

Rewinding the Tape

By John Mauldin | May 22, 2020



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We finished the Virtual Strategic Investment Conference yesterday. I can honestly say it was simply the best conference I have ever attended or been privileged to host. The ability to bring together so many exciting speakers, something schedules would not have allowed if we were holding a physical conference, offered a constant stream of thought-provoking, investment-enhancing, and useful information.

I shared some highlights in last week's letter, will tell you more today, and probably yet more next week. But you really need to experience it yourself, and you still can with our [Virtual Pass package](#) that includes video, audio, slides, and transcripts.

But for now, let me share an important insight that takes us back to the future.

Silver Lining

We've been recalling 1929 a lot lately. A stock market crash wasn't that year's only big event, though. Coca-Cola launched a new slogan: "The Pause That Refreshes."

Coke's marketers sensed the economy was headed down. How to sell a completely unnecessary beverage to a struggling country? Simple: Remind consumers breaks are important, too.

Now, in 2020, the entire world is paused. COVID-19 is horrible in more ways than I can count: lost lives, suffering, job destruction, shattered dreams, and more. None of it is refreshing.

But the word has other meanings. For instance, if you are working on a spreadsheet and "refresh" your screen, you see new and hopefully better numbers. Could this crisis, as bad as it is, "refresh" the world and solve some of our problems? Maybe. Speaking last Friday at SIC, **Ian Bremmer** said it's possible.

Long before this virus problem, Ian was saying the world is in a "geopolitical recession." The old order has been breaking down without a clear replacement, leaving what he calls a "G-Zero World." (Ian's latest venture is called [GZERO Media](#), and I highly recommend his free newsletter.)

Part of the problem relates to a Milton Friedman quote I've used: "Nothing is so permanent as a temporary government program."

Think of the global institutions that arose from World War II and its aftermath: NATO, the UN, the World Bank, International Monetary Fund, the EU, etc. Some have outlived their usefulness. Others need major reforms. But all still exist because over time they developed constituencies that fight hard to preserve them.

The same is true within national governments. In the US, we have institutions like the Federal Reserve, Social Security, Medicare, and assorted regulatory agencies. They do some good things and could do more, but none work as originally intended.

Ian suggested the pandemic *might* have a silver lining if the failures it exposes let us replace failed institutions with better ones more suited to current needs.

Which institutions? Take your pick.

- The Federal Reserve is, in my view, going far beyond its actual mission and is trying to control market outcomes. Which means we don't really have "markets" as such anymore. This has to stop but I see no chance the Fed will change course voluntarily.
- The sudden ejection of millions from their jobs exposed huge shortcomings in the US safety net programs. A top-to-bottom overhaul might let them work better and cost less.

- Our inability to provide adequate COVID-19 testing (!) and get protective gear to medical workers revealed serious problems in both the healthcare industry and the agencies like CDC and FDA that govern it. The regulatory processes clearly impede progress, and it has been made manifest for all to see.
- Across the pond, the EU's prized openness and solidarity proved less so in a crisis, as members like Italy had to largely fend for themselves. The alliance needs a major overhaul if it is to survive.
- Numerous emerging market states are heavily indebted and completely unprepared to handle this crisis in large part because the IMF made them so. That has to change.

Those are just a few things we could “refresh” in the coming months and years. I don't know if it will happen but, as Rahm Emmanuel famously said, we shouldn't let a good crisis go to waste. This one could still bring positive change.

More Highlights

Here are some more highlights since [last week's letter](#).

- **Neil Howe** and I talked about the “Fourth Turning” which, in his view, is going on right now. This is a crisis era, comparable to the 1930s and 1940s. Neil believes it began in 2007–8 and will climax in the coming decade.

I asked Neil if this cycle's Fourth Turning will include a war, as they usually do. He said it's possible our current problems will get resolved in a “kinetic” way, but not inevitable. He turned from that to a point I was glad to hear: Fourth Turnings are not all gloom and doom. They spur great thinking and creative problem-solving. That fits with Ian Bremmer's “silver lining” thoughts.

I probed Neil on whether we will see a larger and more intrusive government arise from this period. He thinks absolutely so, but mainly via big, semi-contractual spending commitments like Social Security—a child of the last Fourth Turning. This period could spawn more such programs. Very few people, and clearly most voters, don't think of them as “intrusive” or big government.

Moving on...

- **Karen Harris** of Bain & Co. specializes in decoding giant, global trends. She heads Bain's Macro Trend Group, and a key part of their business consultancy. She believes the coronavirus will accelerate several shifts that were already underway and, hauntingly, provides a laboratory for eliminating human labor.

The present fear of human contact is forcing all of us to accept non-human interfaces in ways we were not previously eager to do. Karen points out that we were already in the process of turning labor from a variable cost (wages) to a largely fixed cost of machines. This crisis will accelerate that, which of course will have enormous implications. Combine it with geopolitical factors and it points to a relocation of production closer to end markets. Labor costs will lose their importance in defining competitiveness.

But later in the conference, as Karen graciously gave her time to moderate and host panels, she pointed out that making supply chains resilient will create jobs, too. It will be a long, long time before robots can do everything.

Karen also talked a lot about cities. Today's urban areas are basically an old technology developed for the Industrial Revolution. Producers needed large numbers of workers in close proximity to factories. That is no longer the case as automation takes over, so cities are less important. Adding to that trend, the coronavirus scare is also making affluent people flee cities. This will affect commercial real estate and housing.

- Following Karen's solo presentation, she had a fascinating conversation with **Tom Miller**, who is Gavekal's emerging markets expert. Tom lived in China for many years but is now back in the UK.

Tom says the coronavirus episode has seriously undermined the influence China has tried to build in the developing world, but not destroyed it. The US has essentially abandoned Africa, he noted, so China will continue to have more influence there.

(By the way, I once did a lot of business in Africa. It is sad when you go to a city of 4 million people (Kinshasa) and end up being interviewed on the local TV as "the American businessman." There were many Europeans but an American, let alone a Texan, was quite the novelty. Ignoring Africa is a huge business mistake. As one speaker later told us, soon everyone in Africa will have essentially free gigabyte wireless access. That will change everything. You want to be there before that happens. But back to Tom...)

The US continues to have far more "soft" power than China, particularly through music, culture, and entertainment, but this is changing. He sees opportunities in Vietnam, India, and Mexico as the world adapts to US-China disagreements. Mexico in particular has good potential to gain manufacturing that has to flee China, but can't be done competitively in the US.

Tom made a final point I think is really important. Without downplaying the very real differences between China and the West, he thinks we should distinguish between the Chinese government's objectionable policies and the Chinese people. We share many common human concerns. Having lived there and knowing the language, he says the people are not their government.

Rewind to China

Dr. Jonathan Ward of the Atlas Group had technical difficulties so sadly missed the China panel. He is clearly one of the leading lights on China today. We now have his video presentation and a transcript. This is from the introduction:

US-China global competition will define the 2020s. This is the decade in which the balance of power of this century will be decided. To understand where things are going, we must understand two things: First, the global strategy of the Communist Party of China. Second, the urgent need for a new economic grand strategy from the United States and what this strategy could look like as it rolls out across our global Alliance system in the coming years. The 2020s are the decisive decade in US-China competition and the Covid-19 pandemic may be America's "Sputnik moment" on China, a wake-up call for the United States to respond to the activities of the Communist Party of China which have been eroding American industrial, technological, and military advantages for many years. In short, US-China strategic competition is just getting started, it is here to stay, and it will be the defining contest of our lifetimes.

In order to win this competition with China there are three things that America must do: First, build the next ten trillion in US GDP. Second, build an Alliance-based trading system. Third, prepare for economic and technological containment of Communist China.

Depression or Not

After a weekend pondering all that (and much more), we came back Tuesday for another jam-packed day.

- Up first was **Felix Zulauf** in a conversation with **Grant Williams**. Felix isn't bullish, but he also doesn't foresee a Great Depression-like scenario.

He listed three key differences between then and now.

1. There was no social welfare in the 1930s. Now transfer payments are as much as 40% of GDP in some countries.
2. We enter this recession with much larger government deficits than at the bottom of the Great Depression.
3. The demographic picture is quite different, with low birth rates and/or negative population growth in some places today.

Felix expects to see something more like post-1989 Japan, with essentially no growth for many years and a nationalized bond market. Attempts to increase employment will make the economy less efficient. He also pointed out that, with negative bond yields, many pension funds will have to pay out more than they earn. This means we are redistributing wealth from future generations to current retirees. The result will be a population that, in real terms, gets poorer over time.

Upon reflection, trying to summarize Felix is simply impossible. He is someone whose every word overflows with meaning. You really need to [hear for yourself](#).

Wrapping It Up

I have known David Bahnsen a very long time. I published his father's theology books, long ago in a galaxy far away. He is one of the most impressive thinkers I have had the privilege of talking with in the last 10 years. He gave graciously of his time to participate in this conference multiple ways. This morning, he sent this eloquent note to clients:

The conference this week reminded me that managing investment markets for a living does not allow for a period of "normalcy." The only thing normal about financial markets is that they are never normal. Certainly, there are periods of elevated volatility, and certainly there are events that will prove more memorable than others in my investing career. But as I heard speaker after speaker in the virtual SIC, and participated in panels myself, a reality hit me like a ton of bricks as we were sitting there discussing financial markets in the midst of the COVID moment...

Without doing it on purpose, we were not discussing the COVID moment. We were discussing fears around de-globalization. We were discussing the national debt. Inflation. Deflation. Technological transformations. Geopolitical uncertainties. Entrepreneurial opportunities. War. Peace. Elections. Taxes. Strong currencies. Weak currencies. Oil. Interest rates. Central banks. Booms. Busts. Valuations. History. **We were implicitly acknowledging that there is plenty to both worry about and be excited about, totally apart from COVID.**

I hadn't actually forgotten over this period that there were ample issues governing financial markets besides COVID. But in my craving for normalcy I am sure there have been moments where I romanticized what that means. As an investment manager, "normalcy" is a constant state of change, an inherent instability, and the adjudication of various risk/reward trade-offs that are never simple, but always significant.

This is the life I chose. I wouldn't trade it for anything in the world. The present COVID moment has required intense attention, diligence, prudence, and analysis. But if there was a vaccine and 3.5% unemployment tomorrow, there are ten other things we talked about at this week's conference that can take COVID's place in the mental space of a truly engaged investment professional.

I think that in less than 12 months, we will be in a post-vaccine, post-COVID-19 world. But for investors, that list David just mentioned won't really go away. Like David, and I think many of us, we romanticize the moment when the virus goes away and we can return to "normal." And truly, not being faced with death and job loss does seem like a rather romantic notion right now. As we will see next week, formation and change are happening ever faster. It is not just a clash of East versus West, but the definition of what we mean by nations, social systems, and even civil society.

In a decade where so much will change, I believe mostly for the better, the word "normal" may not mean what we wish.

The videos for the conference are already online. Transcripts will shortly follow. You really should [join us in this conversation](#).

Meanwhile, Back at the Puerto Rico Ranch

"Back at the Ranch" was a staple theme in the black and white Western movies I watched growing up. The main story would be going on in one place, but then we would shift back to what was happening at home.

I have been immersed in the conference for the last 30 days, getting ready for it and then actually putting it on, writing letters and trying to keep everything else moving. Now, I am back at the ranch, so to speak, in Puerto Rico ready to focus on all the things I had put aside.

I'm beginning to see light at the end of the tunnel for my book, "The Age of Transformation." I am hoping to have a true first draft by the end of July. The editing process will be challenging.

We have completely restructured the investment offerings from what will truly be Team Mauldin (my investment management business which not related to Mauldin Economics). There are a few last "i's" to be dotted and "t's" crossed and then we will open the curtain.


I want to thank the entire team at Mauldin Economics which really pulled off an amazing conference. It was a little over 60 days ago that we began to think we could do a virtual conference. That meant speakers to invite, brand-new audio and video technology to explore, marketing programs to be built, so much coordination behind the scenes. It truly takes a team, and I can't tell you how proud I am of them. To quote an old country song, when we started, "*(We had) a long way to go and a short time to get there.*" We not only arrived, but we arrived in style.

I want to give a special shout-out to Brian Mitrisin and his team at Backstage Logic, who have worked with us for the last 15 conferences. He brilliantly shifted from doing on-site logistics to producing a virtual program. What attendees couldn't see was a room with six producers, 12 screens, and others working from home to make it all come together. Linking together multiple software programs, we broke new ground technologically. If you need someone to run your group or company's virtual conference, you might want to [shoot Brian an email](#).

Puerto Rico is opening up more slowly than the US mainland, but then things on the island are slower by nature. I am really looking forward to getting my gym back. Working with “The Beast” online is just not the same as being in the gym with machines and iron. I am probably not the only one with the “COVID-10” around my waist.

And with that I will hit the send button, and wish you a great week. Stay safe and healthy.

Your more optimistic than I thought I would be analyst,



John Mauldin

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