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“The Winner Is (Isn’t) *La La Land*”

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We should have known that *La La Land* didn’t win the Oscar for best picture despite the academy’s “envelopegate” debacle. Despite the film’s success, musicals just aren’t as popular with today’s audiences. Musical films remind us of a rich, romantic cinema experience filled with song and spectacle of a bygone era. A happier time when movies were about sheer entertainment, where the grit of drama was confined to the stage. The very title of the movie plays on the idea of being in a dream world. Ultimately, the trophy for best picture went to *Moonlight*, a film reflecting the complex times we live in. A young man from a dysfunctional family, living in an unhealthy environment, struggles with his sexual identity. Rather than offering an escape, *Moonlight* forces moviegoers to consider difficult issues perhaps all too real for some.

Why do we insist on assigning romantic sentimentality to days gone by? The power of nostalgia makes us wistful for some earlier, happier time. It offers escapism from current troubles. But, time does not stand still, and images of the past are often delusory. We must live in the present and confront the challenges of the day. Separating stark realities from fanciful visions is critically important in attempting a diagnosis of the U.S. economy. Can we restore historical good times by simply bringing jobs back to our country? Can the problems with the economy simply be fixed by ensuring fair trade, controlling immigration or through deregulation? Will tax cuts and fiscal spending spur growth?

Unfortunately, there are no simple solutions to the complex problems we face. Harkening back to memories of the U.S. as the world’s manufacturing center only confuses the matter at hand. Fond memories of some golden age need be met with a healthy degree of skepticism. History was likely quite different and more complex. Globalization brought on by new means of transportation, communication and other technological advances has made the world smaller. Huge strides in human productivity and innovation made during the last century have dramatically improved the human condition. The ability of businesses and capital to move rapidly has meant tremendous fluidity for markets and competition. The globalized world seems a gritty, discordant drama, not a musical.

The current political narrative of economic nationalism seeks to reverse globalization in favor of isolationism. Globalization is cast as the antagonist, hindering domestic economic growth. This political script may be nothing more than a romantic vision. Nonetheless, it has renewed hope and re-kindled animal spirits at home while promoting skepticism and uncertainty abroad. Animal spirits once ignited are hard to extinguish but to flourish the spark of ideas must be fed by the oxygen of action. While still early in the new Trump administration, the difficulty of translating rhetoric into policy is already evident. The reality of the legislative process is designed for inefficiency.

Rewinding globalization is going to be a tricky business. Borders have in most places become porous and laws very lax. The migration of people in search of employment has profound consequences for all humanity. If we are intent on upholding the nation-state model, it will be important to maintain borders to restrain the free movement of populations. Goods and services, on the other hand, are more difficult to constrain whether through embargo, tariff or sanction. Establishing fair trade, in place of free trade, will be a very difficult process.

Other ideas put forward by the administration, like tax cuts combined with fiscal spending, are not new. It has been the growth prescription for many prior administrations. Deficit spending has been a simple solution to slack demand. Though, typically, pro-growth policies have been most effective following recessions. The timing of this course of action might be suspect after an extended recovery, albeit tepid at best. This agenda is also being proposed at a time when the Federal Reserve is removing accommodation and raising interest rates.

Washington is not Wall Street, although, with each new administration we seem to get more representation from Goldman Sachs. The powers of government are divided and designed to move slow. Businessmen in search of change will move quickly and take risk. The government, however, is risk adverse, and less concerned with efficiency than output.

The likelihood that President Trump will get much of his agenda passed is slipping away under the shadow of investigations into Russian encounters and intelligence leaks. Moreover, debt levels and politics will act to undermine the scale and timing of any grand scale plan. Of course, legislative missteps were to be expected from a political outsider. And Trump is perhaps the most outside, outsider to hold the office since Hubert Hoover. Hopefully, it ends better.

His biggest challenge may not come from his opposition, but his supporters and conservatives concerned with national debt levels. Cutting taxes and increasing spending requires offsetting measures to minimize deficit spending. Offsets may prove difficult to find, especially if Trump is earnest about preserving social security and Medicare. Growing your way out of it is not an option.

The President's claims of GDP growth of 3% or more are unrealistic. Labor participation rates and declining productivity are constraining. Additionally, global growth is unlikely to be supportive in a more isolationist regime. The best chance for his pro-growth policies being enacted will be following the next recession. Perhaps it

is at least encouraging that we will not have to rely entirely on the unconventional policies of the Federal Reserve to promote countercyclical growth.

The “soft economic data” all points to improving domestic growth. The surveys suggest optimism and confidence, even if the hard data is missing. The Atlanta Fed’s GDPNow forecast is at 1.3% for the first quarter. The pattern of disappointing growth in the first quarter of the year has been consistent since the financial crisis. We may be closer to recession than we think.

Something is amiss about our current reality where celebrities attempt to govern, and politicians have become entertaining. But Washington is not Hollywood. Hollywood is meant to entertain and offer an escape from the real world. Washington, however, must govern subject to the constraints of the world as it is, not how one wishes it. Government is serious business in that we all share in its outcomes. Let’s make America great without longing for some past. Let’s try to avoid ending up in la-la land in the process.

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