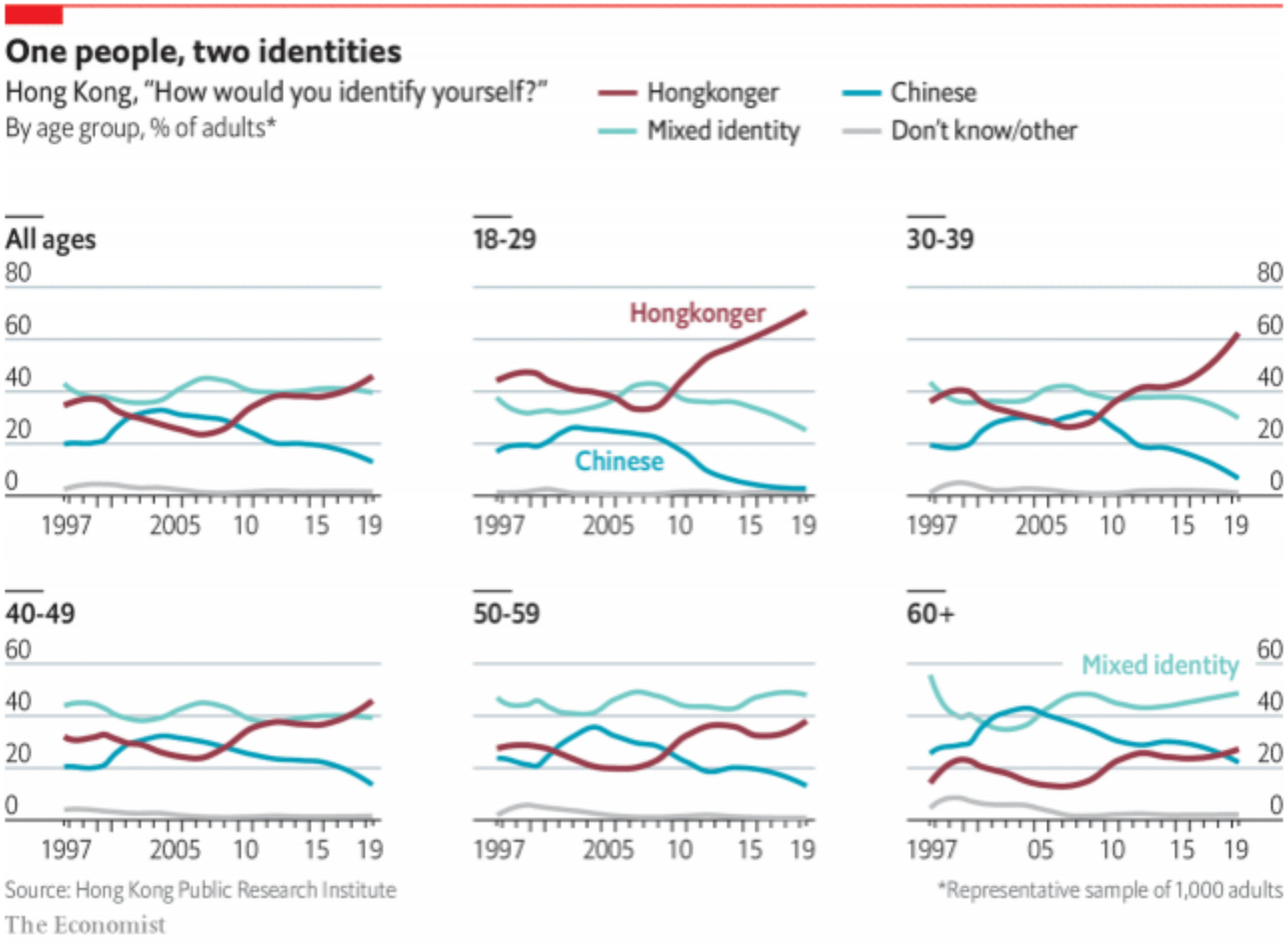
Horseman 3: Hong Kong

Youth driven revolution



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Horseman 3: Hong Kong

Summer fling or something deeper

- University holidays
- Chance for quick resolution lost?
- Chinese negotiating tactics – parallels with Trade war?
- Outcomes

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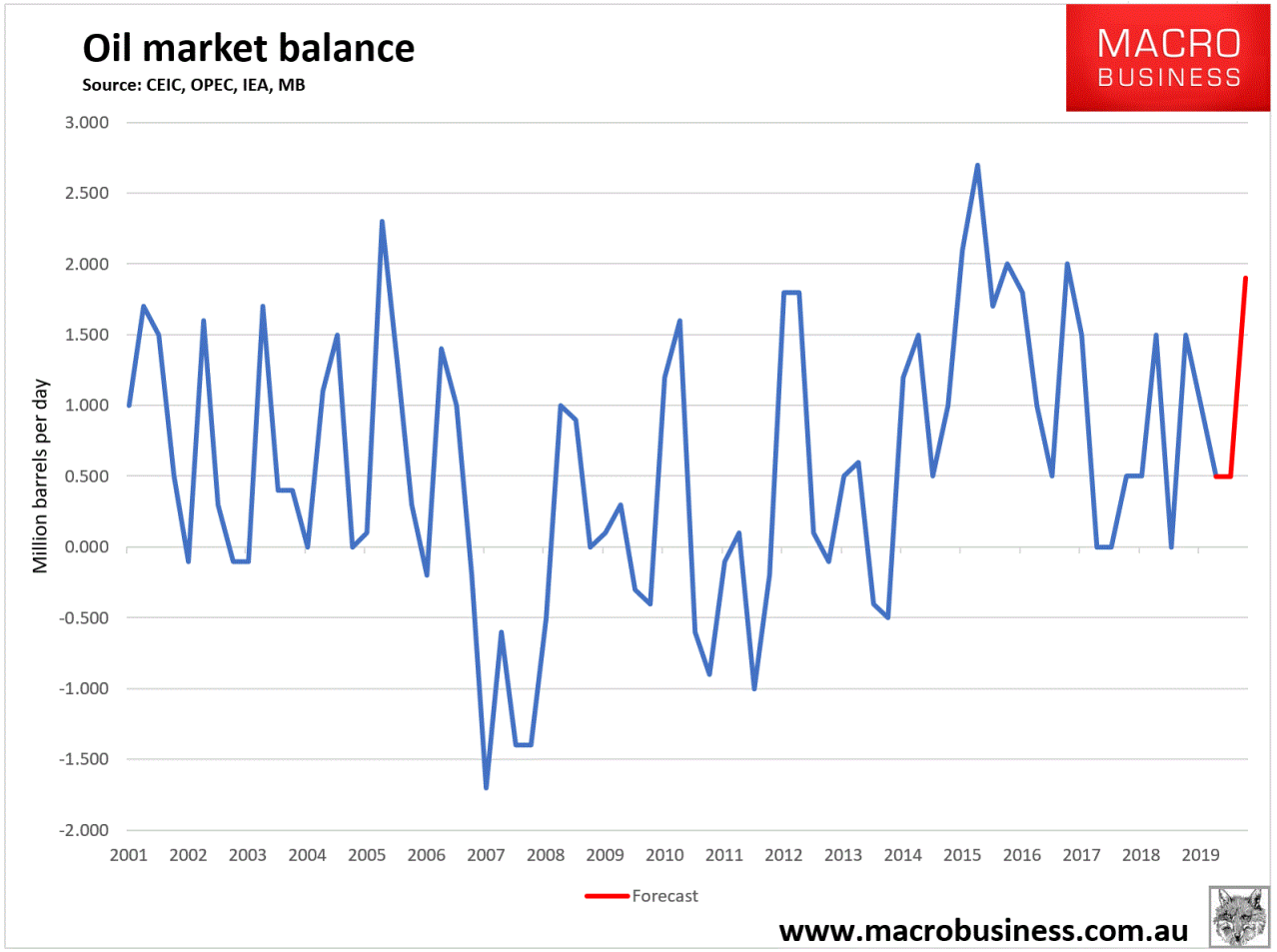
Horseman 4: Oil

Demand, meet Supply



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Horseman 4: Oil

Capex > Demand

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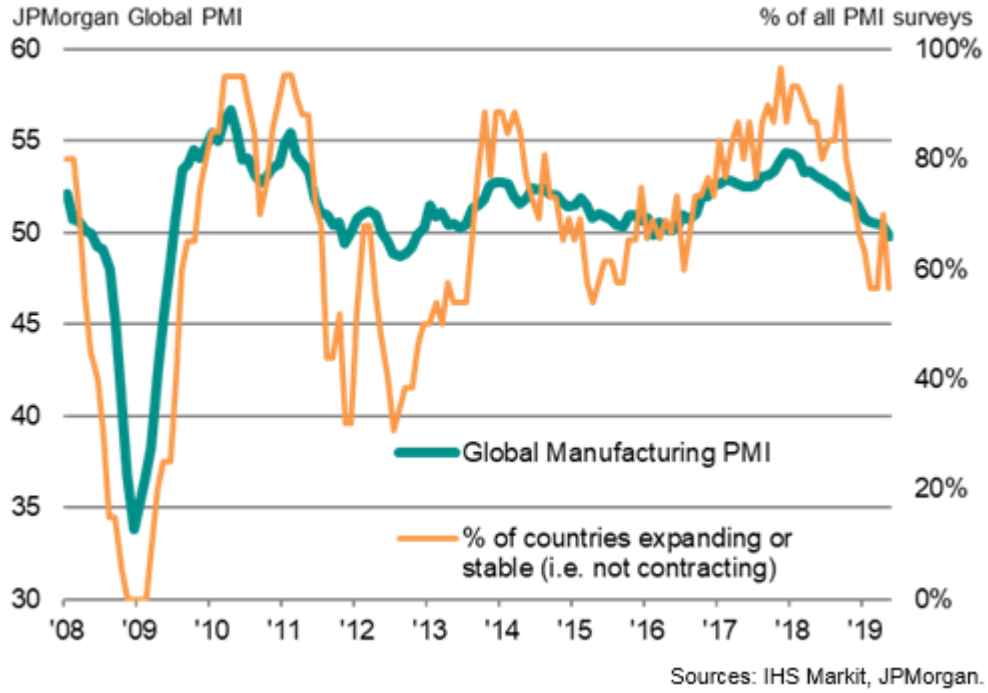
Apocalypse: Global Recession

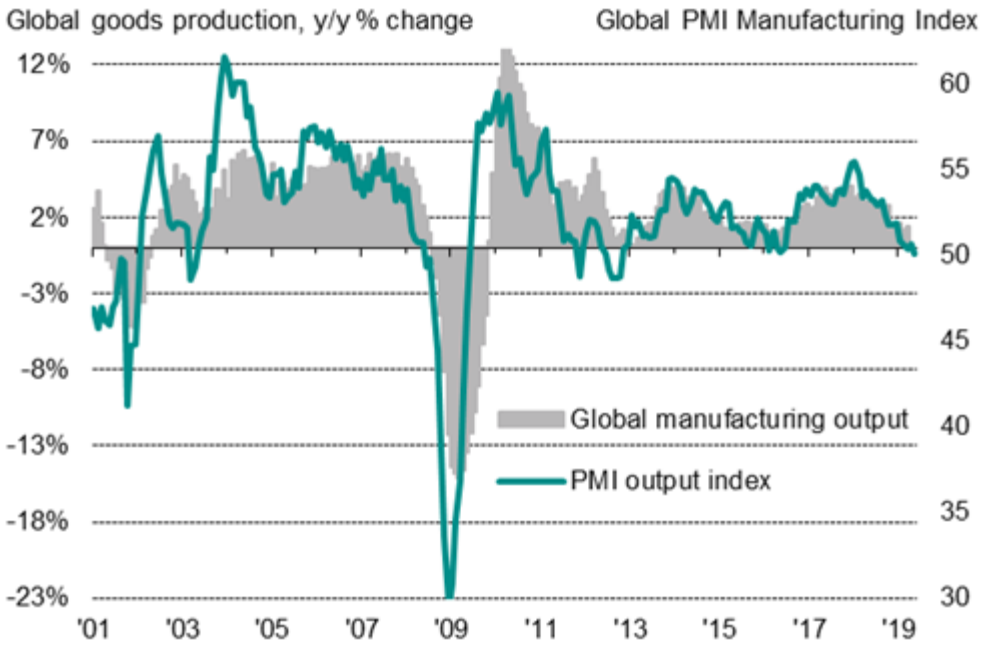
Weak economy + external shock = Global Recession

Global manufacturing PMI surveys



Sources: IHS Markit, JPMorgan.

Global manufacturing output



Sources: IHS Markit, JPMorgan, Datastream.

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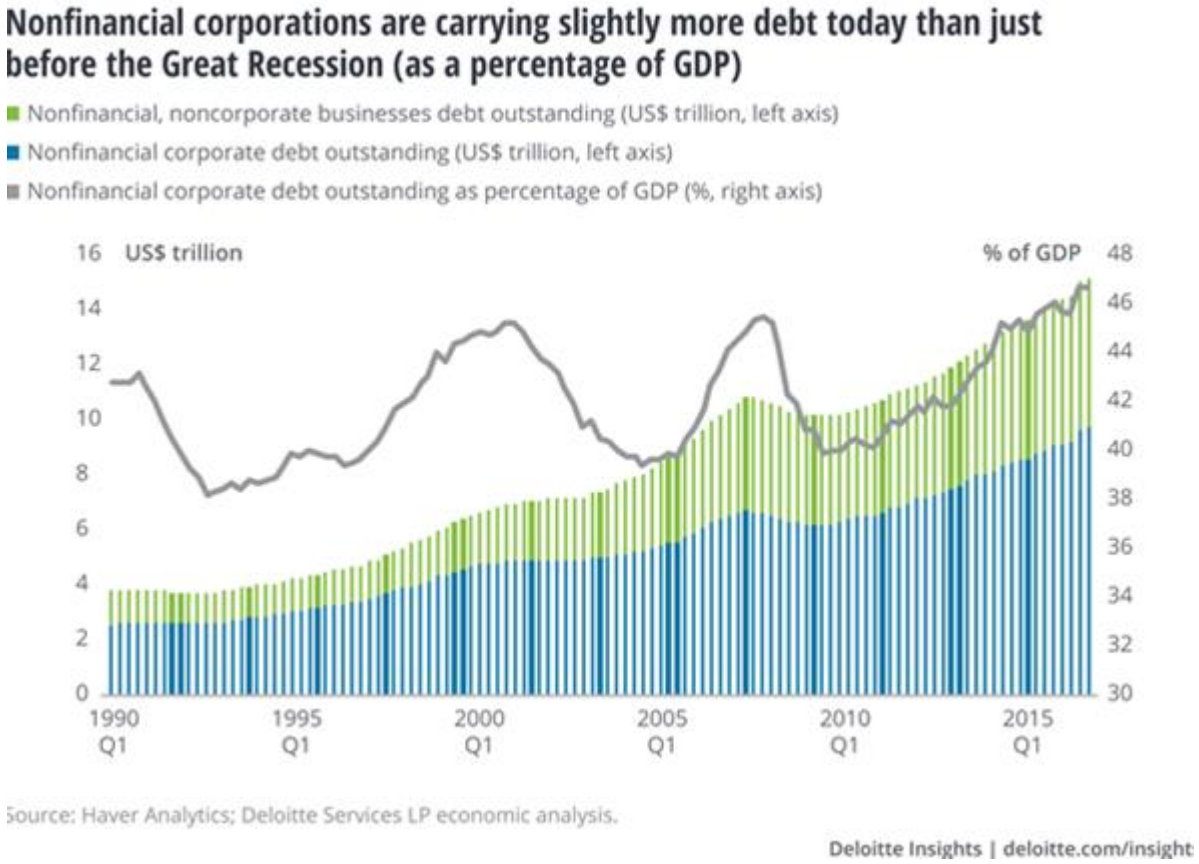
Apocalypse: Global Recession

Vulnerability



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Investment Outlook

Early days

- Largely positioned for more negative outcomes
- Not deploying cash yet
- Have a target list of stocks, looking at picking up bargains

David Llewellyn-Smith
Tim Fuller
Damien Klassen

Nucleus Investment Insights : Secret Special Guest

next
Thursday 5th September @
12:30pm AEST

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