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## The Politics of Displaced Anger

*The abrasive tone adopted by Mr. Trump in his campaign resonates with some. It appears to stir latent angers and grievances and to validate actions expressive of those prejudices, angers and grievances.*

*The campaigners for 'Brexit' in the UK give voice to related anti-immigrant and nativist views.*

*These expressions are not those of civilized discourse in democracies, but they are front and center now.*

*The enormous achievements of the European project are at risk, because of its recent failings (notably in its inept handling of the eurozone crisis) and because of the economic stagnation in recent years.*

**By**

**Jack Mayberry**

In the days following the massacre at the Orlando night club were calls that the event should not be 'politicized,' that we should not comment upon its being an attack at a night club for Latino members of the LGBT community, an attack by a self-declared follower of ISIS and an attack effected by an easily-purchased assault weapon whose sole purpose is the killing of many in a short time. We are told that, rather than 'politicize' the act, instead the response should be the demonstration of quiet grief. But the Orlando rampage was a political event in the same way that lynchings were political. Let us grieve for the victims in Orlando, but let the grief be married to political action. The Civil Rights movement of fifty years ago was the necessary response to Jim Crow and Black Lives Matter is the needed response to contemporary manifestations of America's racism. So let us now take political action against this awful crime in Orlando that combines anti-Hispanic and anti-LGBT hatred with the insane availability of weapons of mass murder. Political action is the way to honor the Orlando victims.

The paragraph above has its place in an investment letter because the political environment this year imposes itself upon decisions about how safely and productively to invest. In the UK comes on Thursday its referendum on whether to remain in the European Union or to leave it. In the campaign, those who would have Britain leave the EU, the 'Brexiters,' find their support most readily in nativist and anti-immigration arguments. By stirring those feelings, they inflame the ugly sentiments against the Other that give rise to the horrific rampage in Orlando and the murder of the young Yorkshire member of Parliament in her district last week. At his arraignment, the accused killer of Jo Cox gave his name as "Death to traitors, freedom for Britain."

Forget that the decades-long European project has kept the peace in Europe after centuries of war. Forget that free trade and free movement of people across Europe have enhanced the social and economic well being of Europeans. Forget that Britain has been a special beneficiary of the EU, in that it has grown economically at a greater rate than have the other big European countries, France, Germany, Italy and Spain. Instead demonize migrants from Eastern Europe and the Muslims who have entered Britain, demonize the bureaucrats in Brussels imposing for constraints on British life and business. Instead, fantasize about a splendid pure England, Scotland and Wales. Apart from the damage that a vote for leaving the European Union will cause to the UK, it is likely also embolden those in other EU countries with their own (but similar) grievances to seek to pull their countries out of the EU. The nearly seventy year old European project could unravel. David Cameron's blithe calling of the referendum to assuage anti-EU members of his Conservative party was an act of stupidity. He has opened Pandora's box.

In our country, we have a bigoted, ignorant and vulgar nativist who will be the Republican's nominee for president, who threatens to expel illegal immigrants from the country and to keep Muslims from entering, who accuses of bias a federal judge hearing a case in which Trump University is defendant because the judge is Mexican—the judge is American and was born in America—and who threatens to pull America from NATO and its invaluable alliances.

For the British and for Americans, the always-improving living standards for the middle class that characterized the decades after the Second World War came to an end around

the turn of the century. Median income has been stagnant. For all its benefits, globalization has caused some of this, as well-paying jobs have moved overseas, where the work can be performed more cheaply. Technological change has eliminated the need for the numbers of workers for many tasks. Resentments over economic stagnation engender some of the nativist and anti-immigrant sentiment from which Trump and the Brexit folks draw support. It is this that touches on the investment matters that is the subject of our writing in these letters.

Should those like Trump and the angry nativists in Britain and across Europe come to power, there could be radical changes to the economic order, changes likely to create obstacles to free movement of people, of goods and of capital around the world. This would shrink opportunity in America, in Britain and Europe and diminish of economic activity. Nor is it likely that the changes Trump and others may try to bring about will improve the lot of those who support them now. Support for Trump and his ilk arises from the aggrieved white middle class and others, whose well-paying jobs have been lost to globalization and who resent the ‘elites’ in positions of power in government, banking and business. Trump has been good at firing up their anger, just as the ‘Brexiters’ have proved adept at turning the question in the very consequential referendum to one about immigrants and bureaucrats. Neither offers serious plans to ameliorate the problems to which they give voice.

*In the absence of fiscal policies to support economic growth, especially infrastructure spending in Europe and America, economies on both sides of the Atlantic will be unnecessarily weak. Without this, middle class living standards will probably continue to stagnate.*

*In this environment, stock markets will not thrive. Bond markets will do well. Core's portfolios are structured to take advantage of these conditions.*

**Core's investments.** As discussed in recent letters, the US economy moves forward at a modest pace, even though the employment report for May showed a marked slowing in new jobs. Japan and Europe are weaker and struggling to rouse economies constrained by years of deflation in Japan's case, and fiscal austerity in Europe's. The frustrating ineffectuality of central banks' attempts to solve their countries' economic plight with monetary policy alone was illustrated most recently when the Federal Reserve had to admit that it could not raise short term rates by another 0.25% presently because of the weak employment report and the looming, possibly disruptive UK referendum on leaving the EU.

Central banks alone are incapable of restoring decent economic growth; governments must use fiscal policy tools to strengthen economic growth. The most obvious fiscal tool is spending on infrastructure, what we used to call ‘public works.’ Roads, bridges, airports, rail lines, ports, tunnels, and high-speed internet access throughout the US all offer opportunity for projects that will employ large numbers in well-paying jobs and will create long-term improvements for the country. Improving schools and paying teachers compensation commensurate with their importance to our future can lift the young toward better futures. Greater support for medical research and improvements in health care facilities large and small will foster a healthier population. Given that the US government can borrow for ten years at the rate of 1.6% per year, it is very likely that spending on public works, on education and on health care would show a very large return to the US Treasury and to the American people. In Europe, borrowing costs are even lower than in the US, so that such spending there would be likely to rouse the continent out of its economic torpor and provide more income to the poor and the middle-income people. A growing economy with equitably-shared wealth is the best weapon to fight the ugly nativism and bigotry that poison American and European politics.

Sadly, none of this is likely to come about soon, although, in America's November elections, there is opportunity. Meanwhile, we are faced with plodding economies and worried investment markets. In this environment of stagnant economies, restrictive fiscal policies (‘fiscal austerity’), somewhat played-out monetary policy, a seven-year long bull market in stocks in the US, and a similarly long period of US economic recovery and expansion, it is hard to argue that we are poised for another strong upward movement in stock prices. Especially when we take into account the contentious, anger-filled political process and the loss of confidence in the ruling classes (to use that old expression) to guide things in a way that benefits everyone, it is easy to argue that the next big move in stocks will be down.

Core's portfolios began the year with more cash and safe bonds than we have held for a long time. In the turmoil that marked the beginning of the year, we reduced stock positions further and clients' portfolios have been very conservatively structured for several months. We see no reason to take on more risk until there is a meaningful sell-off or a convincing move to new highs. We think the odds of the sell off are quite a bit higher than the odds of a sharp and sustained rally in stocks. So, for now, we wait and watch the rather dispiriting political events unfold.

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**CORE**Comments



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