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WHATEVER HAPPENED TO FISCAL AUSTERITY?

BACKING AWAY FROM THE CLIFF: THE RETURN OF FISCAL STIMULUS

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ASK TYLER

It's been three years since the world panicked over an alleged "fiscal cliff". Yet, in a rare intersection of opinion, both "the Donald" and Hillary Clinton are united on fiscal expansion, with a focus on upgrading the US's aging infrastructure. They have plenty of ammo for the argument. Debt-to-GDP has stabilized since 2011 and the deficit has come in dramatically. Gross government investment as a percentage of GDP is at a 70-year low. What's more, lobby groups such as the American Society of Civil Engineers claim that US GDP could fall by \$4 trillion between 2016 and 2025, due to lost sales and rising costs associated with bad infrastructure. Pitching into the debate are the likes of Larry Summers and even Fed Vice Chair Stanley Fischer with arguments that fiscal largesse is the solution to concerns over "secular stagnation" (a phrase originally coined by Alvin Hansen in 1938 following the Great Depression).

In Canada, the Liberal government was elected on a platform that placed austerity and balanced budgets on the back burner. More globally, fiscal stimulus is also making a comeback. For the first time in five years, more developed economies plan to loosen than tighten fiscal policy (16 countries for the former, while only 9 for the latter). Expect this to be a multi-year trend.

INVESTMENT IMPLICATIONS

Worldwide economies are now approaching a key inflection point — moving from fiscal austerity to expansion. While macro fears — Trump, Brexit, etc. — continue to dominate headlines, the more important story is the return of fiscal stimulus. It is remarkable that 8 years after the global financial crisis, governments continue to call for even more stimulus. Few forecast this. Yet, here we are. Investors should move into global cyclicals, with an emphasis on non-resource exporting countries like Sweden and emerging Asia. Also, government bond yields may finally start to edge back up, albeit glacially. And, as we move into this next stage, expect a blurring of monetary and fiscal policy — a development that will pave the way for "helicopter money" style policies.