

IVY INVESTMENTS
Transcript from Ivy Live
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Jeff Gentle

Good afternoon, and welcome to Ivy Live. Geopolitical events are always an interesting topic. Today, however, they are front and center. A new US administration with a nationalistic bent is certainly causing waves. Upcoming midterm elections will help us clarify voter support for those ideals and there are many other important elections in the global arena that have or will shortly take place.

Trade wars that move toward authoritarian rule, strained country relationships, how the policies of today affect the markets tomorrow: we have a lot to talk about today. Thanks for joining us as we have a great line-up of speakers to dig into how the political mayhem across the world could shake up the markets.

With us is Ivy Global Economist, Derek Hamilton; Ivy Emerging Markets Portfolio Manager, Jonas Krumply; and our guest speaker, Horizon Investment's Political Strategist Greg Valliere. We have a new broadcast platform, so I want to highlight a few things. On the bottom, you can open, move, minimize, and maximize the icons to your personal preferences. The icons are relatively self-explanatory, but to highlight a few, send us your questions throughout the live event from the Q&A icon, register for the next Ivy Live, and if you are requested CE, as usual, you must attend a minimum of 50 minutes and complete the CE form.

Now, let's get to the topic at hand, Greg. Trade war, front and center, everybody's talking about it. It's probably moving markets more than anything else. What are they saying in Washington about it?

Greg Valliere

I think we're getting close to an inflection point whereby some of our trade partners are willing to make concessions. I think we're close on Mexico. Maybe even by the end of August we'll see a deal with Mexico. Not sure about Canada yet. Then, we might see some signs of progress with China which is a big story for the markets. The Chinese are going to be in Washington later this summer, and I think they're willing to put something on the table that could lead to substantial talks before we get to the election. Trump would like it, the Chinese would like it, so I think that we're not going to solve all of our problems, but we may see a cooling off.

Jeff Gentle

A cooling off. Derek, these talks, we've talked about it many times before. Trump's being serious this, so these aren't any issues that we're going to get solved any time soon in your view.

Derek Hamilton

That's right. These, in my mind, are long-term issues. If you think about what he's actually looking for, he talks a lot about the trade deficit, but when you take a step back and look at what Bob Lighthizer, who's essentially running the trade show, what he's looking for, it's China stopping their industrialization policy in terms of trying to move up the value chain. They have a plan called China 2025 which is essentially a lot of high-tech sectors that they want to dominate,

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if you will, in the manufacturing process, taking care of intellectual property protections, making it easier for US corporations to do business in China. A lot of sticky things that China eventually may come to the table on, but it's not something that they're willing to give on in the short term in my opinion. If you look at the Chinese media, they've been extremely hawkish on this topic. So you've seen the notable tone change in the last couple of months to where they are now saying, you know, we need to stand up to the US. We're not going to give in, so on and so forth, so we may see a cooling off like Greg mentioned, but I do think that this is going to be a long-term issue that we're going to have to hash out.

Jeff Gentle

These state-sponsored papers are being hawkish on this subject, but we're also hearing things about people inside the Communist Party that are maybe not so good with this. Is any of that true? Which one do you believe more than the other?

Derek Hamilton

Well, there's definitely differences of opinion within the Communist Party, but in the end, it's what does President Xi want? He's now the leader for life. All the indications that we have are that he was very upset when China and the US supposedly had a "deal" a couple of months ago and then President Trump said, "No, the deal is off." That was very offensive to him was what we've heard, and so he's taking the hard line right now, and I think if you look at what the Chinese government has been doing, and again, this is driven by President Xi in terms of coming up with new fiscal spending plans, easing monetary policy, trying to back-stop the economy which had been softer. To me, that says that they're not giving in any time soon.

Jeff Gentle

And what are you, Greg, hearing inside the beltways as far as our priorities in the trade deal with China, and how likely do you think that is to happens?

Greg Valliere

First and foremost, there's virtually unanimity among both parties on trying to punish China for stealing things: stealing our intellectual property, stealing all of our books, technological products, so I think that there's support for Trump to crack down on China, and I think this could persist. I do think there will be talks, as I mentioned earlier, but to actually get a vital with all the *is* dotted and *ts* crossed, that's a long way away.

Jeff Gentle

Okay, and you're an emerging markets manager, Jonas, I mean, this trade thing is certainly having an effect on the company's you follow and the countries that they are harbored in. What are the effects on emerging markets from the trade, stalling in trade or these trade wars that are going on right now?

Jonas Krumply

Well, one of the things that we're seeing is the dollar continues to strengthen against most currencies in the world, and that makes it more expensive if you're an emerging market consumer, be it of gasoline, of diesel, and we saw the truck strike in Brazil, but it doesn't matter if you're in Turkey or Indonesia, Italy-- I'm sorry, India. It's just getting more expensive to do business if you're buying commodities, etc., so that is squeezing some of the emerging market, I guess, returns and also the economies. Nothing collapsing, other than possibly Turkey and Argentina, but it is a headwind.

Jeff Gentle

Yeah, and we will get to Turkey in a minute. You know, the news out of today was low-level, mid-level trade talks with China. The DOW's up 400 points. I'm sure emerging markets will wake up in the morning, and they'll have performed very well over night. How much do you think the weakness in emerging markets this year is due to trade or is there--?

Jonas Krumply

Quite a bit, quite a bit. It's just very uncertain. If you're a manufacturing company, where do you set up your supply chain? Where do you add new capacity? Where are your end markets going to be if all of a sudden you're products are going to have a 20-25% or a 50% tariff in the case of steel out of Turkey? You're going to really be thinking twice at where do you spend money and how do you do planning and budgeting. It does impact emerging markets.

Greg Valliere

I might add, I think someone who's also thinking twice could be Jay Powell at the Federal Reserve. The chairman of the Fed has to worry that if this continues for a lengthy period of time that business leaders will have uncertainty, and it could start to affect their hiring plans, their business plan, equipment expenditures, so this does add, as you say, an element of uncertainty.

Jeff Gentle

Yeah, sure, and we've talked about that. I mean, this element of uncertainty may cause the Fed to be a little bit less aggressive going forward than they have now which may turn out to be a little bit of a tailwind for emerging markets if that would happen.

Derek Hamilton

Yeah, eventually that could happen. We do think that a September hike is essentially baked in the cake. They probably go in December. We think that growth is going to remain strong for sure in the third quarter, probably in the 4th quarter, but I'm with Greg that, you know, at some point, you have to worry about the trade issues starting to get into business confidence and what have you. So, if we start to see weakness in growth next year, growth was already setting up to be weaker next year because of less fiscal policy stimulus, and then on top of that, if you get the hit from business confidence, the Fed says, okay, what do we do? You layer on top of that then, if we get some kind of market correction, it would be very easy for the Fed to just say, we're taking a pause here for a while to see how things shake out. I think for right now, given the ways things are progressing, they're going to stay the course at least for the next few months if not the rest of the year.

Jeff Gentle

Have you seen much in the way of street estimate revisions downward because of the trade wars as far as growth next year yet?

Derek Hamilton

Not really. So, most people say a tenth or two. I think the base case on trade is that we've gotten the steel and aluminum tariffs 6 months ago if not a little bit more. We had the washing machine and the solar tariffs. We recently had the 2 rounds of tariffs on Chinese imports which was 50 billion in goods, 25% on that, so they look and that and they say, okay, we're probably going to be done is what most people believe. I think we'll probably see a little bit more

ratcheting up from there, but people assume we're done, so therefore, back of the envelope a couple of tenths, life is good. But if this progresses, if it's dragged out a lot more than what people think, if we have another round of tariffs put on, you start to see business confidence impacted, so on and so forth. That's when you start to worry.

Jonas Krumplys

I was going to add if we do go ahead and follow up with \$200 billion of additional goods in China having tariffs on them and then another 200 billion, I mean, you're going to really see some pain in China's GDP.

Jeff Gentle

I think Chinese markets are expressing that, correct?

Jonas Krumplys

Correct.

Greg Valliere

And there could be some pay in for Republicans in the farm belt, and I think that's a major reason why President Trump is willing to throw several billion dollars at farm aid for soy bean farmers who could be negatively affected.

Jeff Gentle

Yeah, it's what like 12-13?

Greg Valliere

12 billion, yeah.

Jeff Gentle

So, you brought up effects on midwestern farmers, so let's talk about the midterms coming up. What do you see happening there?

Greg Valliere

Well, I'm in a minority. Most people are saying there's a tidal wave coming, a wave election. Most of the gurus are saying that. I'm still not quite there. I think there's a better than 50% chance that the House will flip back to the democrats. They only need a gain of 23 net. Since Franklin Roosevelt, a new President in his first midterm election has had losses of 25, so this would be fairly normal in the House. The reason why I'm not accepting a wave election is the Senate. If you look at the numbers of who's up, who has vulnerable seats, I can make a pretty good case, I think, that the Republicans might gain a seat or two in the Senate based on who's up, so yeah, good election for the democrats in the House, but I think the Republicans will hold the senate.

Jeff Gentle

What wild cards are out there that could happen before the elections to embarrass one party or the other?

Greg Valliere

There's so many wild cards. I mean, there's still the tariffs which we just talked about. There's a fellow by the name of Robert Mueller who could still cause some disruption; although frankly, if

he doesn't bring indictments by Labor Day, I think that's it for a while. I think he would wait until after the election.

Derek Hamilton

He doesn't want Comey criticism.

Greg Valliere

He does not. You're absolutely right, Derek. You know, there's lots of other things. US-Iranian relations are very ominous in some respects, so there are events that could shake everything up. The democrats worry about Nancy Pelosi, who I think is an albatross for them in many parts of the country. The thing that surprises me the most is that polls are showing that most Americans are indifferent to even hostile towards the tax cuts, and I think we got a pretty good economy right now, but an awful lot of voters say, no, they only help big business and the wealthy. The tax cuts have not been the plus that the republicans have planned on.

Derek Hamilton

I think one thing that is important to add though to what you said is that if you look at the polls on the republican base, they are still extremely strong for President Trump, right? Something like 90%, and so you speak to the farmers that are out there, and they say, yes, trade is hurting us, but we trust our President.

Greg Valliere

I've never seen anything like it-- a President with these kind of numbers from his own party, 90% support. That's why Trump often can get his way because very few republicans in congress want to challenge him because it does not bode well for their reelection prospects if they do challenge him.

Jeff Gentle

He doesn't treat people that challenge him very well either.

Greg Valliere

No, he does not. There's a congressman from South Carolina, Sanford his name is, Mark Sanford, who lost his primary because he was critical of Trump and Trump went for this fellow's opponent. Trump plays hard ball. He plays very adroitly off this 90% support he has in his own party.

Jeff Gentle

You spoke a little bit about tax cuts and having a great economy. Do democrats surprise us and start talking about the deficit before this election?

Greg Valliere

Yeah, everybody's kind of complicit with the deficit. The democrats like to spend. The republicans have their tax cuts, so I have to tell you, being a Washington analyst, when I go down to Capitol Hill, I am stunned at the indifference that I hear about the budget deficit. Nobody wants to take really tough action on that. The democrats have other issues that they'll certainly play up, and Trump himself will be a big issue, but when you talk deficits with people on the Hill, they all sort of look the other way. They don't want to admit how irresponsible both parties have been.

Jeff Gentle

When do you think we'll start addressing that, Derek?

Derek Hamilton

I tend to believe that it's usually the party that's in power that all of sudden doesn't really care about it because they want to get their own issues through, if you will. Maybe the democrats start to bring it up a little bit, but you know, as long as it's not a pressure point right now, the deficit's wide, rates are low, the dollar's strong. I think they sit back and they say, why should we worry right now, right? We don't want to tighten aggressively and then send the economy down for sure. Now, the big issue is going to be-- we're getting closer and closer to that point at which entitlement spending really takes off, and it's going to start eating up more and more of the budget, and then they're going to have some difficult decisions to make. We're not there yet, but a few years from now--

Jeff Gentle

It's about 5 years out.

Derek Hamilton

Exactly. We're going to have a pretty big issue. You know, rates are really low right now. If something happened to where rates started to rise, that starts to quickly eat up the budgetary expenditures as well.

Greg Valliere

I would just add one quick point that there are limits to how much we can spend, and for people who want a second tax cut, making the tax cuts permanent, maybe lowering capital gains, maybe even cutting corporate rates more, for people who want a second tax cut, the votes aren't there. I think most people in congress say we've spent enough right now on taxes.

Derek Hamilton

What do you think about infrastructure?

Greg Valliere

Infrastructure's a really interesting angle for next year. Let's say we do have a divided congress: republicans still controlling the Senate, democrats the House. Can they agree on anything? I'd say, yes, infrastructure which is spending more money, but I do think the President would want some victory in 2019, and if I were to bet on what that victory would be, it would be infrastructure.

Jeff Gentle

Before we get to Jonas, I want to talk about Turkey because that's on top of mind too. What do the democrats run on in this election cycle, and what do you think of maybe the starting of a movement towards this kind of socialistic, democratic ideal that that the party's starting to use?

Greg Valliere

Yeah, I think healthcare is going to be a big issue this fall. The polls show people still aren't satisfied with healthcare, and maybe there will be some progress there. There will be some talk of undoing the tax cuts. I don't think that's going to benefit them greatly, but this movement to the far left, to this young woman from the Bronx in New York who is an unabashed socialist, as Bernie Sanders, you know, that may be really popular in Cambridge, Mass and Berkeley, but

there are some places in the country where that does have support. I think the democrats could hurt themselves nationwide if they became identified with a clearly socialist agenda, so it's an interesting story. They are all united against Trump, but when it comes to policies, the democrats have real significant divisions.

Jeff Gentle

Okay, Jonas, a lot of headlines on Turkey in the past week. What's going on?

Jonas Krumply

Basically, it's a country that spent money that they didn't have, and they were borrowing money either in euros or in dollar terms, and so now you have a lot of corporate debt which is mismatched. These corporations don't have revenues in dollars or in euros, and now that's the currency's devalued by, say, 40% in a short period of time, they're going to have real tough times, so there's going to be a lot of restructuring. Now, the government itself doesn't have a lot of debt outstanding, and it's a question of the FX, the foreign loans that the banks have made and plus the corporate debt that's outstanding. Erdogan, who is the President, says that high interest rates is causing inflation which makes no sense whatsoever, and his son-in-law is the Treasurer and the Finance Minister, and he gave a call with institutional investors that morning. There were over 6000 people dialed in, and you had to pre-send your questions in, and all he basically said is we're not ready to go to the IMF any time soon. We won't have capital controls, and we'll somehow or other have to address this imbalance with fiscal and monetary policy.

So, over the last couple of days, they've done some band aids. They've made it much more difficult to short the lira for the banks. They've raised the rate to short, to 37%. The currency has bounced back. A few weeks ago, it was about 4.8 to the dollar, and it got up to 7. Right now, it's about 5.7. The Qataris have come in and said that they're going to invest \$15 billion, but that's not enough. They're going to need many multiples of that, and Erdogan's reaching out to Putin. I don't think the Russians are about to lend a lot of money, I mean, just given what the relationship is between the US and Russia, and I don't think the Chinese are going to do the same either, so somehow, somehow, Erdogan's going to have to say, okay, we raise rates, and that's something he's been against, but he is reaching out to Merkel and Macron and the Finance Ministers of Germany and France. With Germany, they've already had discussions, and they basically want to keep the tide of the Syrian refugees inside of Turkey, not flooding into the rest of Europe, so that's, I guess, the weapon or his bargaining chip.

Greg Valliere

There's this Minister and some other Americans who are imprisoned by the Turks. What's the end game? Is there eventually a compromise?

Jonas Krumply

So, there is a pastor that was arrested in 2016, and they blamed him for being involved with the coup. There're several US embassy workers, some that are dual-citizen, Turkish-American, there are some Turkish citizens that have been arrested, same deal. There are court hearings that potentially could allow this pastor to be released, so that would allow Erdogan to save face, but it doesn't seem that today both Mnuchin and Pence have said even if they released the pastor, we're preparing additional sanctions. So, it's a real hard-ball game they're playing. It's going to be a vicious circle, so what they have to do is they have to slow down the economy dramatically. There's going to be corporate restructurings. People are going to be questioning the health of the banking system. That's going to make, eventually, rates go up, and it's going

to-- eventually, the current account deficit which is very, very high will be pulled back just because of the economy slowing enough. What's important to Erdogan's mind is there are major municipal elections in March of next year, so he would not be happy about having the economy in a recession by then, but it just might well be. It might have to be.

Jeff Gentle

Kind of has to be, right?

Jonas Krumply

Eventually, it will have to be in a recession. I don't think it spills over and causes big problems with Asia or Latin America or Africa. There could be some banks that are impacted in Europe, but not enough to sink the European economy.

Jeff Gentle

I think the Spanish and French banks are the most exposed.

Jonas Krumply

Spanish and French banks, and Italian. Very small, very small.

Jeff Gentle

So, spill-over effects, have you seen in currency markets investors going after other weaker countries, Indonesia--?

Jonas Krumply

You have Indonesia raise rates again to defend their currency.

Derek Hamilton

South Africa's been weak.

Jonas Krumply

South Africa's been weak for several reasons. They have some very unusual policies where they could give land, take land away from certain people and give it away for free to others without any compensation. That could be part of the reason that that currency's been weak, but they do have a high current account deficit, but it's not as bad as what we see in Turkey.

Derek Hamilton

I think part of it is, and don't get me wrong Turkey has big problems, but we've talked about this before that as the Fed raises rates, the dollars go up. That withdraws global liquidity, and as global liquidity gets withdrawn and the tide goes out and the most egregious offenders start to pop up, which would be Turkey, which would be Argentina, and so as long as the Fed keeps raising rates, the dollar keeps going up. You're going to, in my opinion, continue to have these one-offs pop up because it more and more difficult. The cheap money is disappearing. If we can transition, one thing that Jonas said that I think is very important is the comment on Europe. If you go back a couple of years, the tide of immigrants coming in to Europe was very destabilizing for a number of countries: Austria, Germany, Italy.

Jeff Gentle

Turkey is the open door to that.

Derek Hamilton

That's right, so what happened was essentially Merkel cut a deal with Erdogan that said we will give you money if you stop these immigrants from coming, so there are 2.5 million Syrian refugees sitting in Turkey. There are another five or six hundred thousand of other nationalities sitting there, and then there are, and my understanding is, additional refugees, hundreds of thousands sitting on the border of Turkey from Syria waiting to come in. So, if this gets out of control and Erdogan says, okay, the gates are open, Europe has another big problem once again at a time where nationalism is becoming and bigger and bigger problem.

Jeff Gentle

Right, right. That's very true.

Greg Valliere

Just to come full circle to the US, I mean, Donald Trump is still determined to build a wall. If he doesn't get funding for it, he's been threatening to shut down the government when the fiscal year ends on September 30. I think he will be dissuaded from doing that by most republican leaders who don't need that kind of aggravation ahead of an election, but the immigration issue here still isn't resolved, and I think it's a source of tremendous frustration for the President that he hasn't been able to get what he wanted.

Jeff Gentle

Let's shift from immigration naturally to Mexico. We've had an election there recently. It was kind of controversial, but so far, it doesn't seem like it's all that bad. Tell us a little bit about AMLO.

Jonas Krumply

So, he has "conventional," reasonable economic advisors. That's a big deal. He doesn't have unlimited resources to spend a lot of different things, but the thought is when he takes off this December 1 is that he will be a Populist but somewhat fiscally responsible just so he could win midterm elections and get additional seats in the Congress and House to actually change the constitution that would be undoing some of the things that Pena Nieto did as far as energy reform and power reform and education reform. So, people are happy with AMLO because he seems to be reasonable. He doesn't seem like a devil yet, but we will see what happened.

Jeff Gentle

That's not quite what we expected a year or so ago.

Jonas Krumply

No, no. But everyone was thinking he was going to be just very socialistic. Some of the proposals he had seemed to make sense. He wanted to double pensions for people that were at the lowest level of income. He wanted to set up apprenticeship programs. He wanted to set up scholarships for poor students going into university, so some of these things could be paid for. They're not all that big-ticket items, and we'll see if he comes up with any more radical. It's always a question mark. When Pena Nieto took over, there was quite a long period of time where the government just didn't have its act together as there was a transition to a new party, and so there were a lot of programs that were supposed to be spent on infrastructure and so forth, and those things stalled out so that caused the economy to be less vigorous than people were expecting.

Jeff Gentle

Is AMLO having any effect on NAFTA, good or bad?

Jonas Krumply

So far, he seems to be open.

Derek Hamilton

One thing that has been clear is he would like it done before he gets inaugurated. The talk is that they want to have something done by the end of August to where Pena Nieto signs it, gets it in, but yet AMLO puts his stamp of approval on it. If you think about what the US has been asking for particularly in the auto sector, they've been arguing about local content rules and what have you. One of the things that the US has proposed is a certain percentage of the manufacturing wages that go into autos would be increased dramatically. That plays right into AMLO's wheelhouse, right?

Jeff Gentle

That's very true, yeah.

Derek Hamilton

He wants higher wages across the board, so I could very easily see them coming up with an agreement here in the next few weeks.

Greg Valliere

They're talking in this deal we might get in the next few weeks about wages of \$16 per hour for Mexican workers in autos. That's pretty good.

Jeff Gentle

When do we drag Canada into this?

Derek Hamilton

Well, I don't know if the disagreement with Canada is as big as the disagreement with Mexico on the NAFTA side. I know obviously there's a personal disagreement between Trump and Trudeau.

Jeff Gentle

I think it's just because he doesn't like that Trudeau's better-looking.

Greg Valliere

Better hair.

Jeff Gentle

I would not at all be surprised if we cut the deal with Mexico and then Canada says, okay, we're good because Canadian wages on autos are already well over \$16, and I just think this will get resolved pretty quickly. I don't think that's the issue. The issue is with Mexico.

Jeff Gentle

As we go into the new year, our primary focus is China.

Derek Hamilton

Yes, I believe so.

Jeff Gentle

NAFTA will be done with.

Greg Valliere

You could make a case, a bullish case, that we're getting closer to a deal with the EU, and the Germans certainly want to resolve the auto issue. That's in their best interest, but we're getting closer to a Mexican, maybe even Canadian deal. These are really significant stories, but I think China takes a long time. I don't think the Chinese realize quite yet just how angry the US is, and as I said earlier, both parties are, at the thievery that they've had of a lot of intellectual property.

Jeff Gentle

Okay, we were talking about Europe a little bit. I'm curious to know your opinions on, you know, I think a lot of the rest of the world could characterize President Trump as more or less a bully. We've certainly seen deterioration in relations with Europe, with Canada, with traditional very strong partners. Where do those relationships go, and do they have a lasting effect well after this administration's out?

Greg Valliere

My sense is that Trump will never be loved in Europe. That's just his nature is very competitive, bull in a china shop, but I think there will be some respect or even fear of him because he's not very predictable, and he may get some of these countries to cry "uncle" on trade, so I think it's a mixed picture. I have a lot of friends in Europe who like to disparage him, and I tell these friends that in Europe you've got a lot of pretty bold leaders as well, whether it's Le Pen in France. You look at Hungary for example which is, as you guys know, a very increasingly conservative country, and I think that there's a movement around the world of people who are leery of immigration and things like that. My sense is that I've said this for a long time, and I'll continue to say it. You underestimate Trump at your own peril. Despite his tweets, despite some of the maddening things he may say or do, you underestimate him at your own risk.

Derek Hamilton

One thing that could be a longer-term implication is if the US is deemed more and more untrustworthy. What does that mean for the dollar as a reserve currency? Now, this isn't a story for this year or next year even or even the year after, but if I am a foreign counterpart that has traditionally looked at the US as my partner and my safe haven and now maybe they aren't as close of an ally economically as I thought, maybe I want to diversify that. That could have some longer-term implications.

Jonas Krumply

For whatever it is worth, Russia's always held a lot of US treasuries. They were a top 20 holder, and they no longer are. I'm sure Turkey is no longer a big fan of US treasuries either.

Greg Valliere

Just one other thing-- there's so many wild cards. Who knows what this woman has on tape. There are more tapes to come out. They could be explosive. Who knows what Mueller might have in terms of indictments either before Labor Day or after the election. There are a lot of moving parts when it comes to US relations with Western Europe.

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Jeff Gentle

And yet markets have held up well with all this.

Jonas Krumplys

Well, they have in the US. They have in the US.

Jeff Gentle

One more thing I think that's important that I wanted to talk about and you brought it up a little while ago, Greg, but Iran. That looked like it was going to be the next flash point, and I haven't read a story about Iran in a couple of weeks. What's going on there?

Jonas Krumplys

Well, the inflation rate is just out of control. The currency's devalued by a massive amount, and it's just going to get worse. I mean, they just initiated the first round of exit sanctions last week on Monday where they're not supposed to be able to buy US dollars. They're not supposed to be able to trade gold which they were doing before through Turkey. They're not allowed to buy other metals. They're not allowed to buy autos, and then come November, we're ornate sure how much, but it could be 700,000 to a million barrels of oil will be taken off the market. We will see who our friends are. I guess the Chinese say they're going to ignore that, but India probably will respect much of that. South Korea will. Japan will. Western Europe will. Turkey, we'll see. They do import, so that could impact oil prices, and it certainly isn't helping the popularity of the government there. There's no doubt about it.

Jeff Gentle

The ex-president is calling for the new president's removal?

Jonas Krumplys

Right. He's only one year into his term.

Jeff Gentle

Politically, do we get to a point where something does flash in Iran? Does this put enough pressure on that country that-- the government's already unpopular among the citizens of Iran? What are the chances of something blowing up there?

Jonas Krumplys

That's real tough to predict. I mean, it was tough to predict the Arab Spring. There were so many different-colored revolutions in the former Eastern Europe, former Soviet, I guess, satellite countries. It's a very well-educated population. There's social media available, so there is a possibility of something happening.

Greg Valliere

I would worry about an accident; a US ship hits an Iranian ship in the Persian Gulf and then all of a sudden things spark up for a while. I can't see an all-out war, but I could see an incident in the Persian Gulf at some point.

Jeff Gentle

Okay, let's move on. We have a ton of topics we wanted to talk about today. Let's hit on Europe again. I think everybody can participate in this. You know, the rise of the Euro-skeptics

they called it. You had Brexit. UK wanted to leave Europe. Italy now is there, and potentially there's others down the road. Greece was there for a while. We spoke about immigration. What is the political climate like in Europe? Are they becoming much more nationalistic? What's going on there?

Derek Hamilton

There's no doubt that there's a rise in Nationalistic sentiment, even in places that aren't ruled by the far right. The far-right parties have been doing much better in Germany obviously, and Italy, the far right and the far left are in a coalition. They are both Euro-skeptic, anti-immigration type parties. I think the next 12 months are really going to be interesting if you look at-- and we will start with Italy.

You will have the Northern League, the far-right party and the Five-Star Movement, the far left trying to pass a budget with far right and far left elements within the budget. On the one hand, we want to lower taxes, but on the other hand, we want to increase handouts to individuals. They have to do this within the construct of the European Union rules, and if they don't, then the European Union can take measures to start to go after Italy. This kind of plays into their hands, right? Because if they're Euro-skeptic, they come out with a budget. If it doesn't comply, they say, look, Big Brother is trying to tell us what to do, so on and so forth.

Jeff Gentle

It's probably not going to comply, is it?

Derek Hamilton

So, it's really unclear right now, because the finance minister who they appointed is more conciliatory, I would say, and he's been saying all the right things up to this point. We will find out in the next two months because it's due by October 10th, I believe, and even if they come out with a compliant budget, it's very clear that the Northern League, Salvini, the one that heads the Northern League, is gaming to calling new elections in May of next year, and the Northern League party is leading in the polls, and so this coalition probably doesn't last long. More and more people are moving towards the far-right Euro-skeptic party, so we could get the middle of next year a more Euro-skeptic or more nationalistic party, if you will, in place than what we even have now. If that happens, we've seen spreads of Italian bonds relative to Germany. A couple of years ago, they were 100 basis points. They've widened to 300 over the last few months. At the highs of the European crisis, there were 5 or 6 hundred, so there is more stress that we could see come through that which would obviously not be good for European cohesion, right?

Then, you have Brexit, so Brexit, we have to have some kind of agreement. They say "October." They might be able to fudge it by the end of the year, but you have to have something by the end of the year because once the agreement is signed, all 27 countries in the EU have to pass it in their parliaments. So they have to have the time to do that. They're still far apart, but you can see the UK starting to move towards the EU demands. The problem with that is the Euro-skeptics within the conservative party that's in power are becoming increasingly frustrated, and do they finally just say, okay, we're done; we're not voting for that? There's a lot of issues that could make Europe a more volatile place in the next year or so.

Jeff Gentle

I think everything we've said so far today, I mean, leads me to believe that, you know, kind of what the market, at least the US markets have been doing this year is kind of, right, it's been

kind of a risk-off from international type. I mean, it's just been risky, and there's a good chance Europe, for instance, it becomes more of a risk. What shifts the tide? What makes dollars or what makes cash flow out of the US and flow back into international markets?

Derek Hamilton

Well, in my opinion, it probably has to get worse before it gets better. What in my mind causes money to flow back out is the dollar weakens, the Fed stops tightening, and growth slows but not a tremendous amount, so you probably have to have some kind of amping up of trade. The market here corrects; people start to say, "Are we going to have to adjust our GDP forecast?" Then the Fed pauses, right? The problem is from here to there could be a bit rocky.

Greg Valliere

I'm in the camp, and I think we'd probably all agree that the fundamentals here are still really good. Unemployment probably staying below 4%. GDP probably still at 3, maybe 3.5% for the next few quarters, but there's 2 wild cards in my opinion that the markets may not have played in. The one that worries me the most-- could we see the President of the United States getting into a Twitter war with the Chairman of the Fed? He's already indicated displeasure over Powell's latest rate hike. I think we'd both agree, Derek, we get a rate hike in September and one in December, so after the December one, do we wake up and start seeing Donald Trump tweets about the Fed? That scrambles everything. People will then question Powell's motives. You know, is he not tightening because of Trump? Or is he tightening to defy Trump? The markets, I don't think, need that kind of uncertainty. I would worry about that.

The second thing would be-- I am reticent to get into this too deeply, but I would just say-- there could be a trial in the House next year, an impeachment trial if the democrats take the House. They don't like to say it in public, but I talk to enough of them in private. They're all saying we could have a trial. You just need a majority vote in the House to indict or impeach. I still strongly there are not the votes in the Senate. 67 votes to convict? I don't see that at all, but that's something I think the global markets wouldn't like to see the President of the United States in a serious trial before he's eventually acquitted by the Senate, so those to me are 2 wild cards that could scramble things a bit as we come to the end of the year.

Derek Hamilton

I'll add one more to your list. So, he has tweeted once or twice about the strength of the US dollar, that the dollar continues to appreciate. What happens if he says, "I'm going to direct the Treasury to sell dollars and try to weaken the currency?" I mean, that is another layer of uncertainty.

Greg Valliere

There's a minority view that he may have even thought of that. I would have to think Larry Kudlow and his advisors are aghast at having a President do something that overt to weaken the dollar. But yeah, that's a wild card as well.

Jeff Gentle

I've heard Larry Kudlow say "king dollar" many, many times throughout my life, a big believer in that. What are you looking for in emerging markets, Jonas, with all this going on?

Jonas Krumply

Well, there are a couple of interesting things happening, so there are sanctions being put on Russia. Basically, they tried to get ahead of possibly a very negative sort of a death blow to Russia-- the bill that's being discussed in the Senate, so those are going to be rolled out because of them using nerve gas on an ex-spy in the UK. The first round is not that bad. The next round would take place 90 days after that unless the Russians allow international inspectors in to look at chemical plants and also to--

Jeff Gentle

That's not going to happen, right?

Jonas Krumplys

That's not going to happen. So, that could be-- those would only go in place after the November midterms, and then there's an election in Brazil for the President. It's a broad-- for the Congress, for mayors, for governors, etc. That is completely unpredictable. President Lula is in jail. Yesterday was the last day to declare who your candidate's going to be for various parties, and his party declared that he is their candidate, so now it's going into courts, and the law says basically you've been convicted and your appeal has been denied, so you cannot run. He could drag this thing out where all of a sudden the appeal process goes beyond the election which would be a constitutional crisis.

Derek Hamilton

And the polls show the top 2 vote-getters are Lula and--

Jonas Krumplys

And Bolsonaro who is a right-wing misogynist who is very scary. I guess those would be the 2 hot buttons that I'm looking at. Venezuela is not an emerging market, but just in the last 24 hours, there's a court case that basically allows a mining company to take over Citgo for assets that were stolen, so that's an economy that could collapse. Even though their production is down a lot, that's another source of oil that could be coming down quite dramatically.

Jeff Gentle

In your view, what gets emerging markets working again?

Jonas Krumplys

I guess some better stability or better-- as long as we know what the tariffs will be and what the rules are, that would be something that would be positive for the emerging markets. Now, we have no idea if you're the Chinese or if you're the Russians on sanctions or if you're Turkey. Mexico, I guess, they're not as worried, but I guess getting some sort of clarity on what the end game's going to be.

Derek Hamilton

As they go after China and roll out more and more tariffs, you have more and more unintended consequences. So, it becomes increasingly harder to not have that collateral damage where some of the countries that export to China that then process and export out, they start to get affected as well.

Jonas Krumplys

Right, I mean, it will impact commodity demand, but it will impact different components coming from Japan or from Korea or from Taiwan or Thailand, Malaysia. It's just on and on and on. They are major trading partners with China.

Jeff Gentle

Okay, we've got a few questions as we end this here. One regarding the comments on an infrastructure plan. How does it get paid for? I think that's an easy answer.

Greg Valliere

Like many things in the last few years, it probably won't get paid for, but I'd say this-- I do think Wilbur Ross and others will want to get the private sector involved, and I do think we could get at least a foot in the door on infrastructure with the private sector, but we're talking about another trillion dollars in an economy where the deficit has just exploded over the last 2 or 3 years, a trillion dollars over 10 years for infrastructure. I just don't see congress appropriating the money right now.

Derek Hamilton

One thing that consistently is brought up with infrastructure is raising the gas tax, but that's a non-starter with republicans.

Greg Valliere

The only politicians who want to raise the gas tax are ones who are not seeking reelection.

Jeff Gentle

Okay, we've got a question. I will just read it as is. How do the dems win when their entire agenda consists of "we hate Trump," "keep the borders open," "illegal aliens are more important than US citizens," "ban ICE," and "socialism"?

Greg Valliere

I mean, let me just take the first point that the questioner asked. I thought that was one of Hilary Clinton's great Achilles during her campaign. You can't just say, "Elect me because Trump stinks." You have to have an agenda, and just-- the democrats still are grappling with an agenda, and maybe they will start to see one crystallize, but right now, their agenda is still in the very early stages of becoming clear.

Jonas Krumply

I will direct this at you, Jonas. Is opposition to see strong enough in China to fight back if the economy slows from the tariffs?

Jonas Krumply

I would really doubt that. I mean, they are trying to stimulate the economy. They're trying to-- they're going to be cutting personal and corporate taxes. They're trying to accelerate local infrastructure spend, so there would have to be a major, major disruption to the economy. If the economy slows by two-tenths, three-tenths, four- or five-tenths, I can't imagine that there'd be social unrest tied to that.

Derek Hamilton

One of the things that they've talked about doing is they're setting up a fund for if a manufacturing company is affected, I guess, by the tariffs and lays people off, they could tap

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that fund and pay for those workers to stay on, and so that, in a way, backdoors the rising social unrest that could occur, right? It keeps them employed essentially.

Jeff Gentle

Here's one-- Derek, this will go to you. Is it prudent to bet against the US economy? Can anything really mitigate market cycles? How do you separate noise from serious long-term economic situations?

Derek Hamilton

Well, there's a lot in there. I guess the way that I would answer it is we are, I will call it, on a sugar high, if you will, with the fiscal stimulus that we had from the tax cuts from the fiscal spending that occurs this year and next year. As that wanes, if we don't have further fiscal stimulus from tax cuts, from an infrastructure plan, so on and so forth, that would be as sizable as what we have seen over the last year, then the economy will naturally start to slow, right? That's point 1.

Then, if we have the tariff issue and what have you continue to accelerate and get worse and worse, we have to start to worry about the impact on business confidence, and so we will have, I think, a slow-down from the sugar high that we've seen, and that would exacerbate that cycle that's already taking place.

Greg Valliere

But if a slow-down leads to Jay Powell slowing down on rate hikes, that's a good story.

Derek Hamilton

Exactly.

Jeff Gentle

Okay. Give us a couple of tidbits what you're hearing in Washington that most people won't see.

Greg Valliere

Tidbits from Washington-- I think everyone's being taped, and I think it's an outrage that tape recorders were brought into the situation room. Someone's got to look at that. I think that Mueller has talked to a lot of people who have turned against Trump who don't want to be incarcerated. I think Mueller does have a lot. You know, a lot of people hate Mueller. I just say, Mueller is a Purple Heart combat veteran Marine. He's a tough guy. The idea that he would be dissuaded from his investigation by Rudy Giuliani, that's just not going to happen. I think there's now a view around the country that maybe the FBI has been discredited and Mueller's discredited. Doesn't faze him in the least. He will not be dissuaded.

Jeff Gentle

I actually had a question on the Mueller investigation and your opinion. Where does it go? What is the outcome?

Greg Valliere

He's been very clear that he feels he does not have the authority to indict a sitting President. He might have the authority to indict others around the sitting President, but I think his view is

that he will take all of what he got and dump it on Congress. Maybe there will be a vote to impeach in the House, but again, I do not see 67 votes in the Senate to convict.

Derek Hamilton

What would happen if Mueller indicted one of his children, one of Trump's children and then Trump pardoned them or something like that?

Greg Valliere

The risk is that Trump could say "you're fired" to Mueller. You can't rule that out. He said that to a lot of people. You can't rule out that he just has a blanket pardon. Now, that would greatly inflame this whole story, but you still have to ask the question: are there 67 votes? You made a great point earlier. Trump has 90% support among republicans, and I don't see enough republicans in the Senate willing to vote to oust him.

Jeff Gentle

All right, thank you all very much. Derek, Jonas, Greg, I appreciate you being here.

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