

How China, Tariffs & the 2020 Election Will Impact the Economy

Robert Genetski

Website: ClassicalPrinciples.com

Twitter: EconBobG

312-565-0112

Key Actionable Takeaways

1. Prepare for a strong economy in 2020 & beyond
2. Look for more record highs in stock prices, be wary of bonds
3. Bet on US in its battle with China for key technologies
4. Be wary of business and investments in China
5. After a weak start, prepare for a rebound in the electronics industry in 2020 & beyond
6. Major advances in health will reshape our lives & businesses
7. Enjoy the future!

Outline

- I. Economists & Forecasts**
- II. Primary force driving the economy: Economic Freedom**
- III. Threats to the Economy: virus, tariffs, China, debt & deficits, the Fed**
- IV. Putting it all together—outlook for the economy, interest rates & stock prices**
- V. Electronics Industry—trends & outlook**

II. Primary Force Driving All Economies is Economic Freedom

***Classical Principles form the policy basis
for providing economic freedom***

Rule of Law

Low tax rates

Limits on Government

Free markets

Stable money





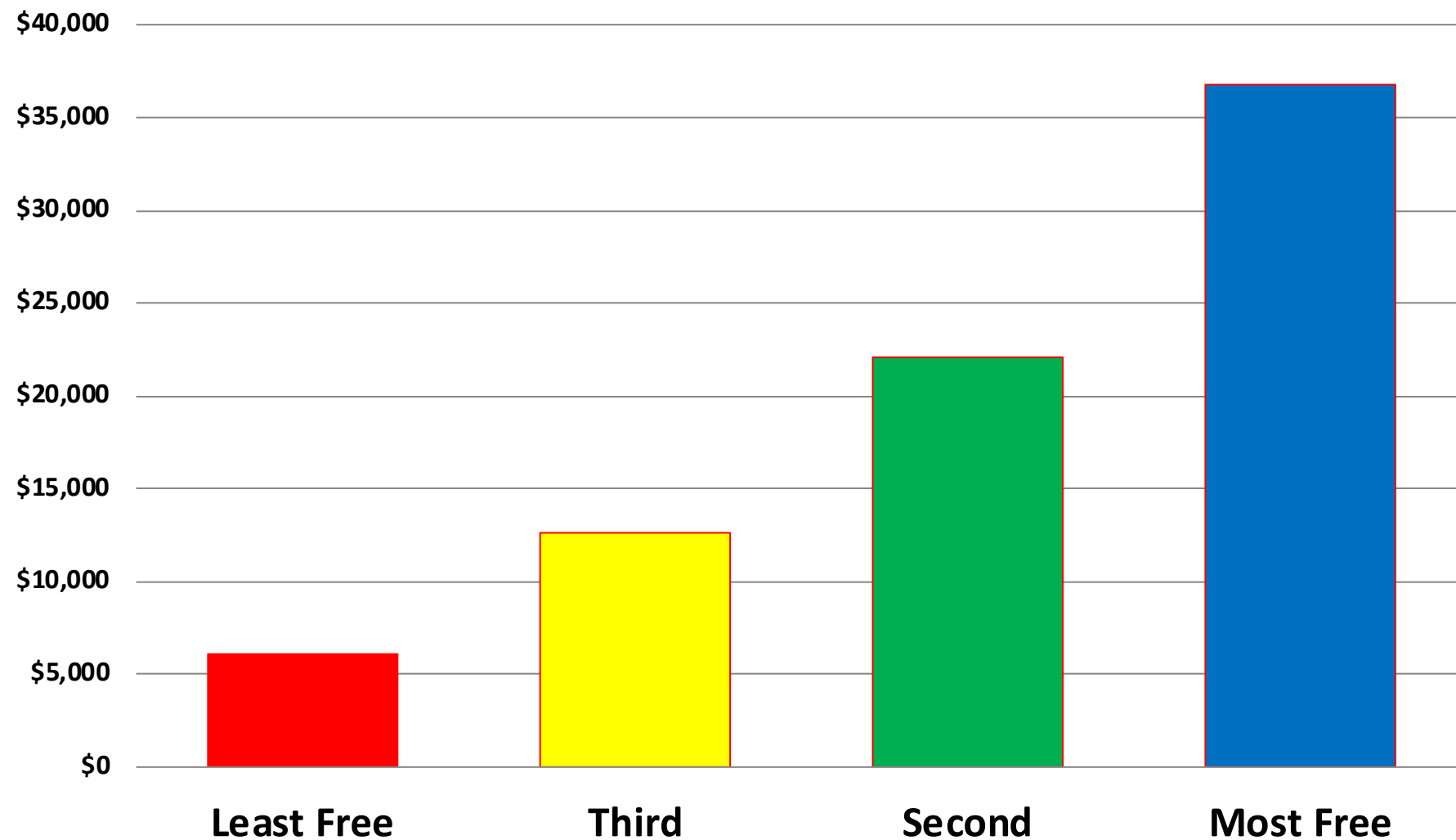








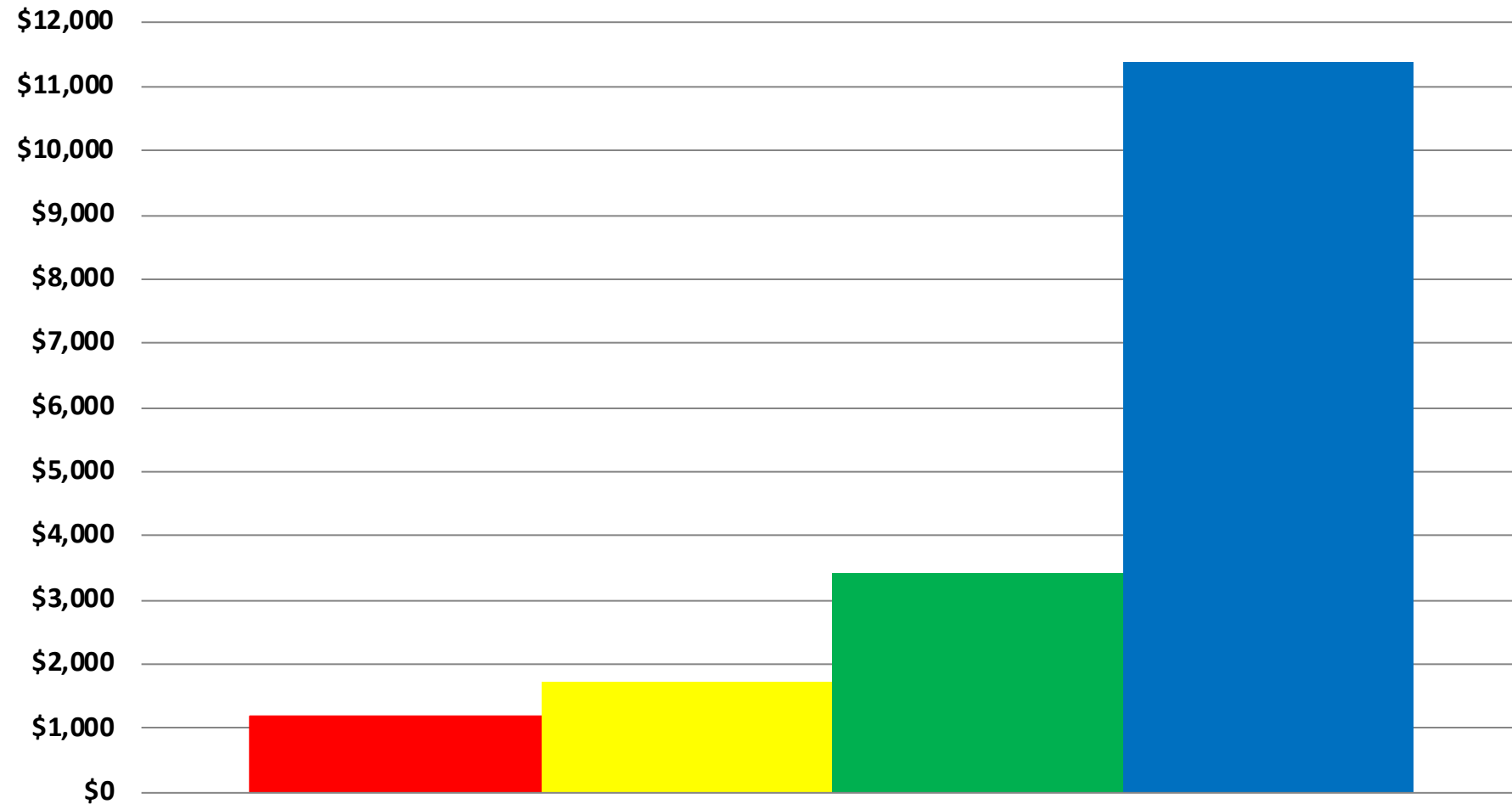
Economic Freedom and Per Capita Income: 2017



Source: Fraser Institute, Economic Freedom of the World: 2019 Annual Report; World Bank Development Indicators

■ Least Free ■ Third ■ Second ■ Most Free

Income of the Poorest 10%: 2017

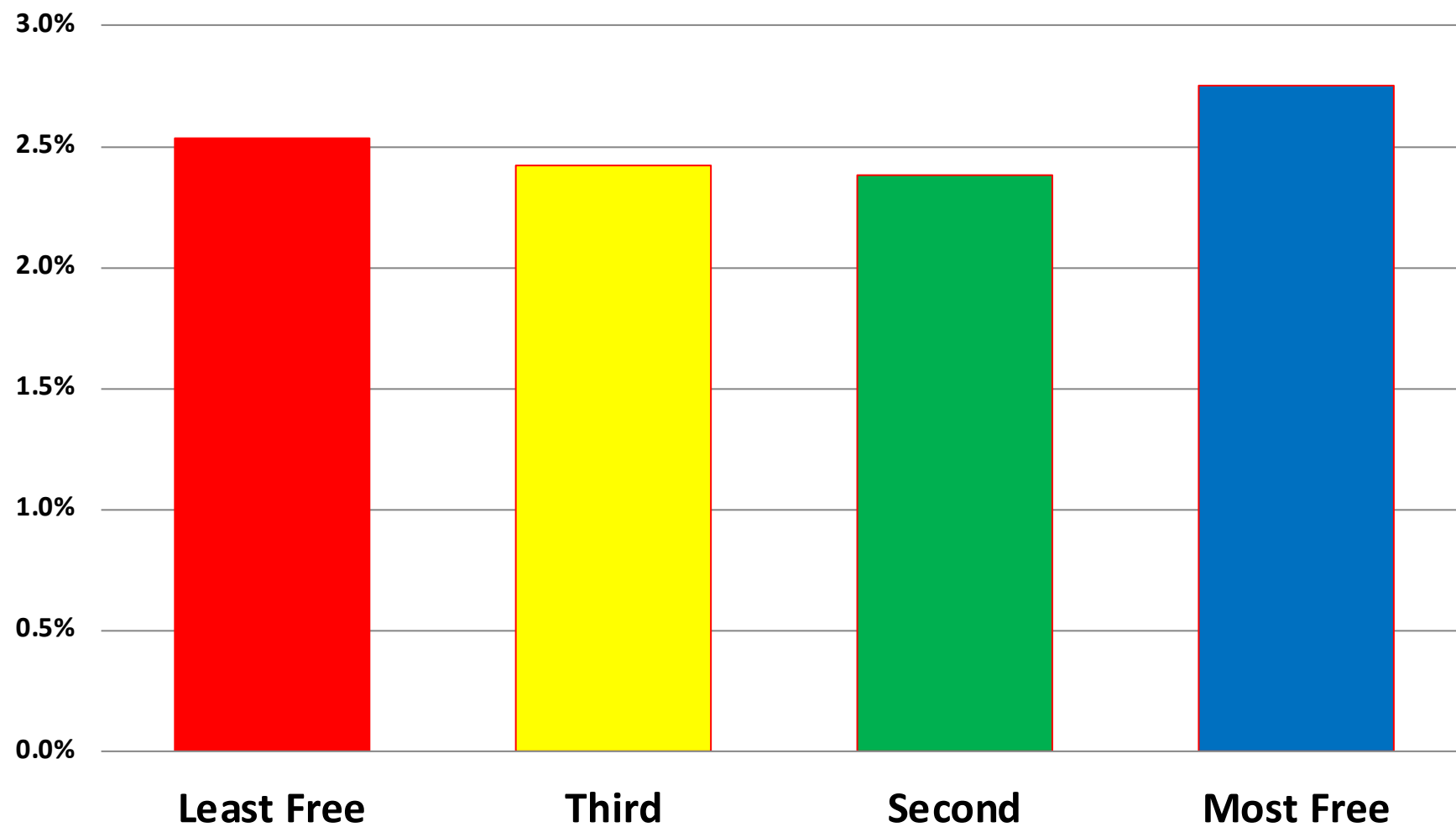


Economic Freedom Quartile

Source: Fraser Institute, Economic Freedom of the World: 2012 Annual Report; World Bank 2017

■ Least Free ■ Third ■ second ■ most free

Economic Freedom & Income Share of the Poor: 2017



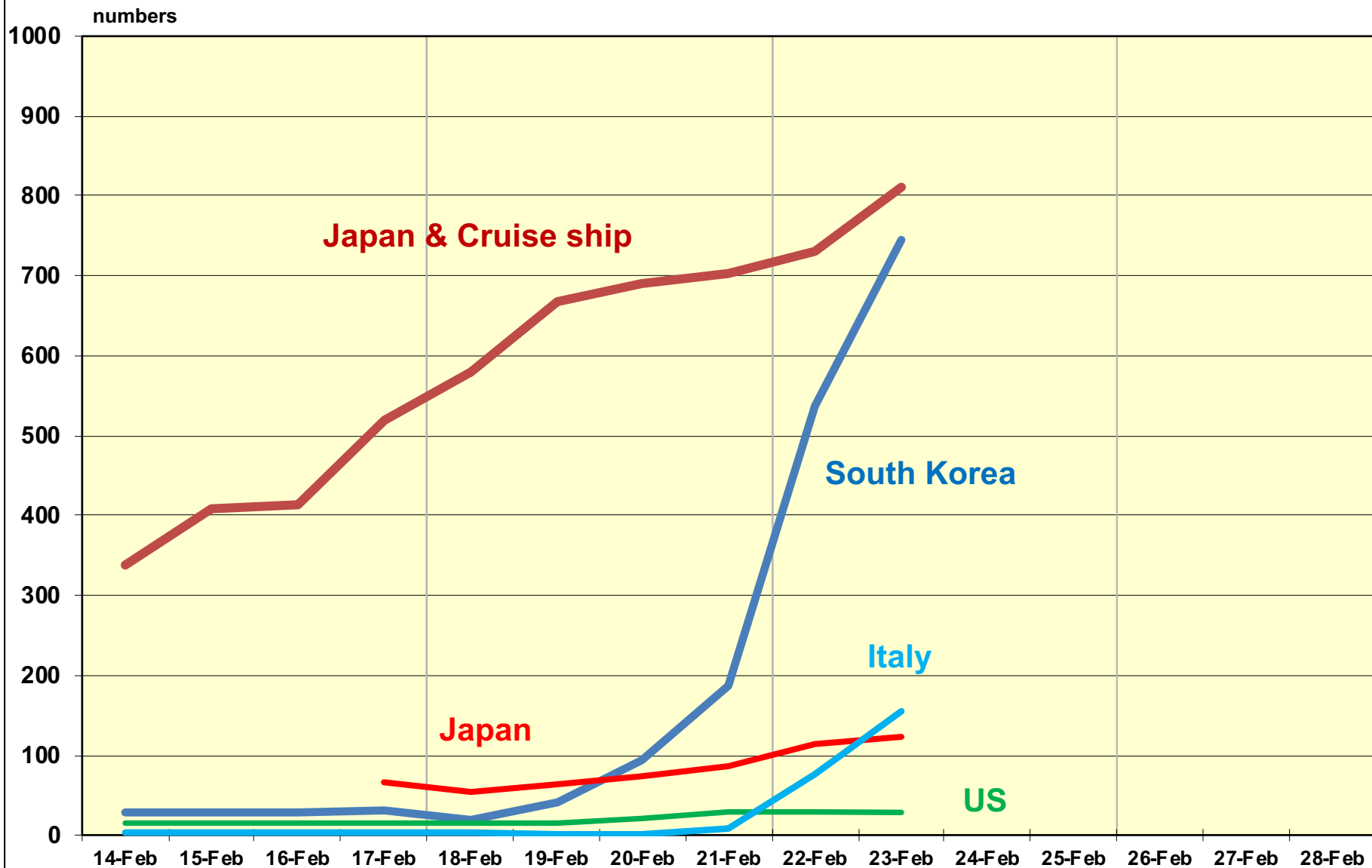
Source: Fraser Institute, Economic Freedom of the World: 2019 Annual Report; World Bank Development Indicators 2017

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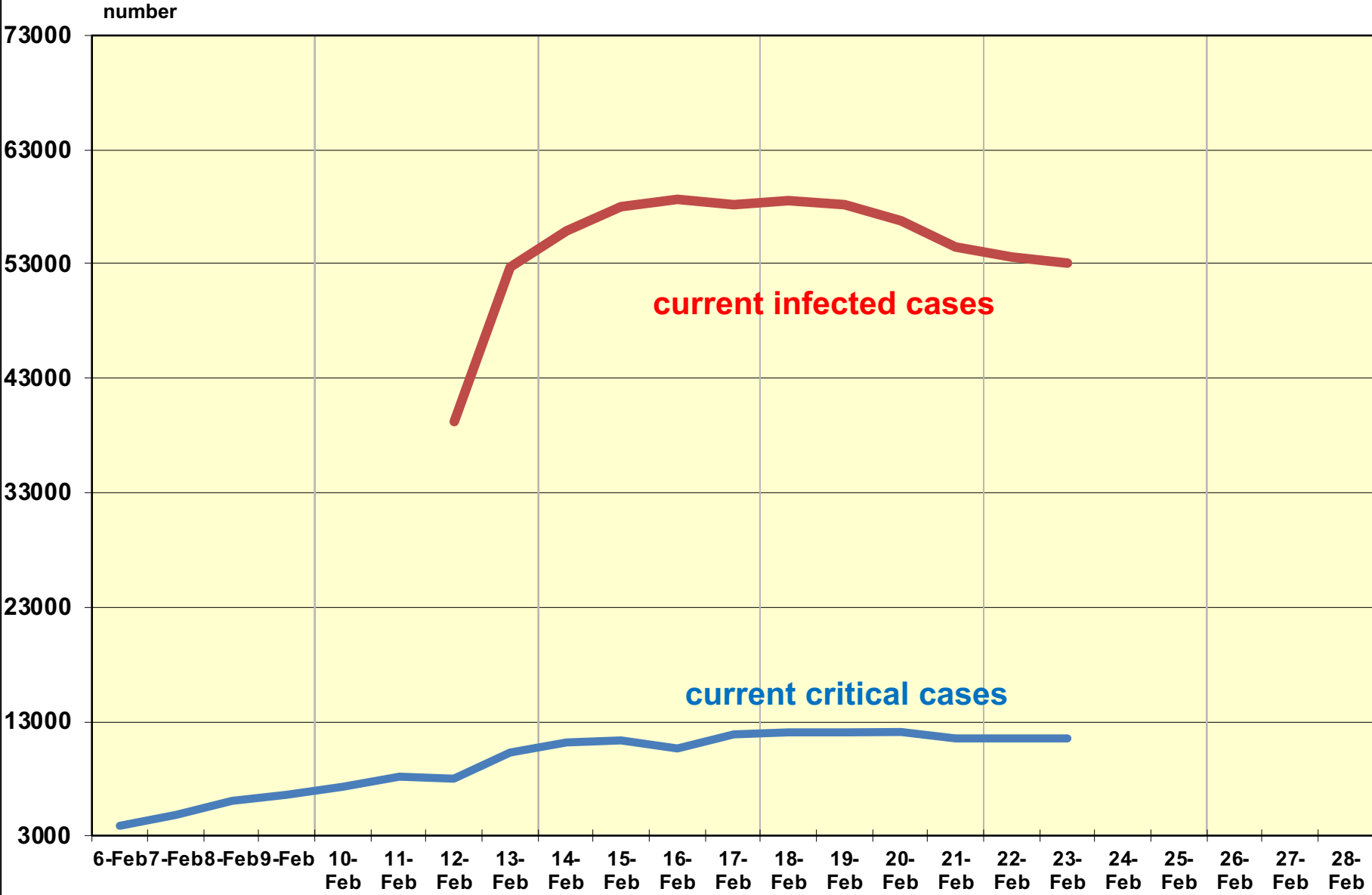
III. Threats

COVID-19

COVID-19 Cases Outside China



COVID-19 Infections



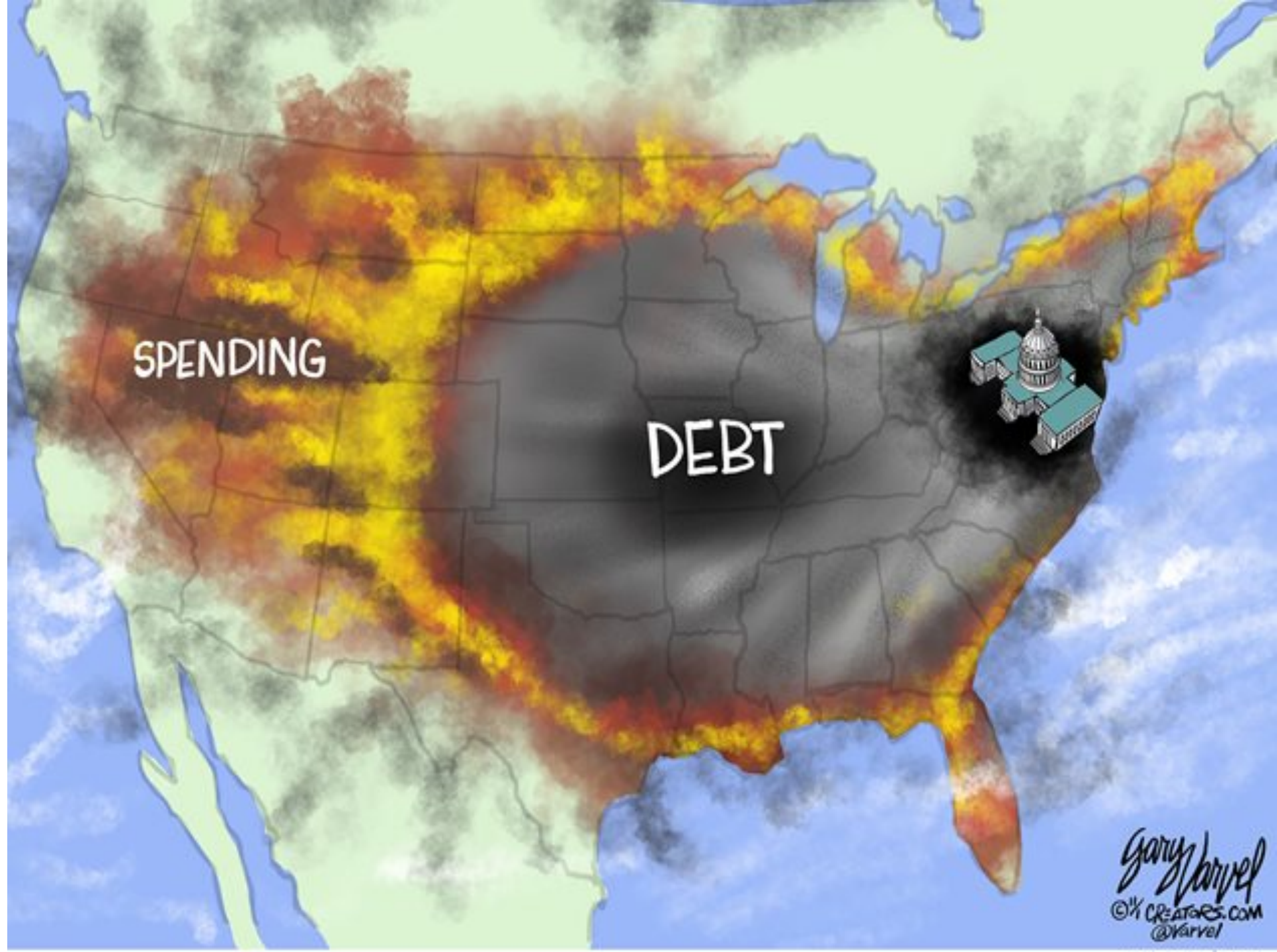
'A POWERFUL WORK' — GENERAL DAVID PETHAEB

CHINA'S VISION OF VICTORY



JONATHAN D. T. WARD

FOREWORD BY ADMIRAL SCOTT SWIFT
COMMANDER OF U.S. PACIFIC FLEET, 2015-2018

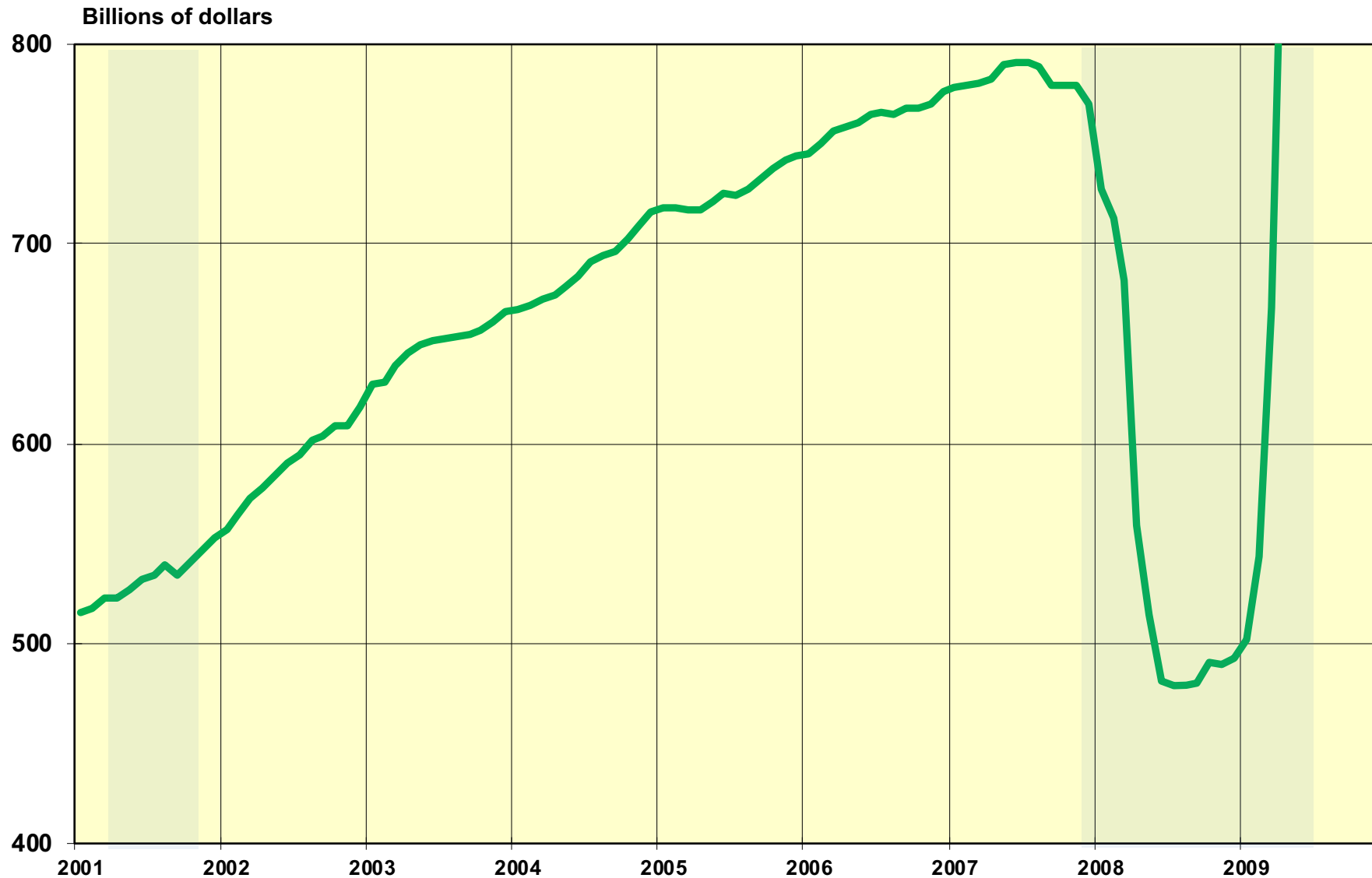


Gary Varvel
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@Varvel

III. Threats: Federal Reserve



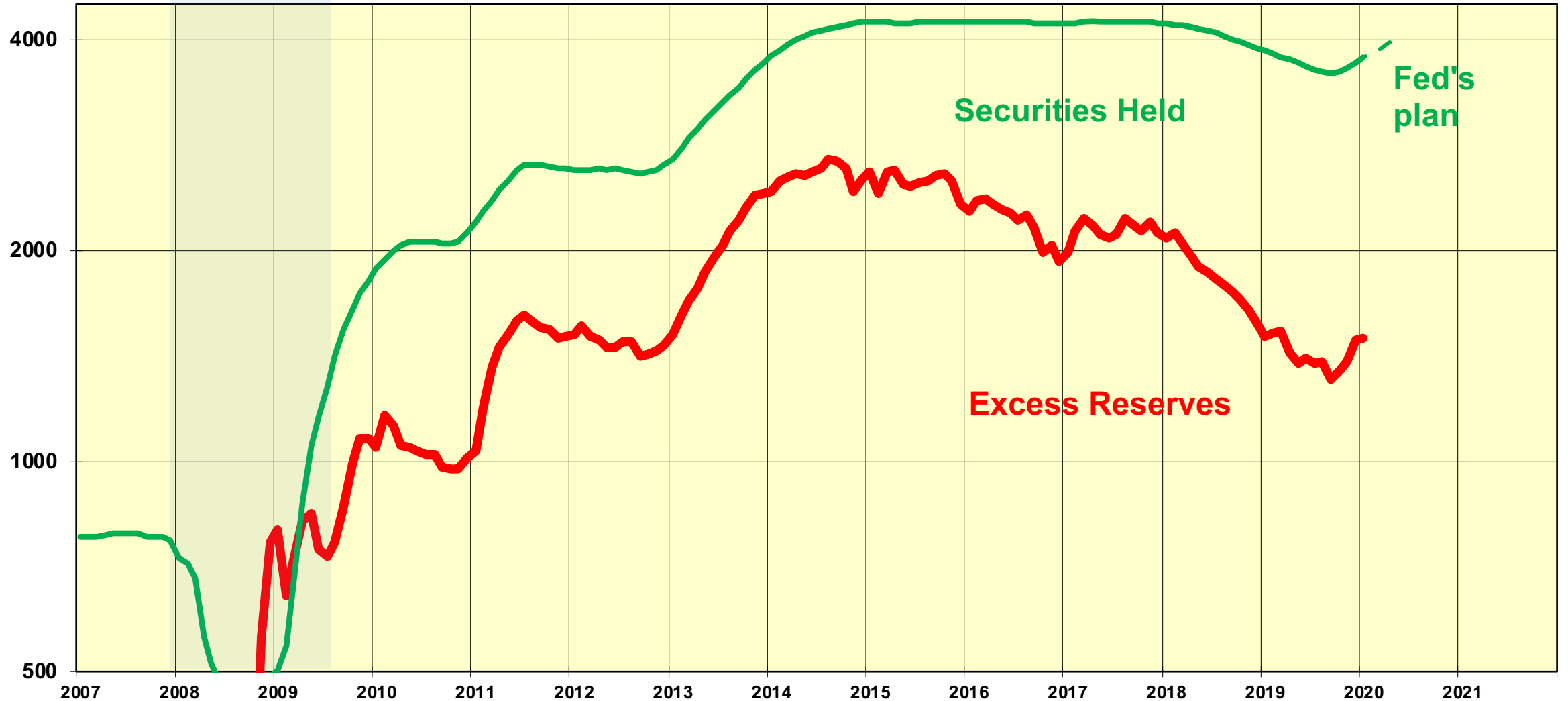
Federal Reserve Securities Held Outright



Source: Federal Reserve Bank of St. Louis; classicalprinciples.com

Securities Held by the Federal Reserve & Excess Reserves

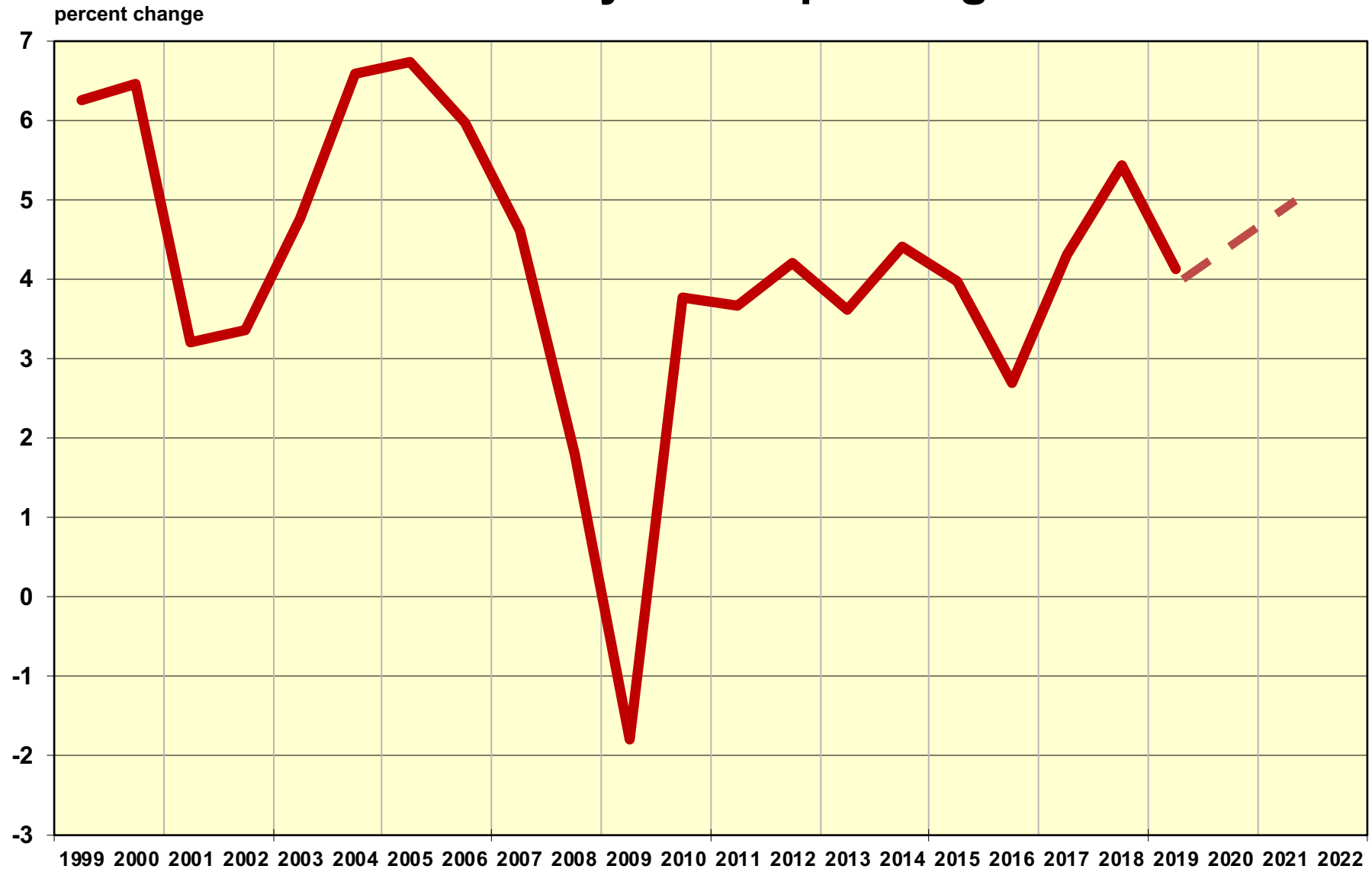
billions of dollars log scale



Source: Federal Reserve Board; classicalprinciples.com

IV. Outlook: Putting It All Together

US Economy Total Spending



Source: US Census, Bureau of Economic Analysis

Economic Outlook

	<u>1919</u>	<u>2020</u>	<u>Beyond</u>
GDP (total spending)	4.1%	5%	5%
Real growth	2.3%	3%	3%
Inflation	1.8%	2%	2%

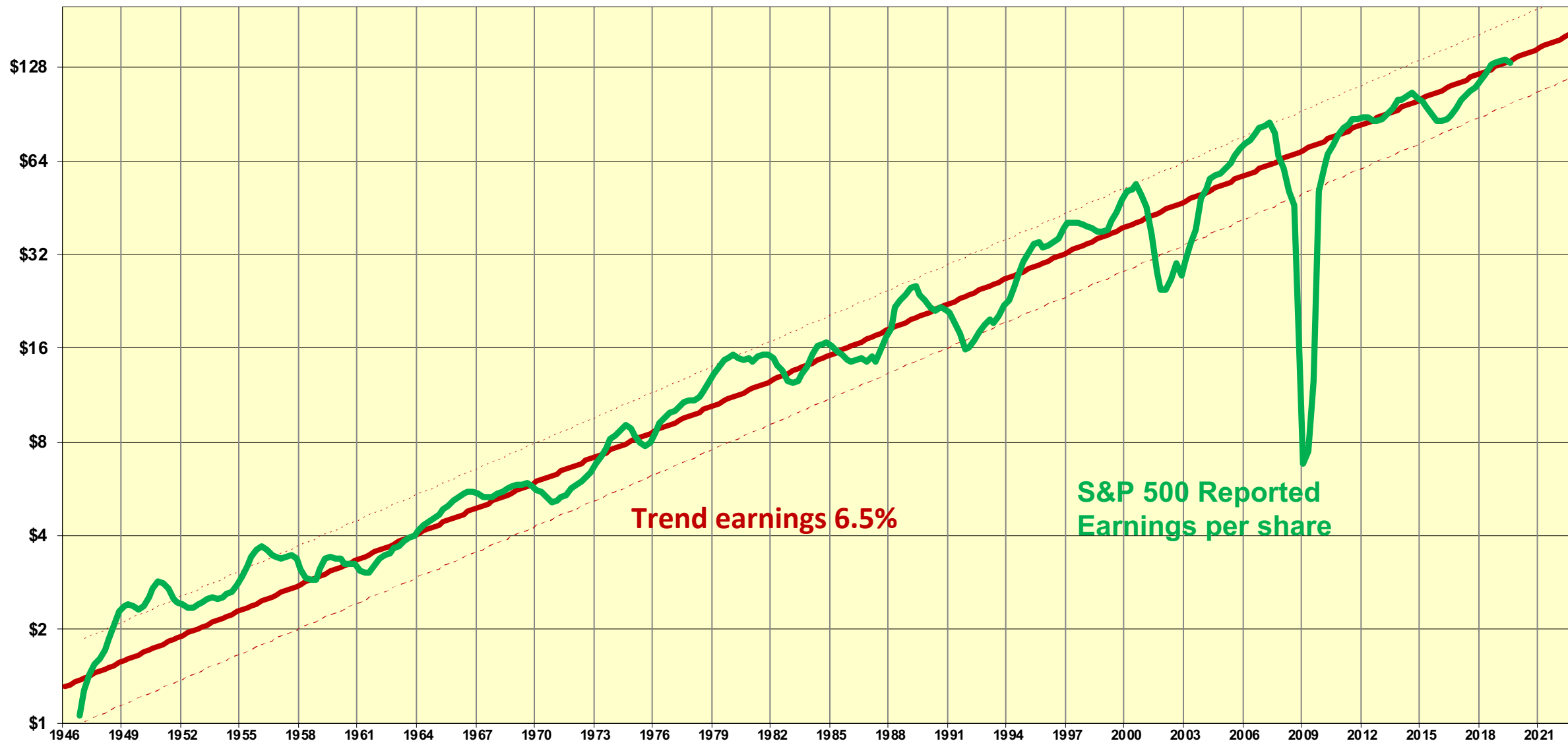
Financial Outlook

	<u>1919</u>	<u>2020</u>	<u>Beyond</u>
GDP (total spending)	4%	5%	5%
Short-term interest rates	2%	1½%	3%
Long-term interest rates	2%	1½%-2%	5%
S&P 500	6%	6%-7%	6%-7%

S&P 500 Earnings Trend

(trend is a 6.5% annual growth rate)

Annual after-tax profits per share log scale

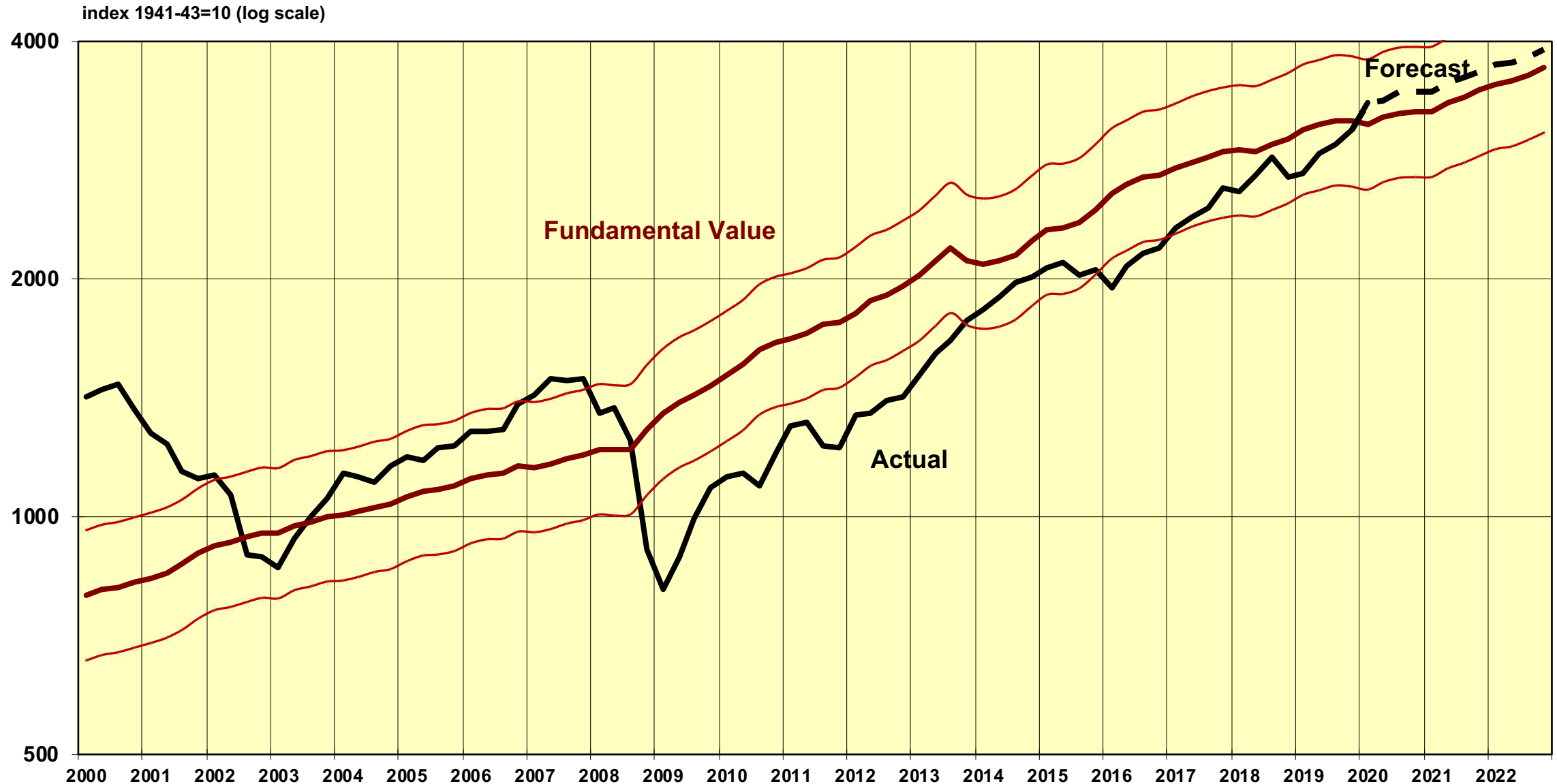


S&P 500 Reported
Earnings per share

Trend earnings 6.5%

Earnings are for the year ending at the plotted point; upper and lower boundaries are 1 standard deviation from the trend line.

S&P 500 Index: Actual & Fundamental



Fundamental value of stocks is based on a regression with the S&P's average PE, trend 6.5% earnings and fundamental AAA corporate interest rates as explanatory variables; boundary lines plus & minus 1 standard deviation

V. Outlook for Electronics Industry

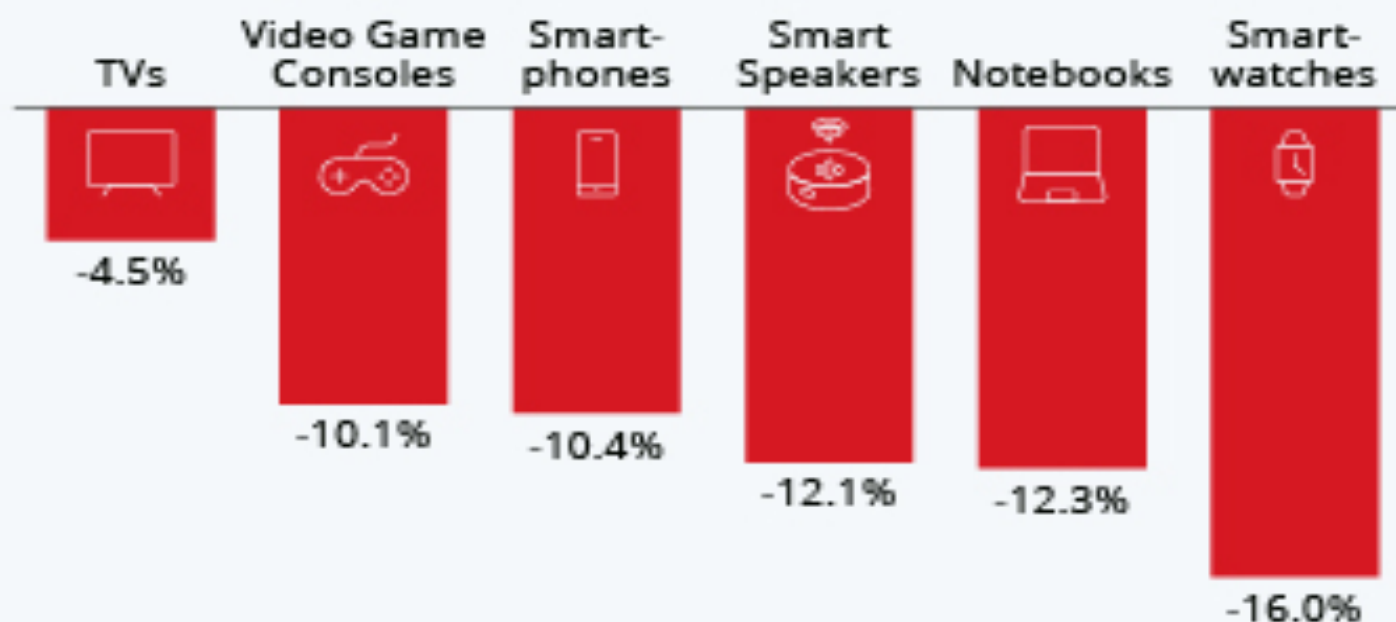
Semiconductor Sales to Regions: 2018

— China	34%
— Asia Pacific (less China)	26%
— Americas	22%
— Europe	9%
— Japan	8½%

Source: SIA Factbook 2019

Coronavirus Expected to Impact Tech Industry Shipments

Estimated impact of the COVID-19 outbreak on global tech shipments in Q1 2020*



* smartphone forecast refers to production volume instead of shipments

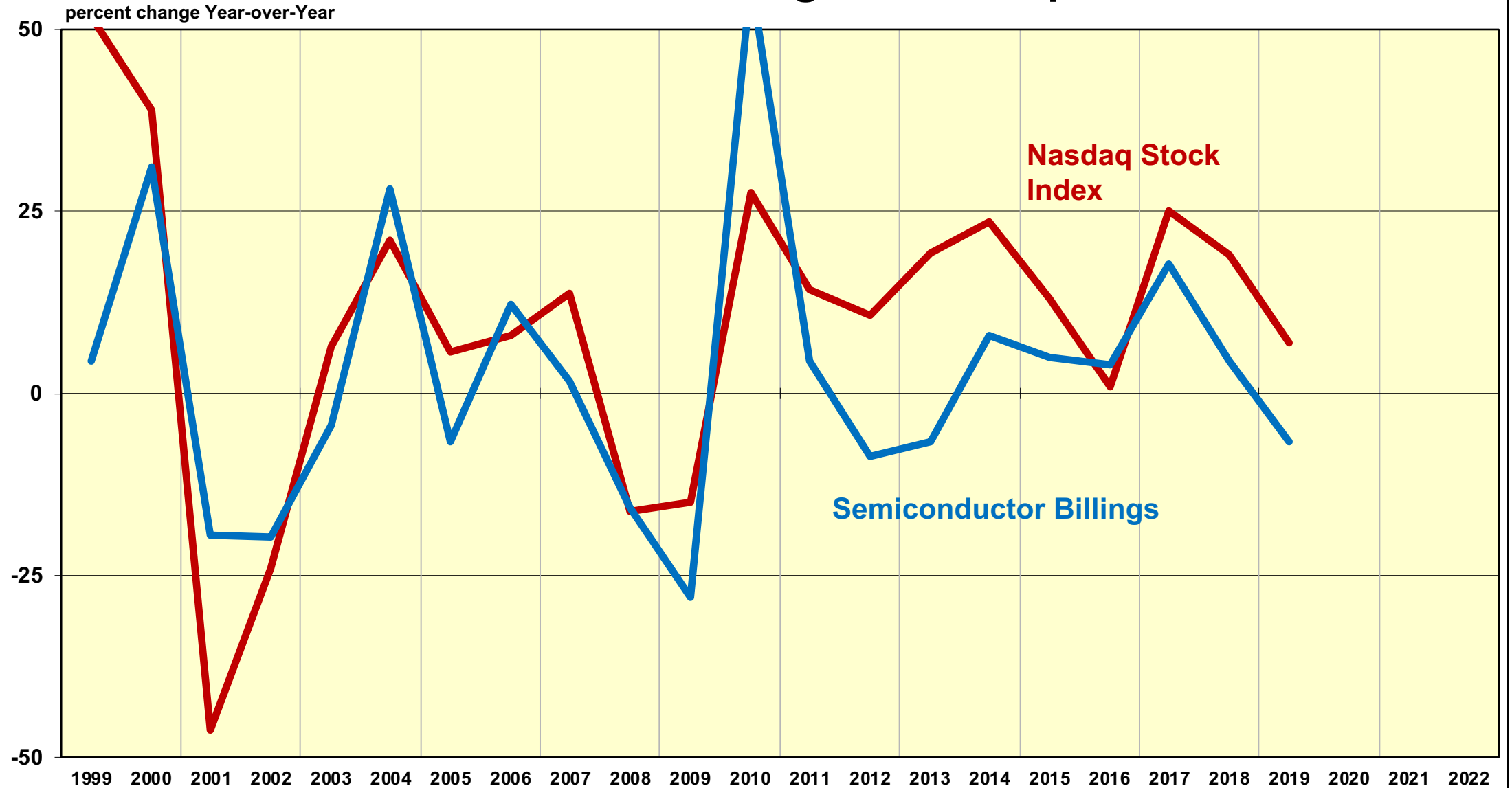
Source: TrendForce



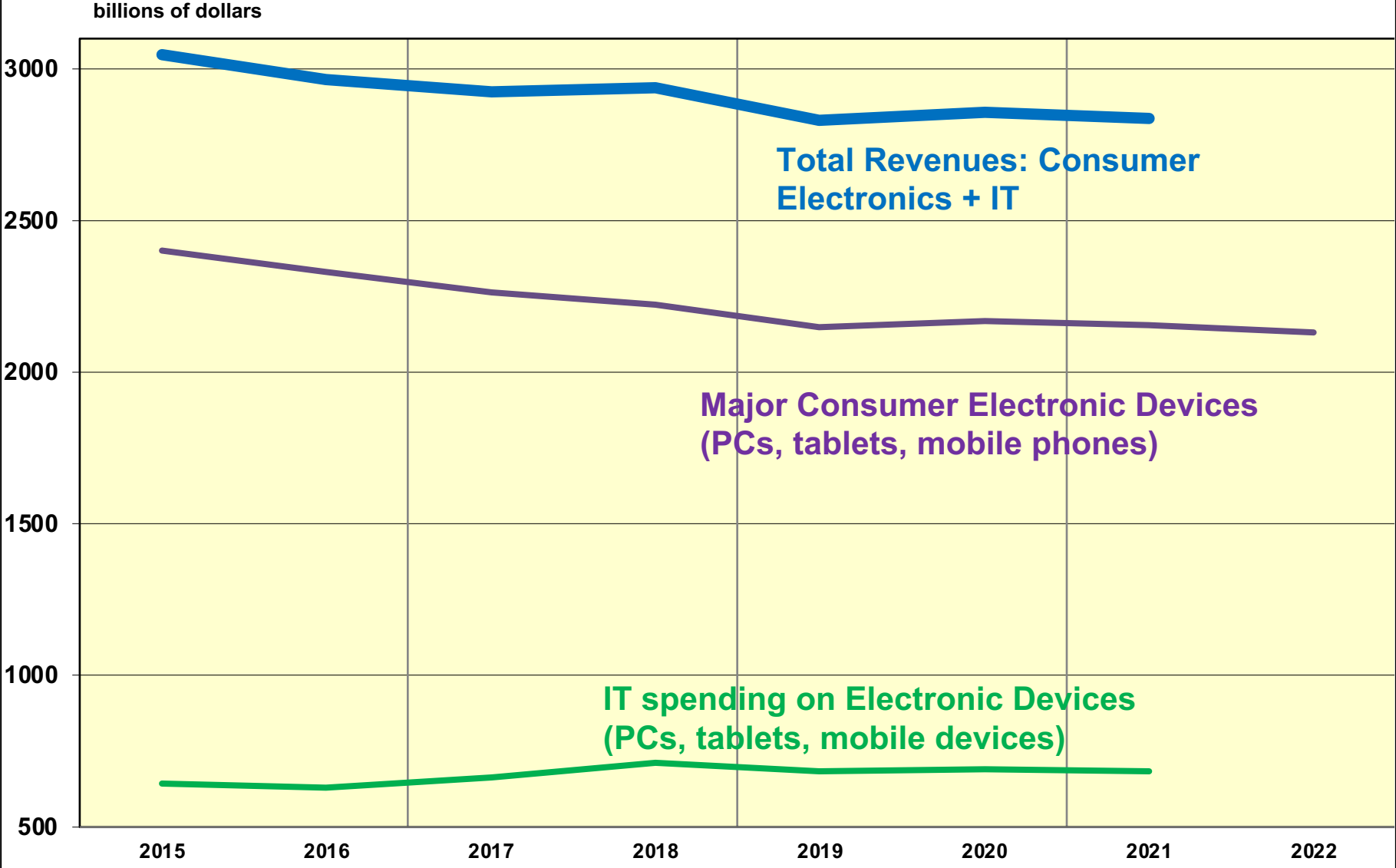
COVID-19
Impact

statista

Semiconductor Billings & Nasdaq



Global Electronic Industry



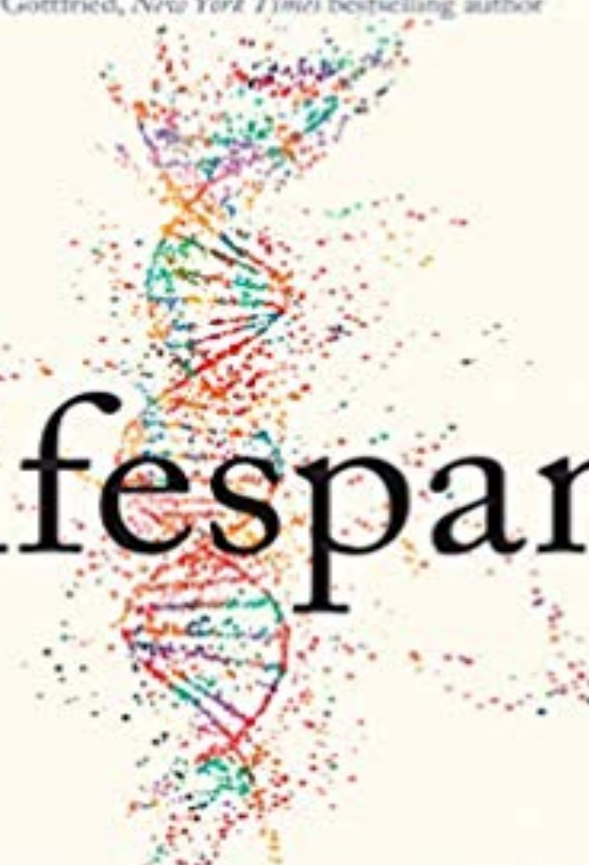
Source: Gartner

Where Electronics Markets are Heading

- **Healthcare**—major advances in health & vitality
- **IoT**—interconnecting digit
- **Military**—increases in defense budgets for electronics
- **Space Force**—aerospace expansion
- **AI**—continued development of machine learning
- **Autos**—self-driving vehicles, electric cars
- **5G**—hyper-speed transfer of information

'A visionary book ... masterful'

Dr Sara Gottfried, *New York Times* bestselling author



Lifespan

Why We Age – and Why
We Don't Have To

David A. Sinclair PhD

with Matthew D. LaPlante

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Questions?

More Information?

Go to:

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Follow me on Twitter: @EconBobG

Robert Genetski

rgenetski@gmail.com

312-565-0112 (office)

Impact of the 2018 Tax Cut Legislation

(billions of \$)

(calendar year)	<u>Federal Revenues</u>	<u>GDP</u>	<u>Federal Outlays</u>	<u>Total Impact</u>
2018	-\$160	\$200	\$40	\$80
2019	-\$108	\$430	-\$122	\$200
2020*	-\$80	\$675	-\$135	\$460

*Forecast

RICH NATION POOR NATION

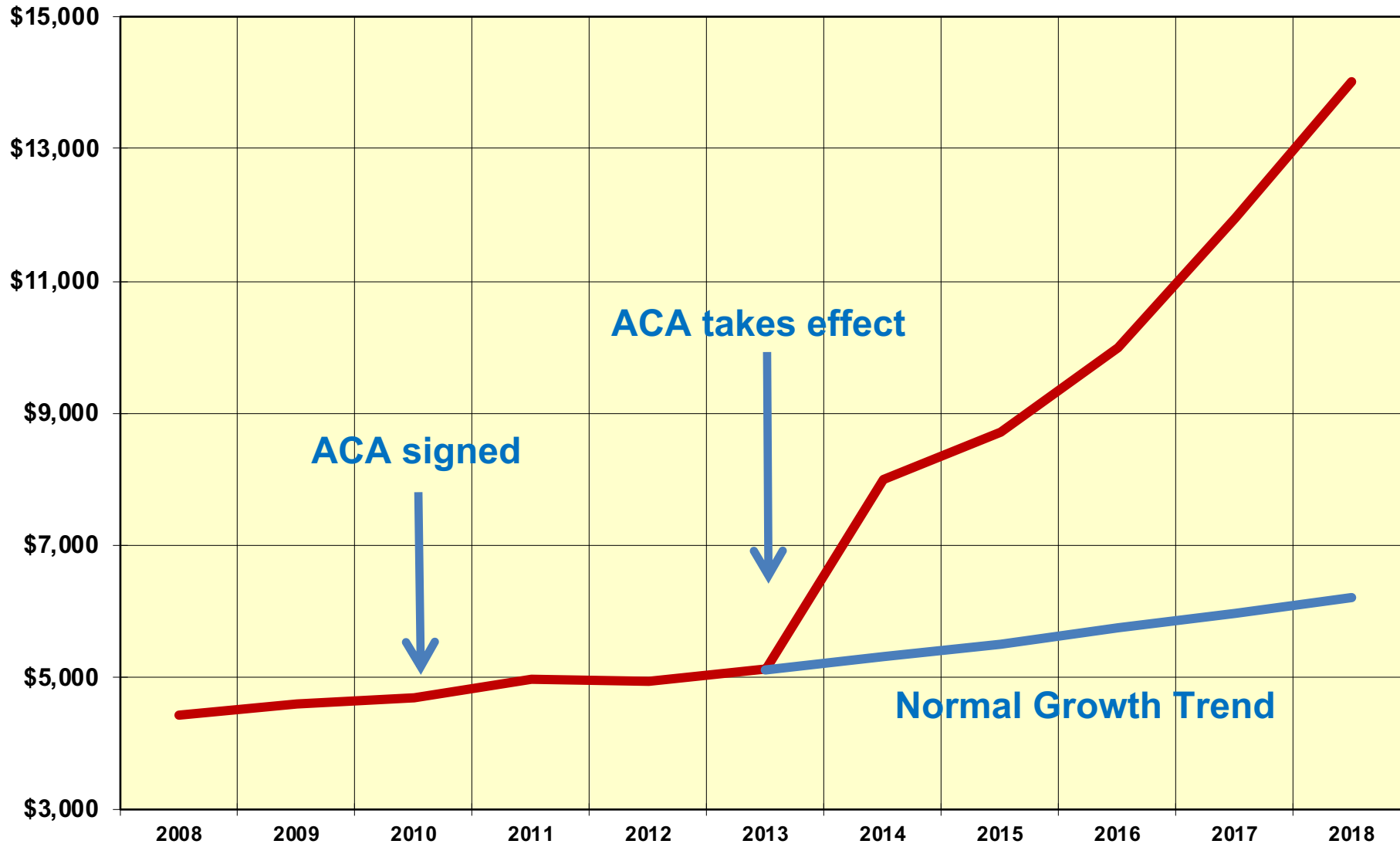
*Why Some Nations Prosper
While Others Fail*



ROBERT GENETSKI

Family Health Insurance Premiums

Annual Averages



Source: Ehealth insurance provider; classicalprinciples.com; normal growth is 2 percentage points faster than core cpi;

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