

THE UK HAS OPTIONS MOST OF EUROPE DOES NOT

Ask **the** PORTFOLIO MANAGER

Do your comments on Europe also apply to the United Kingdom?
Transcript of a video recorded on May 30, 2018.

Not so much. Obviously, the Brexit pantomime is depressing and driven by political considerations rather than economic ones. But the key is to understand that when a society or an economy is caught in a deflationary structure, that financial markets will treat all threats to that structure as potentially reflationary.

That's why we suspect sometime later this year, sterling-based assets, including UK equities, will begin to outperform. The United Kingdom, which accounts for about 30% of the eurozone—it's the fifth largest economy in the world—has actually been the largest source of internal demand for the eurozone for the last two decades. And it has the best demographic profile, looking forward, of any of the countries in the euro zone.

The UK has options on the table for economic growth that most of the other countries in Europe do not have. They just have to get through this very, very difficult period of negotiation. I think the UK holds most of the best cards in that negotiation because it runs a significant trade deficit with the continent, and it has a significant non-tradable diversified economy.

That's actually very similar to the structure of the U.S. economy today, and it's why [U.S. President] Donald Trump is able to get some of these other countries to negotiate, whether they want to or not. It's also very similar to the structure of the UK economy back in the 1930s, when there was last a major trade war. At that time, by the way, the UK economy outperformed almost all of the others.

I suspect the UK economy will eventually come out of this just fine, and perhaps later this year. When Brexit will finally be seen as something that's happened, UK assets will again begin to perform.



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WATCH VIDEO

Video recorded 5/30/18.

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