

**Post Election – Does it matter?
Comment from Bill Priest of Epoch Investment Partners**

There is an old saying that goes something like this – in the short run, politics determine economics, but in the long run, economics determine politics.

The most important force in the world today is the ongoing global execution of the Law of Comparative Advantage. Simply put, this economic law developed by David Ricardo in 1820 states that nations gain by specializing in the production of goods and services in which they have a comparative advantage and trading these items for other goods and services that the country desires, but for which it does not possess a comparative advantage. In my view, this law presently and in the future will continue to wend its way in the world, benefiting all of us in the form of higher living standards, profits and employment.

At the individual country level, this optimism must be tempered by reality. For example, the U.S. is faced with a record shortfall in national savings, a record current account deficit, record levels of household indebtedness, a record deficiency of personal savings and outsized government budget deficits. None of these issues were examined in the political debates. The whole idea that the resolution of these imbalances implies some personal economic sacrifice has not been discussed. It is political death to do so. It takes a crisis to invoke change.

In the long run, the internal solution for the U.S. requires tax increases and expenditure cuts. It will happen, but there is too little understanding and not enough pain at the moment. The external solution requires letting the dollar go. A weaker dollar will eventually lead to higher U.S. real interest rates and eventually to a rebuilding of national savings. This will take a while but it appears inevitable. At the same time, as long as Japan and China are willing to feed the beast of consumption within the U.S., the world will continue along the present path.

Looking at the world as a whole, rather than from a U.S.-centric position, one sees the world's economy working well now. The International Monetary Fund has increased its estimate of the worldwide GNP growth rate for this year to 5%, the highest level in 20 years. Not so bad. Canada is benefiting from globalization, as is much of U.S. industry.

With China and the emerging nations, the story for the next 50 years is that some nations will benefit more than others, but both Canada and the U.S. will certainly participate. Canada has natural resources and the U.S. has a plethora of companies that are “China plays”. Productivity in the U.S. is the best in the developed world and this is a strength investors should not overlook when considering investing in the U.S. The U.S. capital markets, despite scandals, are the deepest and most developed in the world. Some of the best “stories” to capture globalization and the Law of Comparative Advantage can be found in the U.S. Agriculture, transportation, technology and financial sector investments are best found in the U.S.

In the long run, the world works and globalization will prove to be a collective benefit for all of us. The U.S. has mishandled many issues, but it remains the beacon of free market and economic opportunity for the world.

On a personal note, out of the tragedy of 9/11 came a remarkable spirit of bipartisan solidarity and world support. In the following months, that cohesiveness and empathy for the U.S. was squandered. This recent election reflected a polarization in America I have never witnessed in the past. Many in the world see the U.S. in a stark adversarial light where the populace is at odds with one another.

The world needs America's leadership. There really is no place to invest if America is submerged with internal issues and seeks to carry out a unilateral foreign policy without a thought for others in the world. Let us hope the second term of George W. Bush will end in an internal reconciliation of values and that America, the beacon of individual freedom, can be restored to its former lustre. The equity market has yet to reflect that view so it could be considered an element for "upside" surprise. Let us all hope so.