

Four Critical Investment Themes for the Next Decade

October 29, 2010

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Four investment themes will dominate market behavior over the next decade, according to Martin Murenbeeld, the chief economist at DundeeWealth Economics, a Canadian investment manager and financial advisor. Investors, he said, would be wise to overweight gold and other commodities.

Murenbeeld spoke at the Schwab IMPACT conference on Thursday.

The four themes he identified were:

1. The US economy is unlikely to suffer a double-dip recession; he suggested policies to mitigate that possibility, although a double-dip may be unavoidable albeit improbable.
2. The sovereign debt crisis is not over. Many other countries, including the US, will be in the same trouble as the PIIGS.
3. Gold is in a very bullish market cycle. He identified nine bullish arguments, along with six bearish arguments, which he dismissed.
4. Investing should be commodity-focused. The need to increase GDP, and what can be controlled to achieve that, leads to the thesis that commodities will be in high demand.

Murenbeeld analyzed the US economy from the perspective of the four components of GDP:

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government spending} + (\text{Exports} - \text{Imports})$$

Consumption will remain weak, and will decrease from its current level of 70% of GDP, he said, as savings rises and households delever. Growth must come from the other three components, and the most likely candidate is net exports. Government policy is likely to be most effective in stimulating net exports in the current environment.

Murenbeeld said that government policy should achieve four goals to avoid a double-dip recession. The equity and housing markets should not be allowed to deteriorate further, and this can be accomplished through monetary policy. Government spending should not be reduced, or GDP growth will diminish. To stimulate exports, the dollar should be "significantly devalued" against Asian currencies. Oil imports should be reduced by forcing oil prices to rise, which would also encourage investment in alternative energy sources and address climate change.

Murenbeeld said the US is one of many countries facing a PIIGS-like sovereign debt crisis, due to rising debt/GDP ratios. He included his native Canada in those that must confront fiscal imbalances. The decision to consolidate to the euro contributed to the sovereign debt crisis, he said, because it allowed interest rates to converge and "undisciplined" governments to borrow excessively.

To reduce its excessive debt, the US (and other debtor countries) must ultimately choose from among four alternatives: renege on its debt, cut services, raise taxes, or print more money. The first three options are unlikely because they lack public support or would send the economy into a severe recession or depression. Only the fourth option, which will result in inflation, is tenable and it will lead to higher gold prices.

Gold, Murenbeeld said, is in a bull market and he offered nine reasons why this is so:

1. Global fiscal and monetary reflation
2. Trade imbalances that will force the dollar to decline
3. Excessive foreign reserves in surplus countries that will motivate them to diversify
4. Positive central bank attitudes toward gold
5. Gold is not in a bubble and has "room to rise," particularly when compared to other commodity prices and financial assets
6. Supply is flat and global production may have peaked
7. Investment demand (including that from retail investors and ETFs) has been growing over the long term

8. Commodity price cycles “take many years to run,” and gold’s cycle is not complete
9. The geopolitical environment is positive for gold

Along these lines, he identified – and mostly dismissed – six bearish arguments against gold:

1. The U.S., Asia and Europe will be able to successfully “exit” from quantitative easing without triggering high inflation.
2. The dollar could remain strong
3. Deflation could continue
4. Other commodities could become the liquidity of last resort
5. De-hedging is finished and hedging is ready to commence
6. China could go into recession

In addition to gold, Murenbeeld recommended overweighting other commodities, including oil, nickel and copper. His positive outlook for those commodities is driven by rising demand from Asia (particularly China) and diminishing supply. In addition to peak oil, he said gold is one of many commodities whose supply has peaked and that will experience reduced production. He cautioned that commodities will be volatile and will suffer short-term price declines.

Murenbeeld ended his talk with two predictions. First, he said technical factors indicate that the next 10 years will be much better for US equities than the last 10 years. Second, he said baby boomers have been responsible for creating asset bubbles. Their investing preferences created the dot com bubble and the real estate bubble, and are now creating a bubble in debt securities, which Murenbeeld said will explode in the next two years.