Good morning,

Another sleepy week in marketland, which we will gladly take in lieu of the stomach-churning roller coaster that has been the financial world over the past six months. We had a mix of encouraging data from US and European manufacturing, a slightly disappointing jobs report (however WHERE jobs are being created, sustained, and the wages available, are all positives), mixed with what appears to be a 2nd consecutive bad quarter for corporate America’s earnings picture (combination of strong dollar and poor results from oil companies being at the forefront, conditions we foresee as already on their way back in the right direction). All this to say, these are not table pounding exciting times for the stock market, but all is fine, and we remain constructive on the 2nd half of 2016 as a number of risk factors have begun to fade.

We regularly these days find ourselves debating the situation in China, India and other key emerging economies. Are their numbers real? Are they sustainable? “Hard landing” was the #1 google search in China in January. What about the growing debt load? Shadow banking? All valid questions and real concerns. Also all very normal conversations in an economy in transition, and issues that have been feared, faced, and in most cases faded away, regularly over the past 100+ years. I recently saw an estimate from a major Canadian bank that India and China will account for over 50% of the world’s GDP growth (not total GDP, but the growth in the world number) over the coming 10 to 20 years. Should we be worried?

We always look for real data, and data that ideally is not government released. Are Chinese consumers buying cars? Check. 50% jump in vehicle sales last year. Canadian parts maker Magna forecasts 400% growth in their sales to China by 2020. Are the wage increases in these countries real and are they creating a real middle class? That’s the key to this transition…this week’s article from The Economist may help you figure this out.

I introduce to you a new term for your cocktail party, Cliff Claven moments: “Schumpeterian:”

“Being self-made is not automatically a virtue. Some self-made tycoons acquire their fortunes through cronyish connections [ahem, looking at you, Russian Oligarchs]. But Ms Freund [Caroline Freund of the Peterson Institute in Washington, DC] argues that the fastest-growing group of emerging-world billionaires consists of what might be called “Schumpeterian” entrepreneurs—people building or managing big companies that have to fight for their lives in global markets. The rise of this type of tycoon, she says, can be a healthy consequence of structural transformation and rapid development. When economies expand quickly—as they did in America in the late 19th century, say—they develop big firms that produce concentrations of wealth but that also contribute to broad
growth by pioneering productive techniques and creating jobs. Such economies lift up those at the bottom of the income scale as well as enriching those at the top.”

When one breaks down the world’s billionaires, Ms Freund’s study shows that real entrepreneurs like Terry Gou (Taiwan, founder of electronics giant Foxconn), Dilip Shanghvi (India, founder of Sun Pharmaceuticals, now India’s largest drug maker and employer of 16,000), Elon Musk (Tesla), etc., make up 35% of billionaires, vs 17% in 2001.

So, why does this matter? A great debate and conundrum for policy makers seems to be the lack of progress by the developed world’s middle class (read: income inequality), as a great risk to bear going forward. Well, guess what? These “Schumpeterians” are helping create a massive and sustainable middle class in emerging countries, and these hundreds of millions of people will become consumers of cars, food and consumer goods;

“…the anti-billionaire backlash that is such a marked feature of Western politics is, thus far, much less pronounced in the emerging world. This may be because emerging-market billionaires seem more dynamic: more than half of them are under 60 compared with less than a third in the rich world. But it is partly because ordinary people in the emerging world have been getting richer alongside the billionaires; in the rich world the masses have seen their incomes stagnate.”

“…the emerging world has witnessed a big increase in the number of true entrepreneurs. They are a symptom of economic dynamism, not a cause of rising inequality.”

Enjoy your weekend. Link to full article here:

http://www.economist.com/news/business/21695789-american-dream-going-rags-riches-appears-more-achievable-developing-asia?zid=306&ah=1b164dbd43b0eb27ba0d4c3b12a5e227

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