



IABCN PRESENTATION

OCTOBER 2020

RICHARD CANTILLON: AN IRISHMAN'S AGE-OLD
MESSAGE FOR TODAY

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The risk of loss in the investment markets referred to here can be substantial. You should, therefore, carefully consider whether such investments are suitable for you in light of your financial circumstances. In considering whether to trade or to authorize someone else to trade for you, you should also be aware of the following:

The market uncertainty to any related investment can work against you as well as for you. The use of more volatile investments can lead to large losses as well as gains.

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RICHARD CANTILLON (1680 – 1734)



Richard Cantillon was an Irishman, born in Ballyheigue, Co. Kerry, of Norman origins, who spent much of his life in France.

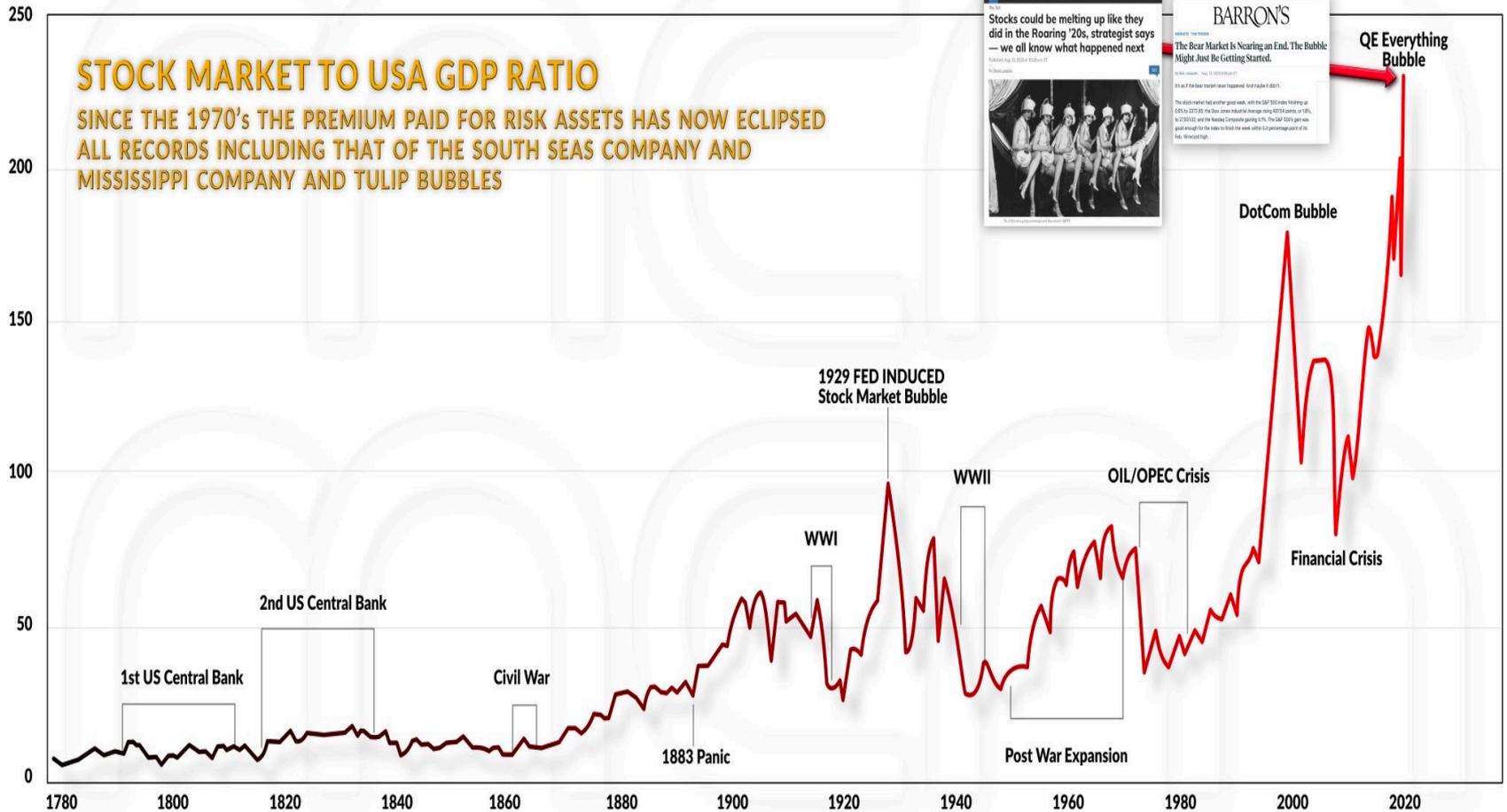
He took over the bankrupt banking business of an uncle of the same name in Paris and made a fortune from the collapse of John Law's Mississippi Scheme.

A critique of the policies and financial innovations of John Law, Cantillon's only surviving publication, *Essay on the Nature of Trade in General*, is considered by many to be the cradle of political economy and is one of few influences cited in Adam Smith's book, *The Wealth of Nations*.

RICHARD CANTILLON AND THE CANTILLON EFFECT

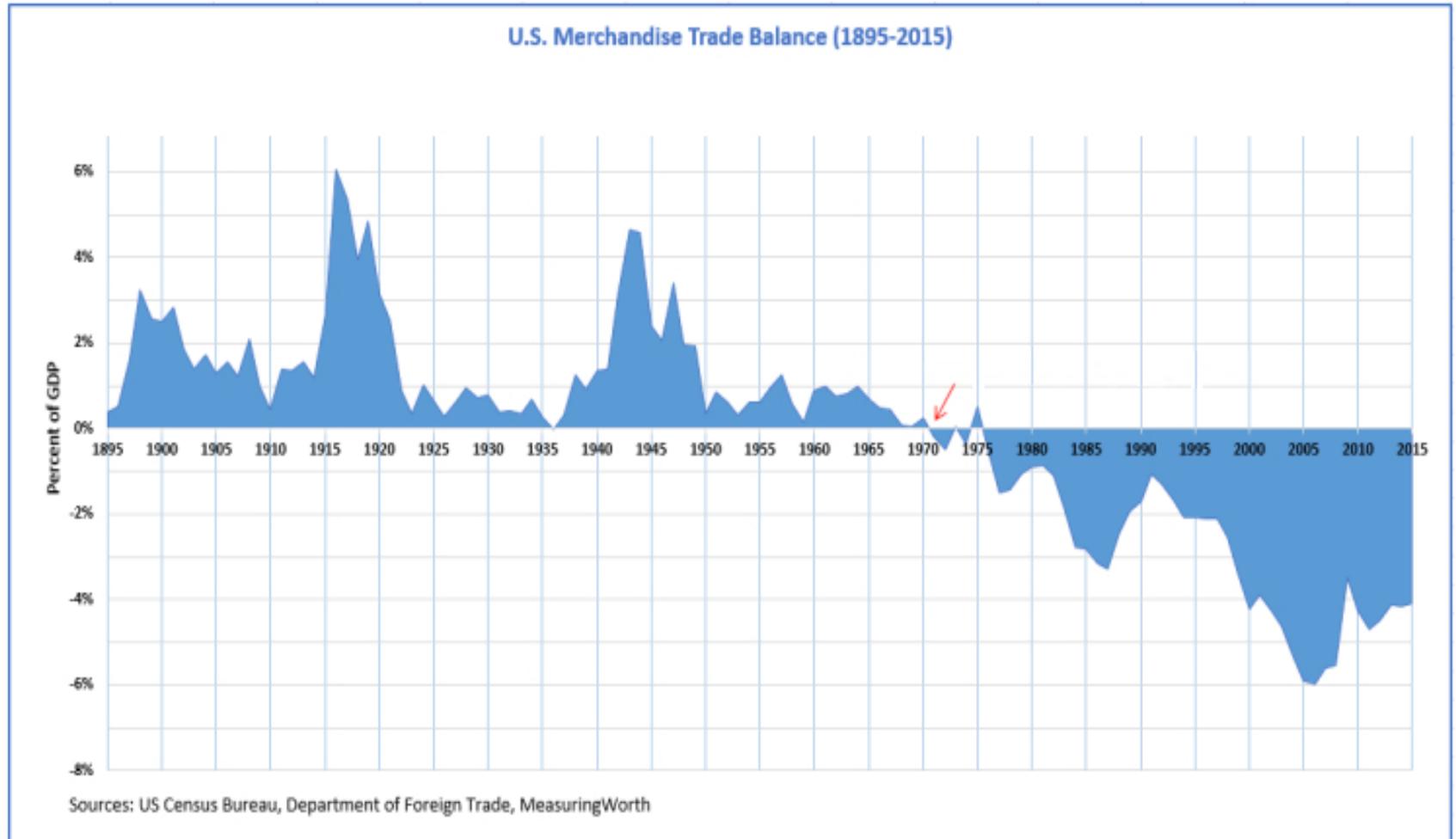
- His "Essay on the Nature of Trade in General" is considered a foundational work in the study of the political economy.
- He posited that the early recipients of new money entering an economy will enjoy a much higher standard of living than those it trickles down to.
- The Cantillon Effect is often discussed when examining the impact of "money printing" of Central Banks globally.
- One of Cantillon's central beliefs was that the injection point of "new money" at the top would benefit asset owners while asset-light labor may experience rising prices for everyday goods like food or accommodation.

THE CANTILLON EFFECT: TODAY

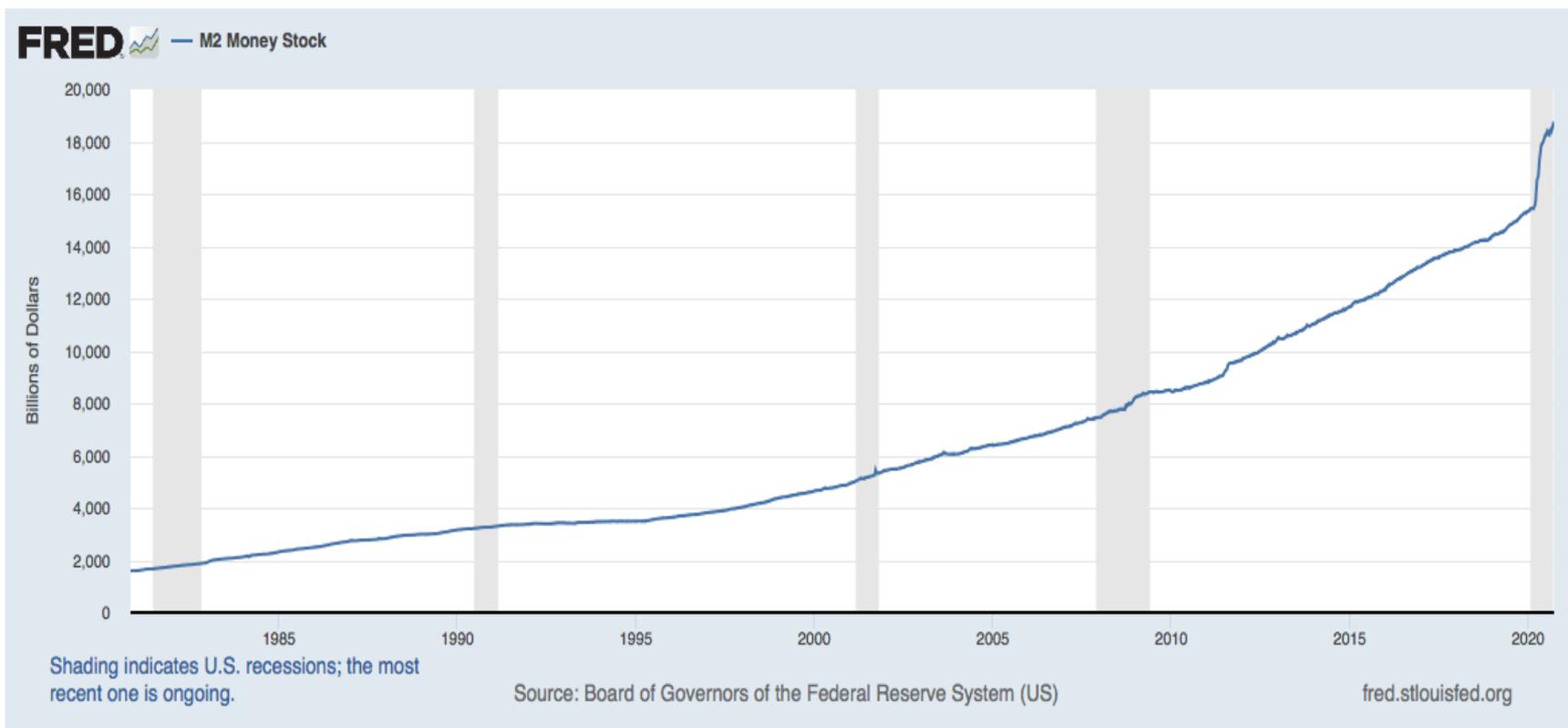


Source: TheChartStore

IN EFFECT, WE HAVE BEEN PRINTING MONEY SINCE THE EARLY 1970S

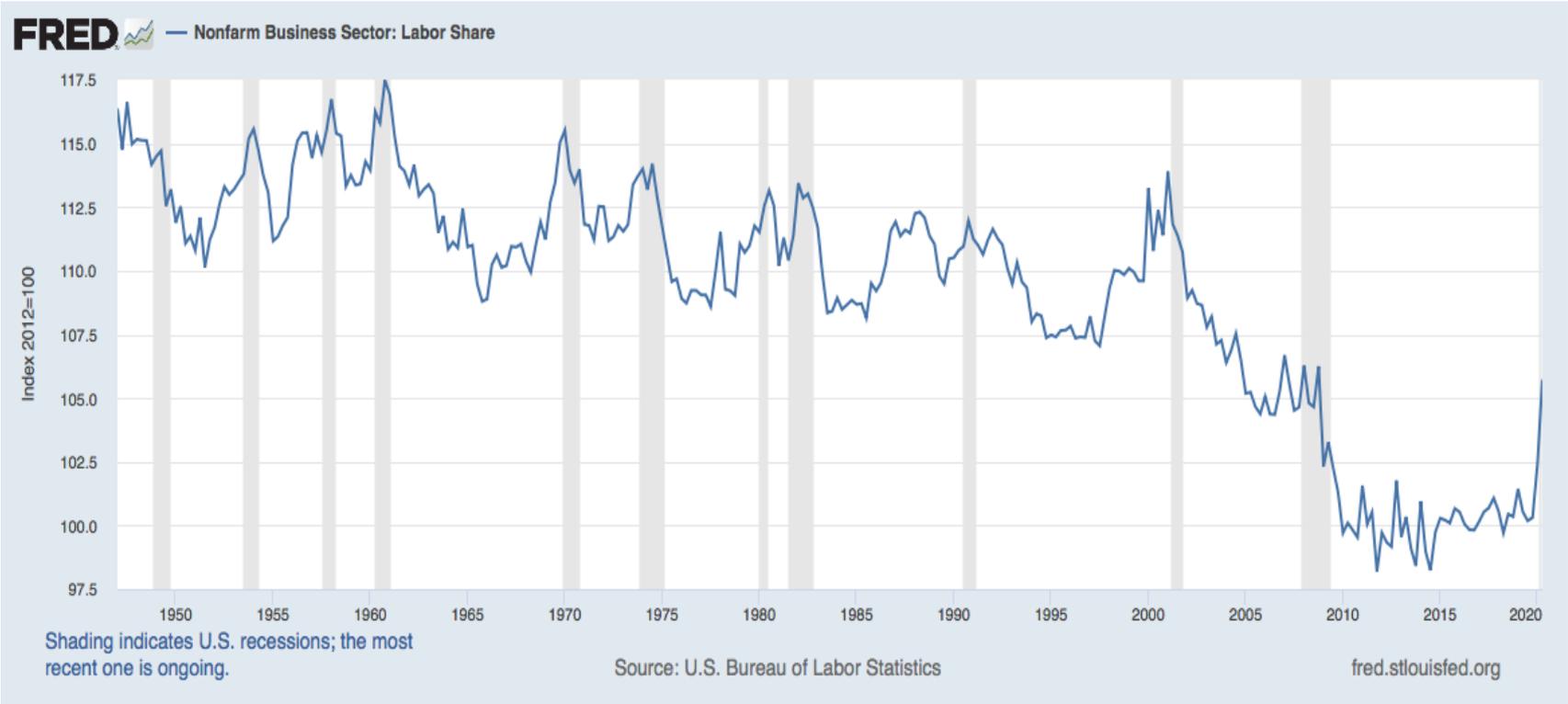


WE HAVE MASSIVELY ACCELERATED THIS PROCESS IN 2020



M2 includes a broader set of financial assets held principally by households. M2 consists of M1 plus: (1) savings deposits (which include money market deposit accounts, or MMDAs); (2) small-denomination time deposits (time deposits in amounts of less than \$100,000); and (3) balances in retail money market mutual funds (MMMFs). Seasonally adjusted M2 is computed by summing savings deposits, small-denomination time deposits, and retail MMMFs, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

LABOR'S SHARE OF THE ECONOMIC PIE HAS FALLEN

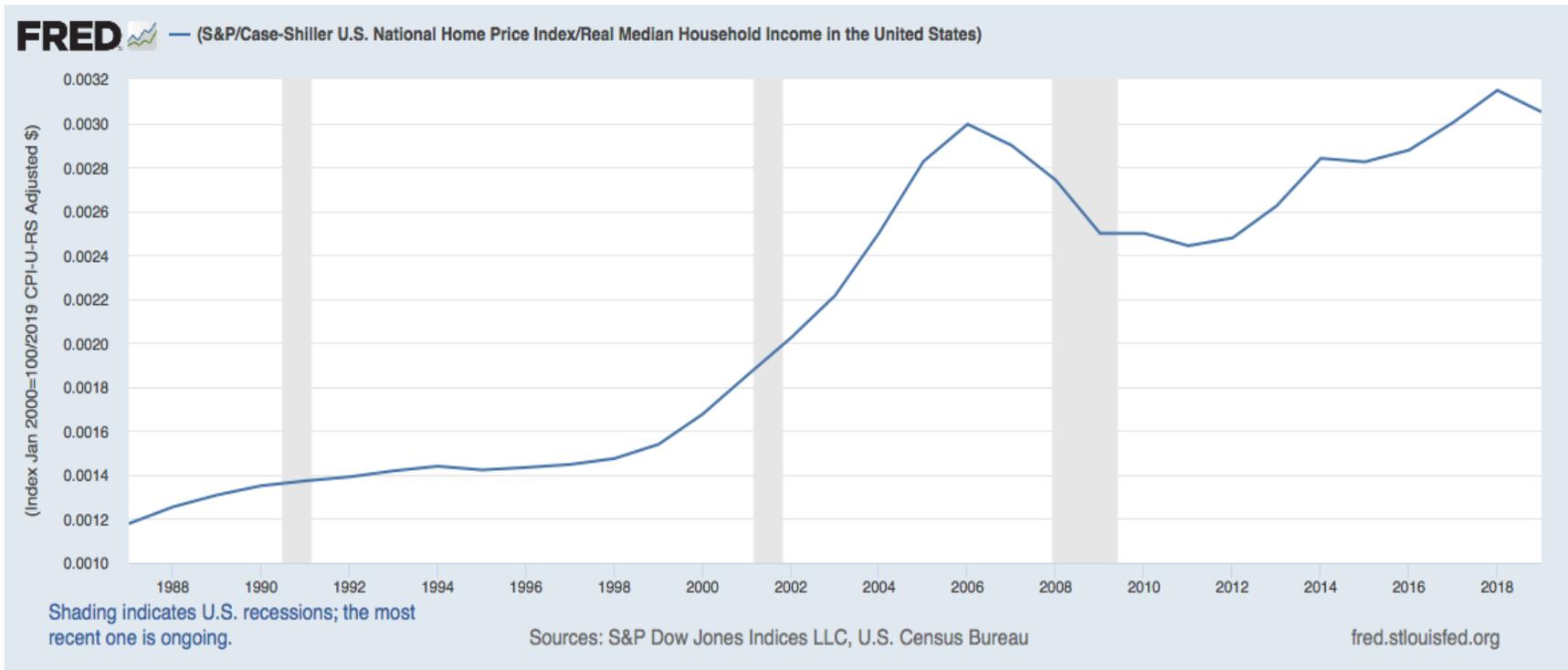


The labor share is the percentage of economic output that accrues to workers in the form of compensation. It is calculated by dividing the compensation earned during a certain period by the economic output produced over the same period. The labor share is an indicator of the extent to which workers share in the economy's output and is of interest to many.

AND, THEIR ABILITY TO ACCUMULATE ASSETS IS MORE DIFFICULT THAN EVER



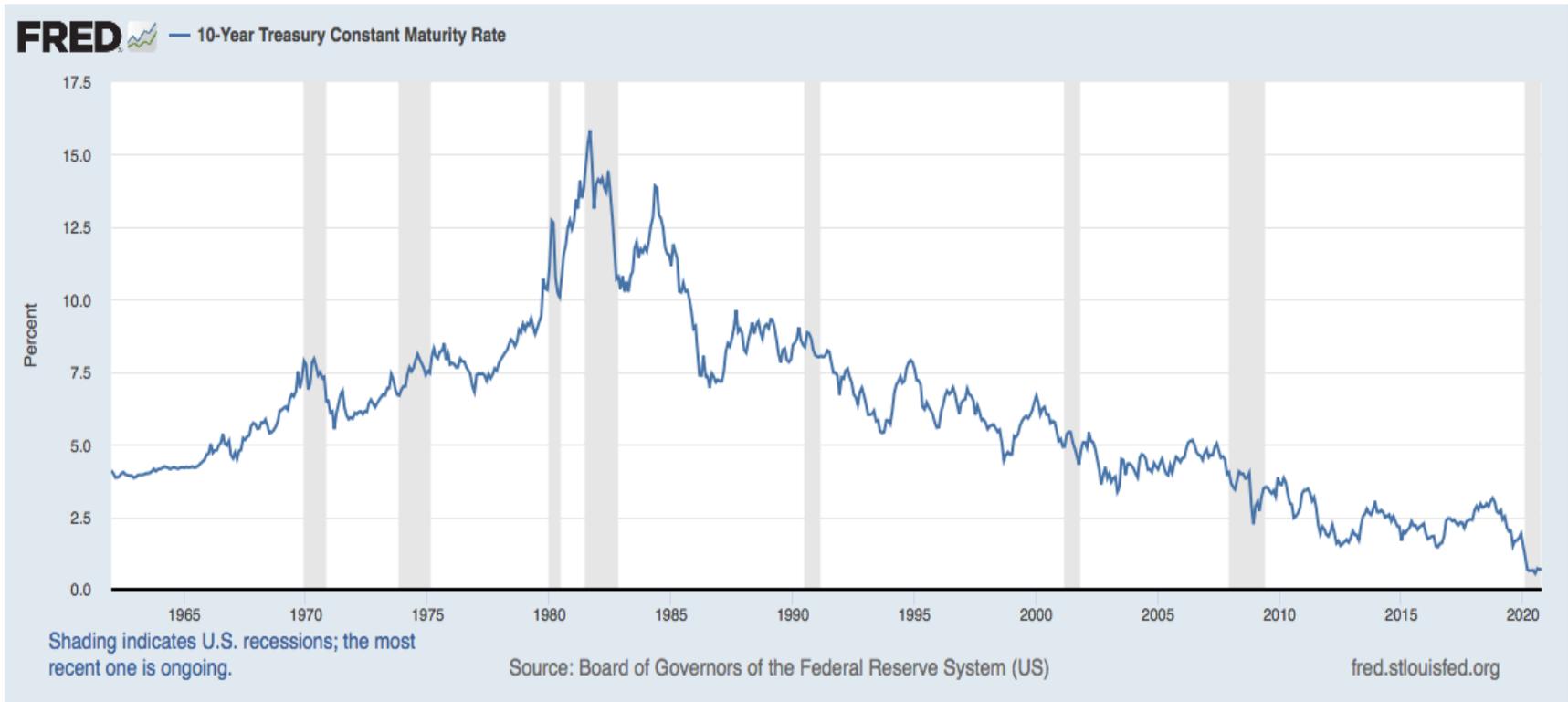
HOUSING IS EXPENSIVE AS WELL



S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CSUSHPINSA>, October 5, 2020.

U.S. Census Bureau, Real Median Household Income in the United States [MEHOINUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEHOINUSA672N>, October 5, 2020.

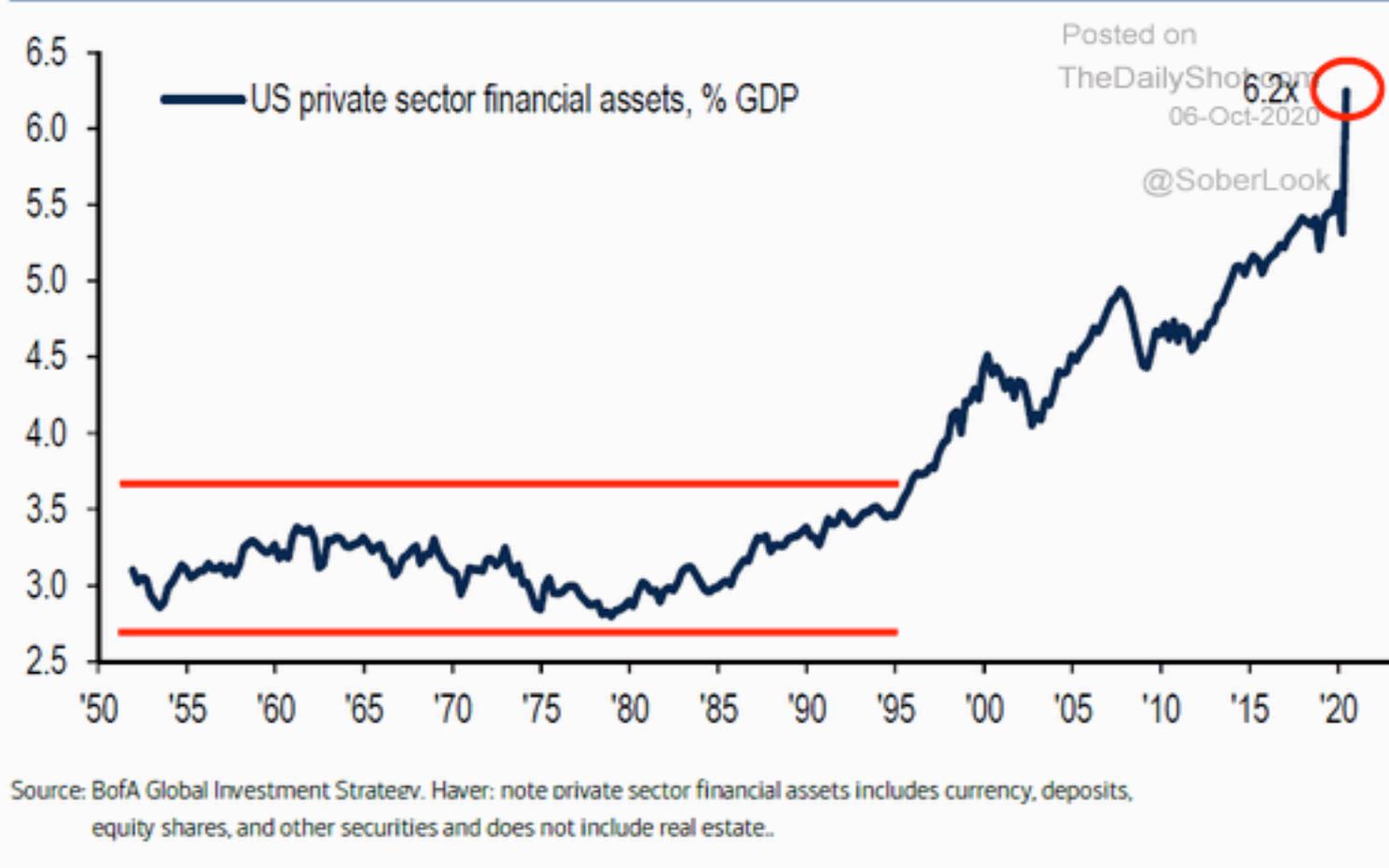
FACILITATED BY A SECULAR MOVE LOWER IN INTEREST RATES



10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DGS10>, October 5, 2020.

INVESTORS ARE HEAVILY INVESTED IN FINANCIAL ASSETS

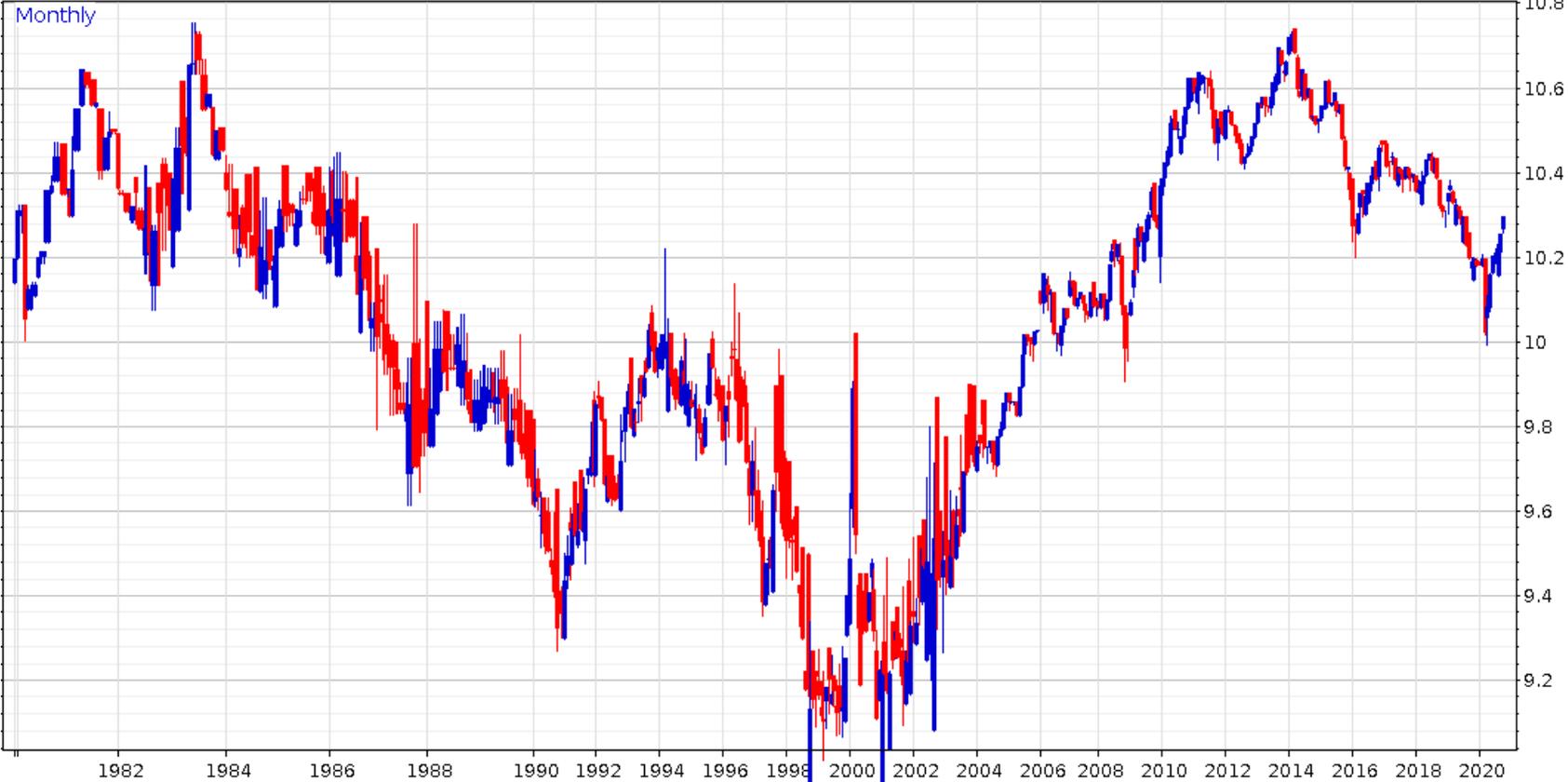
Chart 19: US private sector financial assets as % GDP



MUCH OF THIS INVESTMENT IS INVESTED IN LARGE CAP STOCKS

Wilshire 5000 (W5000 Index) / S&P 500 (SPX INDEX) 10.295 0.04

2020-10-02

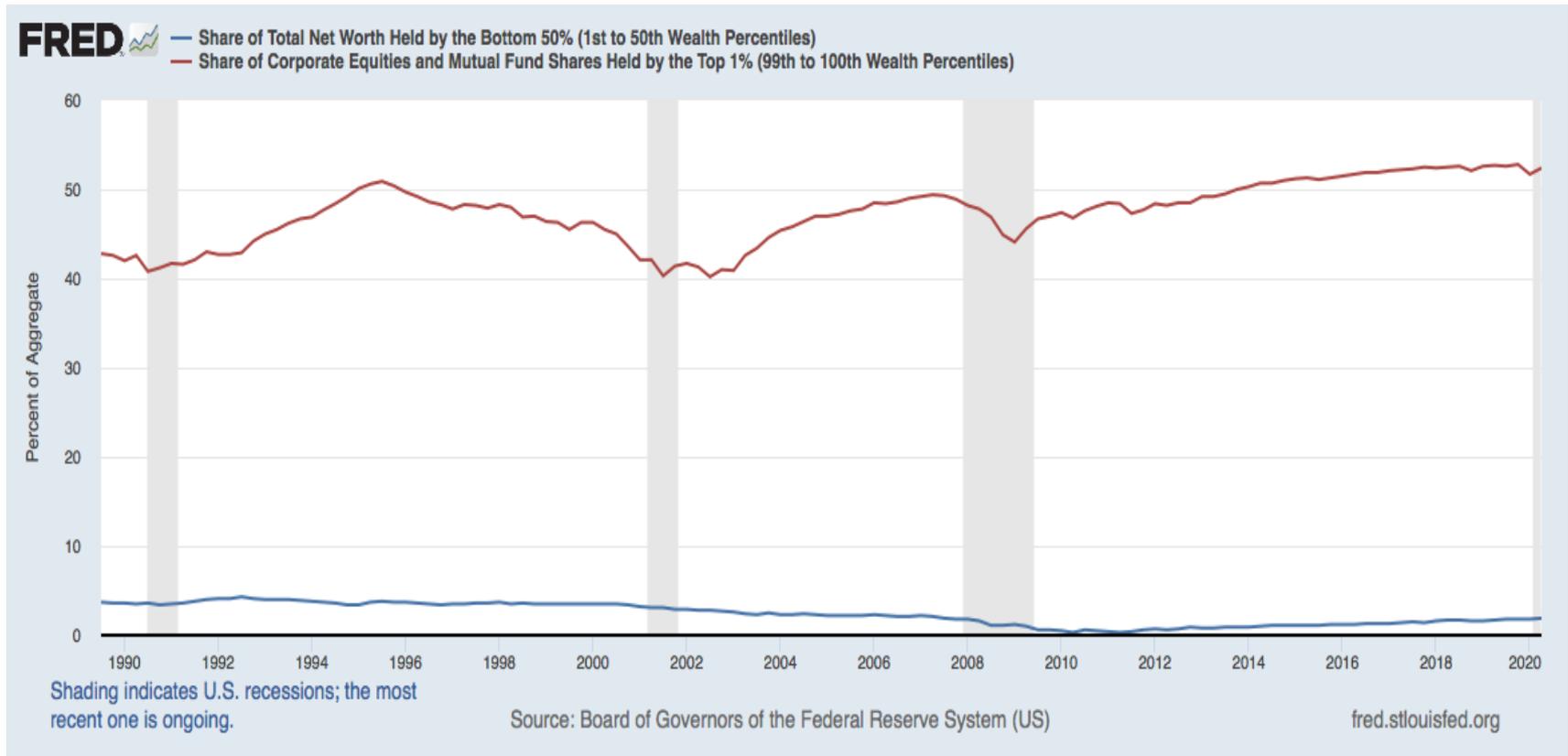


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FINANCIAL ASSETS ARE NOT WIDELY HELD BY THE PUBLIC (DIRECTLY)

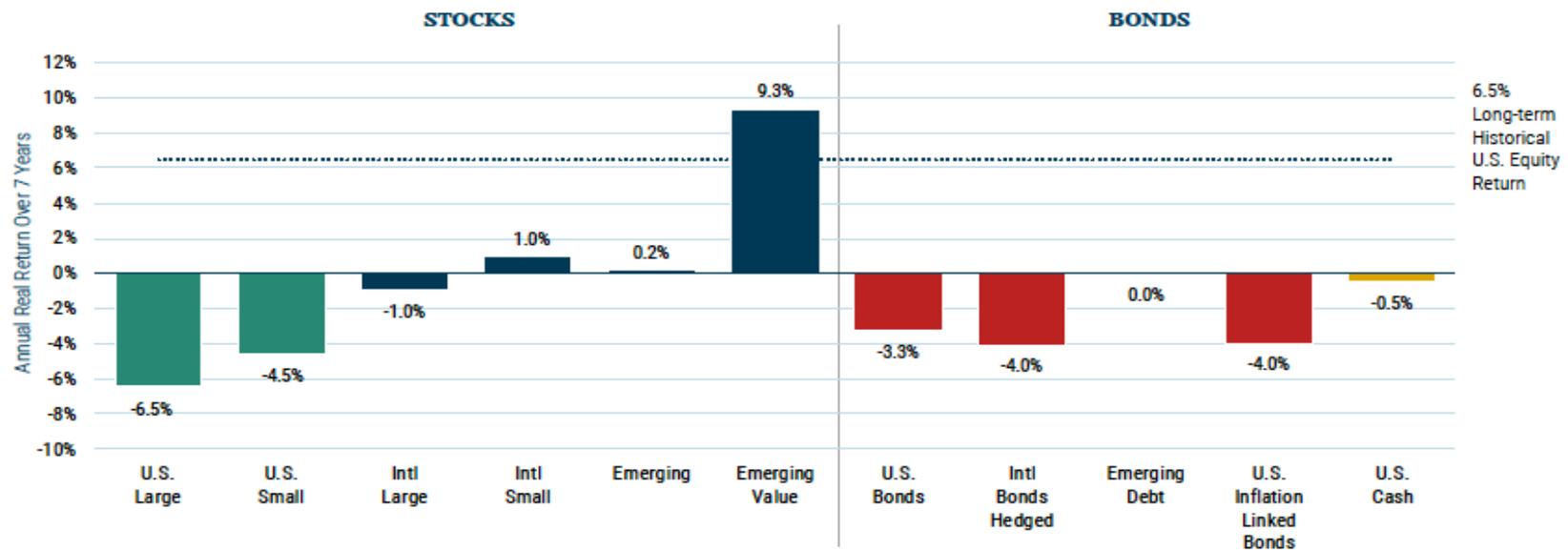


Share of Total Net Worth Held by the Bottom 50% (1st to 50th Wealth Percentiles) [WFRBSB50215], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WFRBSB50215>, October 6, 2020..

FINANCIAL ASSETS ARE EXPENSIVE

7-YEAR ASSET CLASS REAL RETURN FORECASTS*

As of August 31, 2020



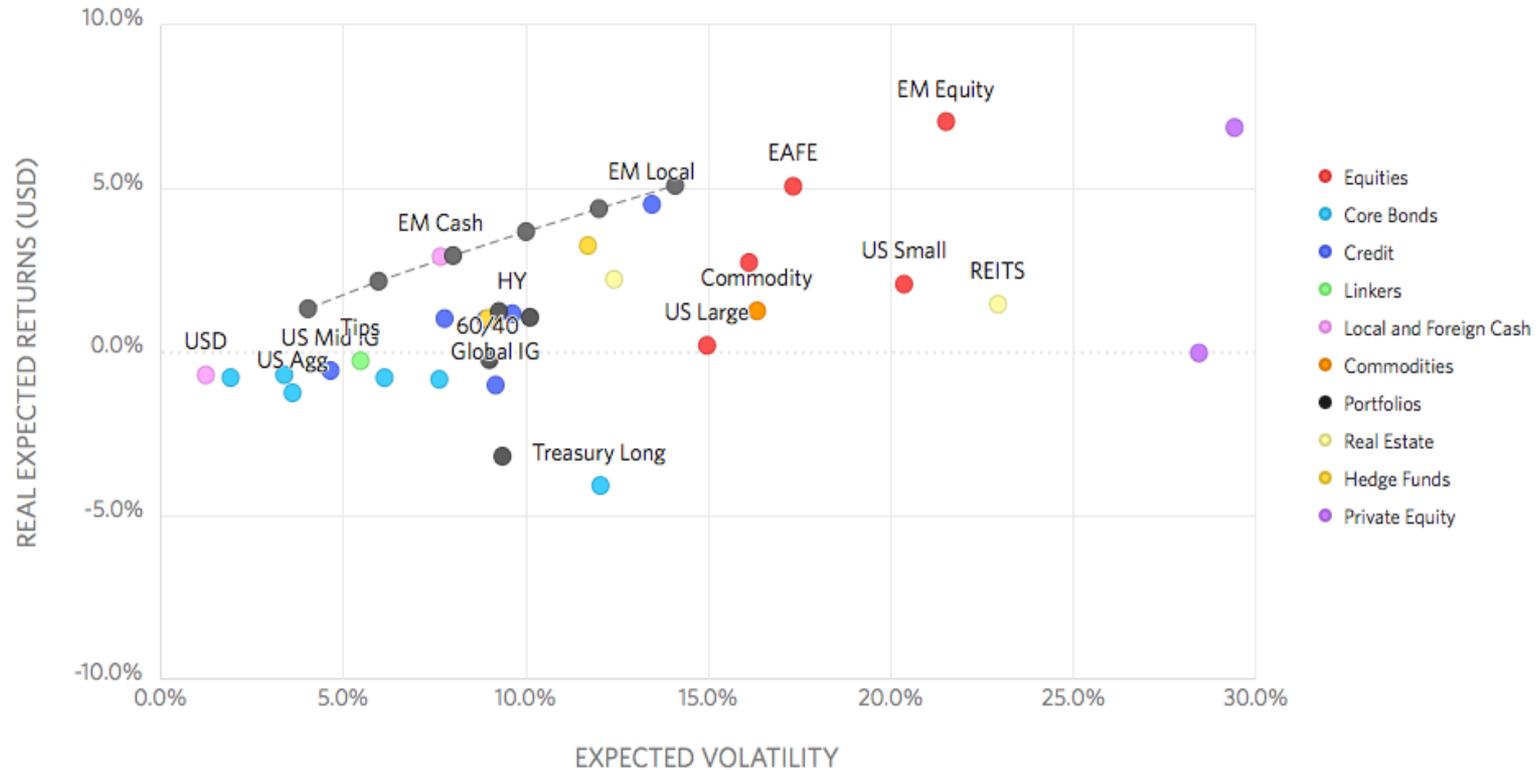
Source: GMO

*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

FINANCIAL ASSETS ARE EXPENSIVE

Portfolio and Asset Class Expected Returns

Time Horizon: Expected 10 YR

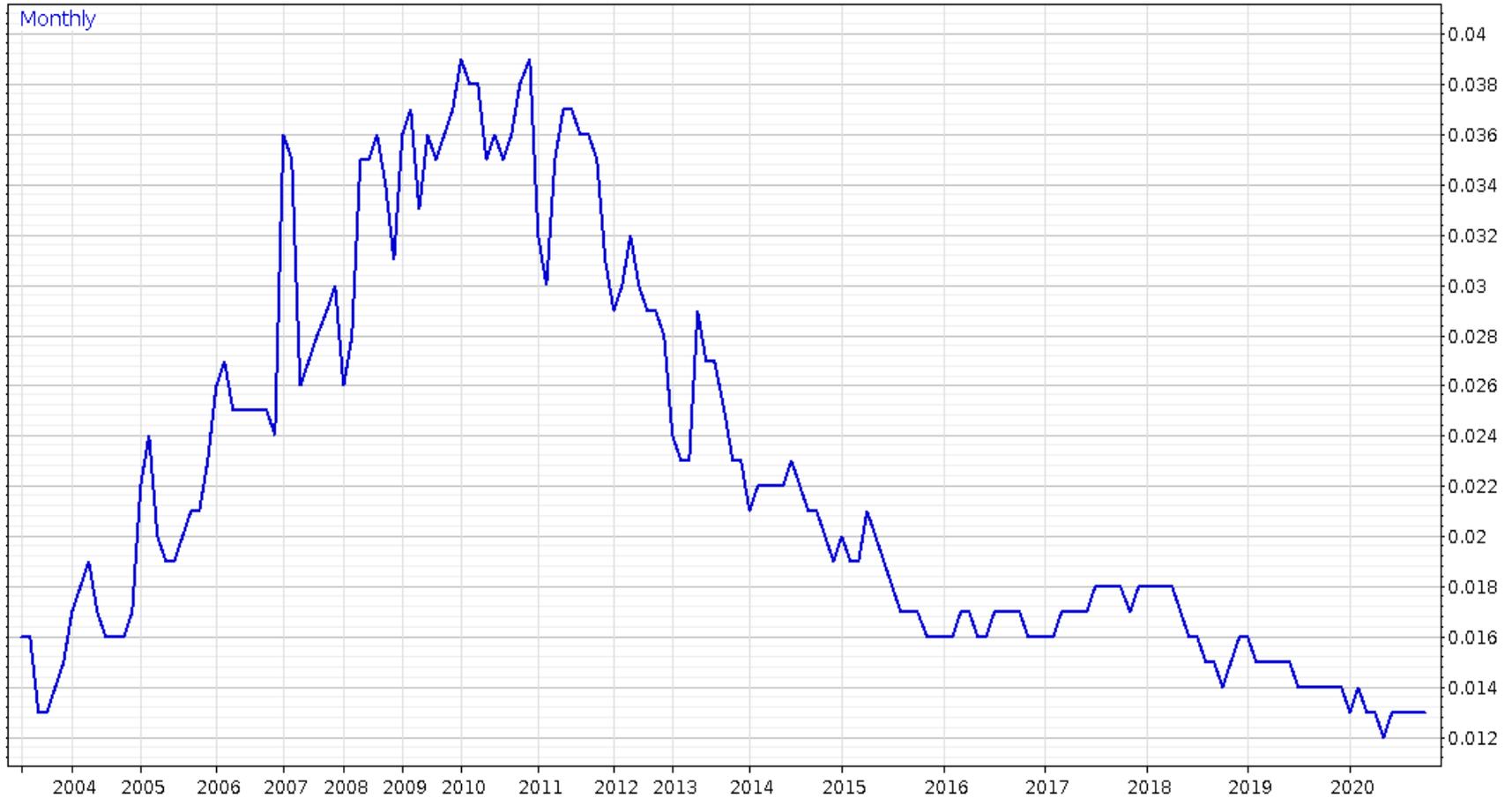


Source: Research Affiliates

THERE ARE INVESTMENT OPPORTUNITIES ELSEWHERE: EMERGING MARKET EQUITIES RELATIVE TO U.S. LARGE CAP.

iShares MSCI Emerging Markets Index (US) (EEM US EQUITY) / S&P 500 (SPX INDEX) 0.013 0.0

2020-10-05



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THERE ARE INVESTMENT OPPORTUNITIES ELSEWHERE: WE EXPECT JAPANESE EQUITIES TO OUTPERFORM TOO

Japan Nikkei 225 Index (NKY INDEX) / S&P 500 (SPX INDEX) 6.875 -0.02

2020-10-06



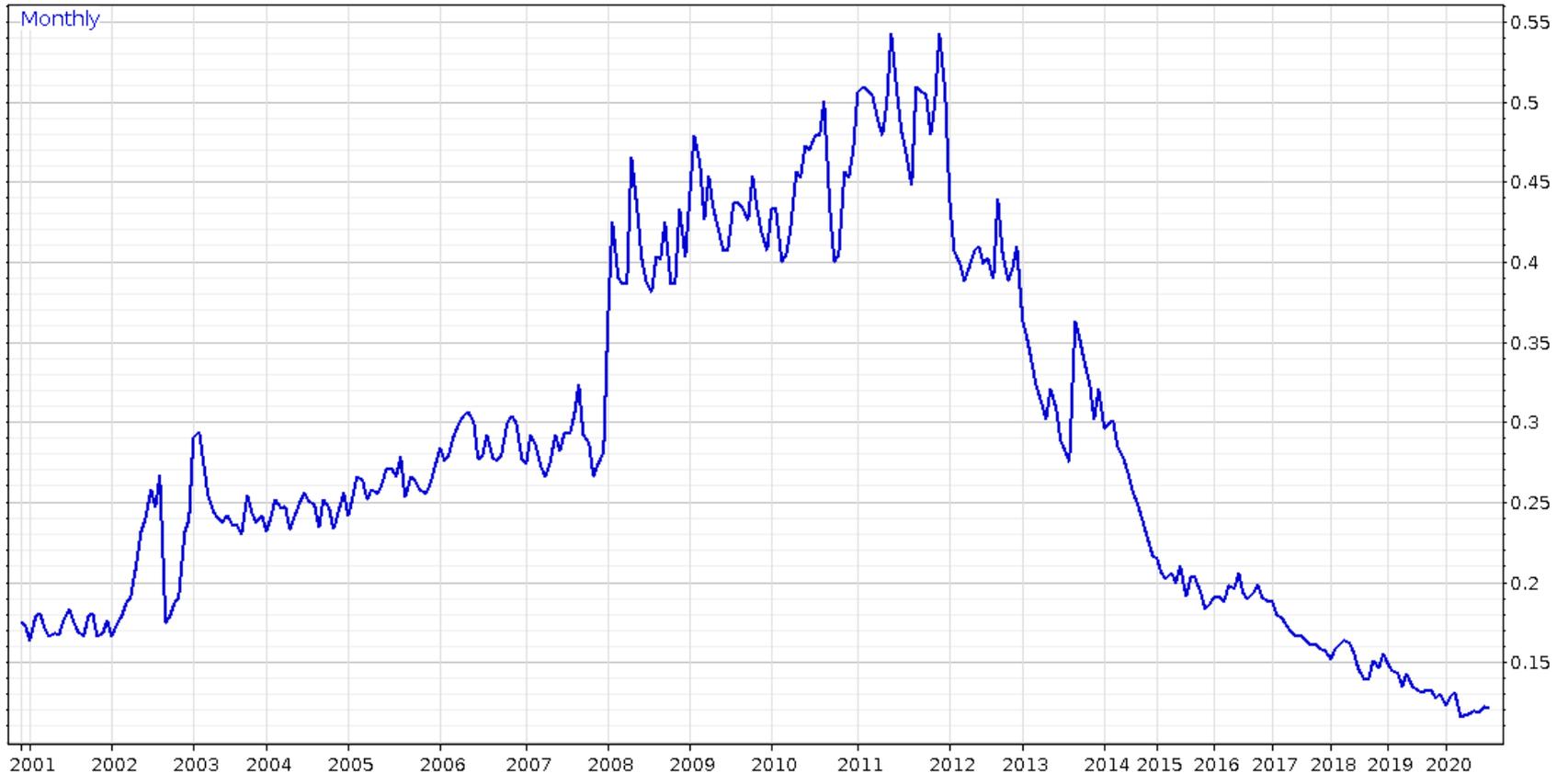
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STRONGEST CONVICTION: COMMODITIES AND COMMODITY RELATED STOCKS

CRB Continuous Commodity Index (Old CRB) (CCI INDEX) / S&P 500 (SPX INDEX) 0.121 -0.0

2020-10-05



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STRONGEST CONVICTION: GOLD RECENTLY BROKE HIGHER

Gold (1st mth) (GC1 COMB COMDTY) 1912.50 25.0

2020-10-05



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STRONGEST CONVICTION: GOLD MINING STOCKS ARE CHEAP

NYSE Arca Gold Bugs Index (HUI INDEX) / London Spot Gold (GOLDS COMDTY) 0.173 0.0

2020-10-05



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SUMMARY

- 300 years ago, the Irish-Franco economist, Richard Cantillon wrote of the inequality created by money printing.
- We see today the outcome of excessive monetary stimulation.
- Over the months and years to come, we expect a reversal of many of the investment trends of the last 10 years.
- In combination with a lower level for the US\$, we see value in international markets.
- Commodity related investments look attractive in this environment.

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