In The Know: Episode 67

The changing world order and what it means for investors

Announcement (00:00):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

Host (00:14):

This is In The Know, a monthly investment podcast brought to you by Magellan Investment Partners.

Michael Allen (00:20):

A lot of this is the age of populism that we're in and it's not just in the United States. And I believe it was caused more or less by the 2008-2009 financial crisis, which led to more polarization, more people being disgusted with failing institutions and leadership. And so, I think this is a feature for some period of time. I mean, immigration is also big in Europe. Take home pay has decreased year-on-year for many, many years here in the United States, which has led to word affordability, the inability of many Americans to catch up or feel like they have as much purchasing power as they once did. So, we're going to be in a period of populism and polarization for some period of time, although it might have just peaked with Donald Trump.

Host (01:16):

That's Michael Allen, managing director and partner at Beacon Global Strategies. Welcome to In The Know. Investors could largely view geopolitical events as short-term market disruptions. Increasingly, they're becoming long-term forces shaping the investment landscape. In this episode, Alan Pullen, head of Global Equities and Portfolio Manager at Magellan Investment Partners, speaks with Michael Allen about the structural shifts redefining global markets.

(01:50):

From deglobalization and evolving warfare to NATO the Middle East and the future of US politics, they explore how these forces are influencing investment risk and opportunity. To kick things off, a welcome from your Host, Alan Pullen.

Alan Pullen (02:06):

Hi and welcome. I'm Alan Pullen, portfolio manager for the Global Opportunities Fund. And today, we're joined by Michael Allen, our geopolitical expert based in Washington. Of course, there is a lot happening around the world at the moment, geopolitics impacting markets, perhaps as much as any time in history at the moment. So, it's a great time to get an update from Michael Allen. Welcome to the show, Michael.

Michael Allen (02:28):

Thanks so much for having me.

Alan Pullen (02:30):

Okay. So, there is a lot happening out there, but let's start with a broader question. What is the most underappreciated geopolitical shift investors are treating as cyclical but you actually think is a structural change?

Michael Allen (02:43):

Well, I think it's that the nature of warfare is changing so much that any number of new, as I call them, conflagrations or **Host**ilities could erupt at any particular time. Just when I think Israel thought that they had Hezbollah in a place that they could deal with them consistently, they started using the same types of drones in the same types of ways that are being used in Russia, Ukraine. And at the same time, we're learning of all the different ways Taiwan and China might use some of these very similar technologies in a future conflict in particular. And we've of course had this throughout history.

(03:31):

But even before we get to artificial intelligence, the widespread ubiquity of new and exciting technology, how it can be used for good and for ill, to me, is one of these things that we all need to study more closely and figure out a way that it might govern our decisions in business and elsewhere.

Alan Pullen (03:56):

What are the implications for that in terms of great power politics? And are we moving from this globalization regime to something different going forward?

Michael Allen (04:07):

Yeah. I do think we call it here at my firm, Beacon, we call it a deglobalization. The period through which everything seemed to be moving towards something more cohesive seems to be over. I mean, it's been many years now since we've successfully negotiated a World Trade Organization round. Of course, you've seen all sorts of problems with Brexit in Europe. You've seen the failure or really the failure to launch of the idea of the Obama Era Trade Agreement, the Trans-Pacific Partnership.

(04:47):

So, I think what you're seeing is all the forces that used to be unifying are now more centrifugal. And when that is happening, when we're not coming together in a globalization way, we start resorting to export controls or more industrial policy or more blacklisting and sanctioning of different entities around the globe. So, I definitely think that when you also consider the widespread propagation of all sorts of new technology, we're in reverse as we would say, and not on the same path that I think characterized the globalization and those trends that we used to think and write about so often.

Alan Pullen (05:37):

Look, that's so important from a portfolio point of view, given so many of our companies have been built on globalization and have massive international exposures. So, being aware of these shifts in geopolitics and what it could mean for individual companies, what it could mean for industries is obviously important when we're thinking about investing over the long-term. Now, there is a lot going on right now. Of course, in the Middle East, we've seen the war in Iran. As we sit down to record this, there's currently negotiations ongoing in terms of potentially ending this war. What do you think is going to happen here and what are the plausible outcomes both in the very near-term, but also this doesn't feel like it's done, right? What about over the next 12 to 24 months?

Michael Allen (06:23):

Well, I think the talk here in Washington and maybe elsewhere is will this memorandum of understanding, it says over the course of 60 days that we will begin to reach certain agreements on nuclear issues and some of the harder issues where we've just kicked the can down the road. Most people are saying to us and allowed, "Well, I assume this is just going to be renewed over and over again." And I do think it will be renewed a couple of times.

(06:54):

The next question that is on the table is, "Well, is Trump just trying to do this to calm things down through the US midterm election in early November so that we won't be under so much economic stress and then he may feel like I've got more room to resume active **Host**ilities?" I think right now that President Trump has had his fill of **Host**ilities, so I don't believe that this is just a play to get past the election, but a lot of this just depends on Iranian behavior going forward. If we see constant maneuvers to assert their power over the Straits of Hormuz or if they begin to declare it closed like they did over the weekend, by the way, they didn't close it, but they claimed it was closed and people for a short period of time there were wondering if this memorandum of understanding had already collapsed.

(07:57):

I think we're going to see a lot more of this and I think that will not be quite geopolitically stressful as it was during the war, but I think it will raise a lot of questions about just how solid is the arrangement that we have with Iran going forward? Are they going to be able to insist upon tolls for ships to get through the Straits of Hormuz or at least close to their shores on the Straits of Hormuz? And what does all this mean for the international economy?

(08:29):

So, there are all sorts of questions and that's before you get to the tripwire that is Lebanon and the Israeli war against Hezbollah that's been renewed and how of late that is really angering President Trump and causing a new wedge and relations between the United States and Israel.

Alan Pullen (08:48):

Yeah. No. There is a lot still going on there and it doesn't feel like we're at the conclusion of this. Notwithstanding, it does feel like President Trump wants to deescalate the price they're being paid is too high in terms of oil prices and its impact on US consumers. And what about Iran? What's their incentives right now? Are they incentivized to deescalate as well? And so, as you say, we just get this rolling 60-day extensions or what are your odds that it actually flares up again at some point?

Michael Allen (09:21):

Well, I think a lot of people here in the United States have come to the uncomfortable conclusion that what we learned about Iran was a lesson that I think many foreign policy experts believed we already knew, which was they're an ideological, fundamentally revolutionary regime and dangling economic incentives before them is not going to cause them to reform their ways, so to speak, like arguably is happening in Venezuela. They are more willing to take a punch and suffer.

(10:02):

In many ways, people are beginning to say, and we have to test this proposition, that the new Iranian leadership is accepting more risk than their predecessors, which the Israelis of course decapitated in the first hours of the war. So, I think we're seeing perhaps a period through which conversely the United States use of force may pack less of a punch, may be less something that the Iranians are less fearful of than they were before we actually exercised it when at least it was the threat of the unknown.

(10:39):

So, people are negative right now because of the way this entire memorandum of understanding went down. Maybe some cooler heads will prevail and we'll begin to see that there were some solid achievements from the military action. But I think for now, people have a real low confidence in the ability of the United States to affect Iran's behavior from the air at least. We're not going to do ground troops, but I think people are relearning the lesson that it's so hard to affect political behavior from the air.

Alan Pullen (11:13):

And what about the Israel question here because they still want to continue their impacts, I believe in Lebanon. Will they be constrained by the US here? Is that going to be effective or is that the trigger point where you should be looking? Because we are worried about the increase in oil price, what that could mean for inflation, what that could mean for markets. So, we're looking for those points where this could be a significant impact on global markets and our stocks.

Michael Allen (11:40):

Well, yeah, I mentioned it earlier. I think it should be at the top of the list. We're trying to figure out just how mad President Trump is at Prime Minister Netanyahu. We saw another social tweet, if you will, today of a quote that he supposedly used to Bibi's face at some point during the negotiations that, "You need to stop. No one likes you. I'm saving you." It's amazing pressure that an American president is putting on the Israelis, which Republicans not too long ago were criticizing Joe Biden for a much lesser version of this.

(12:18):

And so, Netanyahu is in a rough place. I mean, he on the one hand, absolutely if he sees, if the Israeli Intelligence Services see a gathering threat, if they see Hezbollah terrorists beginning to put some drones together for an attack or missiles or rockets, they have to strike them just as a matter of self-defense. I can't think of any nation on earth that would forego that opportunity. On the other hand, depending on how they strike back, it could anger President Trump and that arguably is the most important thing to the Israelis.

(12:54):

Even in better times for Israel, their relationship with the United States is the most important thing they have to be friends with the superpower on such good terms. That's under strain. And if there were a real rupture, which is possible given that Trump is volatile and Netanyahu is looking down the barrel at an election in October, this is going to be a torturous path. Netanyahu has got to figure out a way to protect his people. I know both sides on the Israeli spectrum are calling for it. But at the same time, he's got to watch it because Trump could erupt.

Alan Pullen (13:34):

Yeah. Look, it's still a volatile area. Obviously, oil prices are lower now, but one will continue to watch closely and thank you for your insights there. I guess just in terms of future geopolitical adventures from the Trump administration, they obviously had some success in Venezuela, you could ask with their moves there and that arguably emboldened them in terms of what they could achieve geopolitically with minimal kind of no boots on the ground, no losses of US lives. Do you think he'll be constrained in his go-forward geopolitical adventures given Iran has not turned out as certainly he had hoped, I suspect?

Michael Allen (14:13):

I think so. Up until this Iran experience, of course, he had nothing but success with the US military. He was able to strike Syria in his first term twice when they used chemical weapons. It was comparatively easy for him to turn up the rules of engagements or relax them, I guess is the better way to put it, for us to be able to eradicate ISIS. Then you do the strike on Qasem Soleimani and then Venezuela and Trump's like, "Oh my God, our military can do anything."

(14:49):

And so, now, when you see people try to analyze, "Well, what happened here? What assumptions did Trump make that turns out to be wrong?" I think many of them were, he overestimated just what the United States military was going to be able to affect from the ground. If we had been clearer about what we were able to do, I think it may not be seen as such a failure, at least as it's being criticized here in the early days of it.

(15:17):

So, I do think this limits what he'll want to do in Cuba. I know that they're more in a let's constrict oil and keep sending humanitarian aid type of mode. So, I don't see a Maduro, Venezuela style attack coming. And so, then I have to think other than counterterrorism actions around the globe in East Africa and elsewhere, I don't think we've got any big military, or in Greenland, I don't think we have any big military actions in the offing.

Alan Pullen (15:49):

So, Greenland's safe for now.

Michael Allen (15:51):

I think they're safe for now. You never know though. I can't rule it out as we like to say.

Alan Pullen (15:56):

It's definitely unpredictable, but maybe a little bit less foreign adventures. Maybe turning to something a little bit more long-term in terms of the underpinnings of Western security since World War II has really relied a lot upon NATO and the treaty there to secure the West. Obviously, it's come under pressure from the Trump administration from the US. So, I guess what do you see as the future of NATO at the moment? Are the Europeans going to spend more as US hopes given their own budgetary issues in Europe and is it going to depend on future US elections that treaty or is it going to hold through this period?

Michael Allen (16:37):

It's going to hold. President Trump for all of the criticism of NATO, some of it justified, has won a big victory. He was quite direct at the beginning of the administration and they didn't like it at all. But at the time they felt scolded, but it worked. And now even Europeans say to me, "All right. I hate to admit it, but it worked at the very beginning because we did all then up our commitment to NATO, 5% of GDP, even if 2.5% of that is vague so-called infrastructure spending." But in any event, they admitted after the fact that they needed it.

(17:17):

Now later, Trump goes overboard with Greenland and new criticism of NATO. But even Trump I think is going to stay in it. He got them to spend more money. That's been the number one, Ukraine is up there too, but that's been the number one complaint that the United States has had about NATO, which is free riders and that problem is on its way to being solved. You asked about their budgets. I mean, I think finally they are ready and that they know that they have to spend more money.

(17:49):

It's not just Trump, by the way, it's the behavior of Vladimir Putin. The way they feel his gray zone actions, brazen actions, everything short of outright war across Europe. I think they know that Russia is a big problem and they need to spend more on their own security and that the way the previous status quo wholly unacceptable.

Alan Pullen (18:16):

Right. So, the end state for NATO here is basically intact with a greater contribution from European members of NATO. And will US pull out troops from Europe as they're suggesting and redeploy those elsewhere?

Michael Allen (18:31):

I think there will be some of that. I mean, I'm very much a supporter of the Transatlantic Alliance. But at the same time, most everyone agrees, at least at some abstract level, that we need to pivot more forces to the Asia-Pacific region. And so, if there's a sense and the administration has pledged to do what we call a forced posture review, if there's a sense that that's treated fairly and when it's nothing punitive about Europe or Ukraine, if it's common-sense type of moves that they want to make of certain brigades or whatever, then I think it will be fine.

(19:11):

It will be if it just comes off as punitive of "We hate Europe, do everything yourself, we're not worried about Russia," that I think would be problematic. And by the way, it's not that I'm going to think that Trump won't continue to criticize NATO. I mean, lately his line is "They would never be there for us." And so, I don't want to forecast that things are going to be great between us and the Europeans. There will be stress. I just don't think he's going to get out. I think that they are going to spend more and I do believe that the Russian threat, while there's not a perfect convergence between American policymakers and European policymakers, there's enough there for us to try to hang in Europe as long as we can in some meaningful format.

Alan Pullen (19:57):

Well, that's good to hear. It's a pretty important alliance that people have not so much talking about Ukraine these days. It's one of the longest wars, obviously, we've had for a long time. But Ukraine do seem to be making some more positive moves recently in terms of their strikes deep into Russia, impacting Russian infrastructure. Do you think that changes the trajectory of the Russian-Ukraine war or does this just continue to drag on?

Michael Allen (20:26):

Well, I do think it changes the trajectory somewhat, but not so much that it won't continue to drag on. I'm very bullish, by the way, and I have been for months on the Ukrainians. I think they've been killing 25,000 Russians a month and now they're up to about 35,000. But the news is, is that the Russians are finally having trouble refilling that. And shockingly, here we are this many years into the war and apparently Russia has not really reformed the way they attack the Ukrainians. We call it meatgrinder.

(20:59):

You all have a famous Australian general who's a great commenter on these types of issues and we all, at the same time, see them continuing to push young men forward and they get mowed down. It's harder for them to replace. The Ukrainians are making incremental progress instead of the Russians making incremental progress. Most experts, economic-wise, think that the Russian economy is going to be in much worse shape here by the third or fourth quarter of this year.

(21:29):

The technological advances the Ukrainians are making are significant. They're winning on drones. They're designing their own patriot missile interceptors and they have their own cruise missile now, so they're less reliant on the West. We actually need Ukraine now more than they need us. I mean, not quite. They still need money and weaponry, but we have so much to learn from them on the ever-changing nature of warfare.

(21:55):

So, you put all this together and I think this should be enough if it doesn't change the trajectory per se, it should change US policy. US policy, it never made sense to me anyway why we would try to say to the Ukrainians, "You're going to lose anyway, so just give up the Donbas region and skip to the end and save 100,000 troops." That politically, constitutionally and militarily would have been really dumb for the Ukrainians to do. Why let the Russians skip over your fortifications and get to more favorable ground through which over time you could make more progress towards Kyiv.

(22:35):

So, I think things are changing and I hope now that the Trump administration will say to itself, "All right. We've spent two years pressuring the Ukrainians to no effect. Maybe we need to do more sanctions on Russia. Maybe we need to try to get them to accept that they aren't making any more forward progress. And so, let's have a South Korea, North Korea-styled armistice zone for now or something to that effect instead of just this nonsense of trying to insist that the Ukrainians give up territory that they haven't lost on the battlefield."

Alan Pullen (23:11):

Yeah. It does sound like things are turning there and maybe the Trump-Putin relationship is deteriorated a little bit, which might help the Ukrainians out. That's pretty important. But more important, I guess, in terms of what's impacting markets at the moment is what's domestic politics in the US, MAGA, what's happening in the rest of Trump's term, the midterms. I want to talk about the longer-term impacts of the MAGA moment and what is going to outlast Trump and what is going to remain in this term.

(23:40):

But first of all, I guess, could you just give us a quick take on how the midterms are looking in the US? What's that going to mean for Trump's ability to impact the markets and things more generally post the midterms?

Michael Allen (23:54):

Well, it's hard to find someone in town who doesn't think that the Democrats will retake the House of Representatives. I mean, even Republicans more or less say that in public, they certainly say behind closed doors that it's really hard to paint a scenario where this could happen. The White House would say the reason Trump won is that we turned out what they call low propensity voters. So, generally, younger males who just don't vote and they turned out for Trump because he spoke to them or went to a worldwide wrestling federation type event. Sometimes people use that as the template for that's how you reach this group of people.

(24:37):

They would say, "Well, we're going to turn these folks out on a midterm election." The problem is that it's harder to get those people to come out when Trump is not actually on the ballot. So, what does that mean in the end? What that means very likely is that he's going to be unable to get these people to turn out that there is no silver bullet when Trump's approval ratings are so low and Republicans just hope we're going to hold onto the Senate. We're going to lose a seat or two. There is a nightmare scenario for Republicans where more seats are lost and therefore majority control, which is over.

(25:17):

But the MAGA movement is here to stay. It will never be as strong as it was when Donald Trump is the leader of it. But the big change in American politics, and this is related to the low propensity voters, is the Democrats have been losing blue-collar voters for years, but that has accelerated under Donald Trump and it helps explain the success of the Republican Party in many ways, the male coalition, if you will, and the Democratic coalition has changed as well. We have different battlegrounds, different voter types that we're battling over and in many ways the electorate has grown more polarized.

(26:00):

So, Trump will still be able to affect national security and markets and any number of things after he loses the House, but it'll be different. There will be a different theme out of Washington, a lot more political opposition and a lot more in the Congressional Oversight and Investigations Department.

Alan Pullen (26:20):

Explain that to us in a bit more detail for the people listening in. So, once the midterms occur and assuming that the Democrats take the House, how does that constrain Trump? And does it mean he goes a little more crazy with executive orders or is he in a lame duck and really we don't have to worry about him, which would be lovely to be honest because you do get sick of talking about Trump, but he does impact markets and we do need to worry about what he's doing so we continue to follow it. But it'd be nice to have to not think about that as much. So, what is the change in his power after that and will he be busy facing these potential indictments or what have you and that will constrain him?

Michael Allen (27:00):

Well, first, if he doesn't have the House, it's obviously very unlikely that he's going to be able to pass any legislation that is a Republican priority and in the controversial category. In reality, we're already in that place mostly because the margin in the House of Representatives is the smallest that it's been. And so, two or three Republican defectors can cause the demise of any type of legislation. So, it's not that this is like the Roosevelt administration where he's just cranking out legislative achievements.

(27:35):

But nonetheless, he would formally lose the majority control in the House and maybe even budgets and things that still sort of get done won't be able to get done without significant substantive compromises with the Democrats if that's even possible. He will do more executive orders. He will do more on his regulation agenda, which is generally unwinding as many regulations as he can as fast as he can.

(28:01):

He will, however, the debate is when do you become a lame duck? When do people just begin to ignore you? And then that's when you get to, "Well, who's going to be fighting in the Republican primary and is Trump going to let them have a normal Republican primary where you have these folks jockeying for position, or will Trump see that as a threat to his power and then therefore withhold his endorsement or cause JD Vance and Rubio to engage later than they ordinarily would?"

(28:35):

So, I think most people assume he's quite aware of what it's like when you're in the last two years of your presidency and most people think you're powerless and he's going to try to find ways to continue to be relevant. I mean, look at what he did in between his first and second terms. He managed to tweet every other day and dominate the nation's agenda. So, it feels like to most Americans we're in a third term of Donald Trump instead of at the midterm of his second go.

Alan Pullen (29:06):

Okay. And in terms of Republicans pushing back against Donald Trump, thinking about a post-Trump world, would that result in them pushing back more or does that MAGA-Trump endorsement means that he still has ongoing influence?

Michael Allen (29:22):

He'll still have influence. They will at the same time, he can't win every vote. I mean, even today there's a big fight on the Hill where Republicans are trying to say to the president, "You don't have the votes to pass what you want to be able to pass." I think they're saying, "What else do you want to hear from us?" I mean, we don't have 50 votes, we don't have 51 votes. So, there will be more of that. But at the same time, I mean, Trump is such a uniquely dominant figure and most presidents accept of, "I'm going to do more on the international stage in my last two years and start talking about my legacy."

(29:59):

Trump's not the traditional president. He's going to try to be in this as long as he can. He'll try to dominate the Republican primaries. Some even warn or observe that he'll make it like the TV show that he was on, which is The Apprentice where he ...

Alan Pullen (30:16):

You're fired.

Michael Allen (30:17):

You're fired or people were auditioning for roles, so to speak, and investments on the television show. And not a lot of people just assume that's the way he's going to do it. He's going to hold back his endorsement, maybe even watch Vance and Rubio go at it for a little while and then endorse late if at all. So, there's a lot to come, but there's going to be a lot of investigations from the Democrats too. And then they are going to start their own open primary process. So, it's going to be wild. There's going to be so much going on simultaneously that I don't think you're going to be able to ignore American politics even though you would like to.

Alan Pullen (30:57):

Yeah. I'd certainly like to be focused more on the fundamentals of our companies and their long-term. That's, obviously, what we spend most of our time doing, but it's certainly had an impact in the short-term and we're keeping on top of it. Post-Trump, he's gone. No third term, we're going to assume. Do we go back to a period of institutional normalcy or has things changed forever?

Michael Allen (31:20):

I think it will become less tumultuous if Trump is actually not on the scene and nobody can't return. But a lot of this is the age of populism that we're in and it's not just in the United States. And I believe it was caused more or less by the 2008-2009 financial crisis, which led to more polarization, more people being disgusted with failing institutions and leadership. And so, I think this is a feature for some period of time. I mean, immigration is also big in Europe.

(32:01):

Take home pay has decreased year-on-year for many, many years here in the United States, which has led to the word affordability, the inability of many Americans to catch up or feel like they have as much purchasing power as they once did. So, we're going to be in a period of populism and polarization for some period of time, although it might have just peaked with Donald Trump.

Alan Pullen (32:26):

Okay. So, let's get to a last couple of questions in terms of, again, ongoing longer-term impacts from these changes in politics and what Trump has played out there. In terms of Fed independence, we did have some concerns about the pressure Trump was putting on the Fed and their independence. It looks like with Kevin

Warsh, he actually had a fairly mainstream pick. We were saying that the first job of whoever he picks is going to be to lower interest rates. But in fact, he came out and talked about potentially being tight in terms of monetary policy. Does this reduce the concern about the Federal Reserve independence? Does it look like that's going to hold throughout this term?

Michael Allen (33:08):

Yeah. I think so. I mean, Kevin Warsh has had a great rollout. He, I think, got a lot of latitude from the White House on what he felt like he needed to do in his first FOMC meeting. And then of course, at his swearing in ceremony, the president said he wanted Kevin to make his own decisions about what he thought was necessary. So, I would say that people are asking themselves now, "Well, how long will this last? When will Trump start commenting again publicly on his" ...

Alan Pullen (33:42):

I'm sure he will.

Michael Allen (33:43):

I'm sure he will. The question is beyond just commenting on it, I mean, will he try to exercise some influence? But I think we've all been reassured to some degree that the Federal Reserve will have a lot of independence, maybe as much as it's had in a pre-Trump era. Not for sure. But I don't think it's anything like the concerns that people were having some months ago.

Alan Pullen (34:12):

Yeah. No. It does seem like it's a fairly conventional pick and has made that less of a concern. One thing we're still concerned about, I'm thinking a lot about is the US deficit, which seems to be high. There doesn't seem to be a lot of political will to actually tackle that one. And given the outstanding level of debt that the US has now, my concern has been that reserve currency status would be eroded over time. It's going to take time and that would see a general pressure for depreciation of the US dollar.

(34:42):

So, when I'm thinking about the portfolio, I'm thinking about making sure we have companies which actually benefit over the long-term from a potential depreciation US dollar, whether that's US companies with high foreign earnings and so on. But I want your view on this political will to tackle the US deficit. Could that actually be tackled at some point? And are you worried about the US reserve currency status over time?

Michael Allen (35:09):

I have a cynical view here, and this comes from years of working for President Bush and doing legislative affairs work that Congress has gotten into a place where they only legislate on big things in the aftermath of a crisis. So, you saw that after 9/11, you saw that after the 2008 financial crisis, things that would've otherwise taken a decade to pass are rocketing through in months, if really weeks. And so, I don't see us doing something real and substantive on the debt and deficit until we're staring down the barrel at who knows what and you would know better. Is it a treasury auction that goes wrong? Is it people start to ignore the Federal Reserve? These are two things I've heard.

(35:58):

But there's a million other ones and people even think these days, "And well, should we start to war game out? What is going to cause a crisis that would get Congress's attention to do something?" But everyone here knows that at some level you need to deal with Medicare and Medicaid and social security to firm those up. People are fearful that would mean cuts to those entitlement programs. Democrats might say behind closed doors that, "Yes, I could see some of these cuts or reductions in the rate of growth." But they say also, "You need tax increases as well." And Republicans might admit that on behind closed doors, but they don't want to say so.

(36:40):

So, there's no real will to do it. We failed on it. When Speaker Paul Ryan was in office, Obama couldn't get it over the goal line then. And so, we're in a place where I seriously doubt anything's going to happen. And Trump ruled it out in his campaigns, so no one ever thought this was the opportune moment to do it. If it were ever going to happen, if you were ever going to motivate Donald Trump, it would be because he gets this reserve currency thing because it's America First with the dollar is the currency of the world and he has threatened people with sanctions or other punitive measures for even suggesting otherwise.

(37:24):

And so, he gets it on some guttural level, some pro-American level. And if he were convinced it were eroding rapidly, maybe he would do something. But I don't really see it until we have a crisis in this country and you'll see people then get together and pass something in the 11th hour. We'll get it done, but it'll be late stage.

Alan Pullen (37:49):

We'll continue to wait for the crisis then. Of course, that's something we'll be keeping a close eye out to avoid for our investors. But there is a lot happening out there around the world and always great to keep in touch with our experts on geopolitics. So, Michael Allen, thank you so much for joining us.

Michael Allen (38:07):

Anytime. Thanks for having me.

Host (38:09):

That was head of Global Equities and Portfolio Manager, Alan Pullen in discussion with Michael Allen, managing director and partner at Beacon Global Strategies. We trust you've enjoyed this episode. For more information on previous episodes, visit magellaninvestmentpartners.com/podcast where you can also sign up to receive our regular investment insights program. Thanks for listening.

historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan Investment Partners or the third party responsible for making those statements (as relevant). Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan Investment Partners will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Any third-party trademarks contained herein are the property of their respective owners and Magellan Investment Partners claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks contained herein are the property of their respective owners, are used for information purposes and only to identify the company names or brands of their respective owners, and no affiliation, sponsorship or endorsement should be inferred from such use. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan Investment Partners. (080825-#W17)