



# The Global Economic Doctor

Volume 1, Issue 4

June 13, 2016

## Waiting on the Wall of Worry

*History is a race between education and catastrophe.*

— **H.G Wells**

**Summary:** The global economic recovery has been fragile and growth-anemic compared to past cycles. In early June, the World Bank released its Global Economic Prospects, which commences with the following: "Growth prospects have weakened throughout the world economy." Indeed, the World Bank has taken global economic growth down to 2.4% from the 2.9% it had forecast in January. Pain is most acute in emerging markets, which "are facing stronger headwinds, including weaker growth among advanced economies and persistently low commodity prices, as well as lackluster global trade and capital flows." While the World Bank report gave voice to the worries of many investors and policymakers, sentiment in the markets has decidedly turned bearish through the past week. Equity markets continue to bleed capital, while investors continue to move into cash (\$1.8 trillion in institutional money market funds as of May 30th) and higher-rated sovereign bonds. A number of central banks have moved their benchmark interest rates below zero, with strong investor appetite for the perceived safety of higher rated sovereign bonds (Germany, Switzerland and Japan) pushing the yield of more than \$10 trillion of sovereign debt into negative territory. One of the more vocal critics of this has been Janus Capital's Bill Gross, who tweeted, "Global yields lowest in 500 years of recorded history...this is a supernova that will explode one day." According to Goldman Sachs, an unexpected 1 percentage point rise in US Treasury yields could cost investors an estimated \$1 trillion. To grossly understate, perhaps negative interest rates are not such a good idea and the next major market move could come when European central banks and Japan opt to end that policy. Do investors face a wall of worry as June progresses, with the upcoming FOMC meeting, the BREXIT vote, and ongoing China jitters? Absolutely! The famous British writer H.G. Wells, who gave us *The War of the Worlds* and *The Time Machine*, is right in saying, "History is a race between education and catastrophe." I am hoping education wins out.

---

### Table of Contents

Japan's Go-Slow Economy

The Global Risk Monitor

Key Country Data

Smith's Political Event Risk Alert: Cleveland Unveils Convention Preparedness

---



**Scott B. MacDonald, Ph.D.**  
**Chief Economist**

**[scottmacdonald@smithsresearch.net](mailto:scottmacdonald@smithsresearch.net)**

Dr. Scott B. MacDonald is Chief Economist at Smith's Research & Gradings. Prior to this, he was Senior Managing Director and Chief Economist at KWR International, Inc (KWR). Prior to KWR he was the Head of Research for MC Asset Management LLC, an asset management unit of Mitsubishi Corporation based in Stamford, Connecticut (2012-2015) and Head of Credit & Economics Research at Aladdin Capital (2000-2011) and Chief Economist for KWR International (1999-2000). Prior to those positions he worked at

Donaldson, Lufkin & Jenrette, Credit Suisse and the Office of the Comptroller of the Currency (in Washington, D.C.). During his time on Wall Street, he was ranked by Institutional Investor magazine as one of the top sovereign analysts.

He did his Ph.D. in Political Science at the University of Connecticut, Masters in Asian Studies at the University of London's School of Oriental and African Studies, and BA in History (Honors) and Political Science at Trinity College (Hartford). He has written 18 books and numerous articles. Areas of expertise are macroeconomics, international finance and geopolitical risk.



**Terence M. Smith**  
**Chief Executive Officer**

**[terencesmith@smithsresearch.net](mailto:terencesmith@smithsresearch.net)**

Terence Smith is chairman and chief executive officer of SMITH's Research & Gradings, which he founded in 1992. Mr. Smith is also chairman and chief executive officer of Smith Information Services, LLC, which provides event-risk credit analytics relating to infrastructure assets.

Prior to SMITH's Research & Gradings, Mr. Smith was the president of Global Guaranty, which he founded in 1987 to provide publishing and conference products for the emerging financial guaranty industry. In late 1989, Global Guaranty was sold to Thomson International. While at Thomson, as the head of a business unit, Mr. Smith was a member of the executive management team which oversaw Sheshunoff, Muller Data, Thomson BankWatch, American Banker Newspaper, The Bond Buyer Newspaper, and 40 newsletters. Mr. Smith was responsible for the creation and launching of the American Banker and Bond Buyer Conference Division.

In 1990, Mr. Smith founded Global Guaranty's All-American Municipal Analysts Team to provide greater recognition for the contributions of municipal analysts to the industry. Mr. Smith has worked in marketing positions at both Ambac Assurance Co. and E.F. Hutton. He has also worked as the managing editor of Investment Dealers' Digest and as a reporter for Institutional Investor's newsletters.

In 2015, Mr. Smith was awarded the National Federation of Municipal Analysts' prestigious Industry Contribution Award. Mr. Smith received his B.A. in English Literature from St. Joseph's University in Philadelphia.

### **Vol. I, Issue 4**

### **SMITH'S Research & Gradings The Global Economic Doctor**

Published by TMS Holdings Inc.

**Terence M. Smith**

Editor & Publisher

[terencesmith@smithsresearch.net](mailto:terencesmith@smithsresearch.net)

(571) 299-4925

**[www.smithsresearch.net](http://www.smithsresearch.net)**

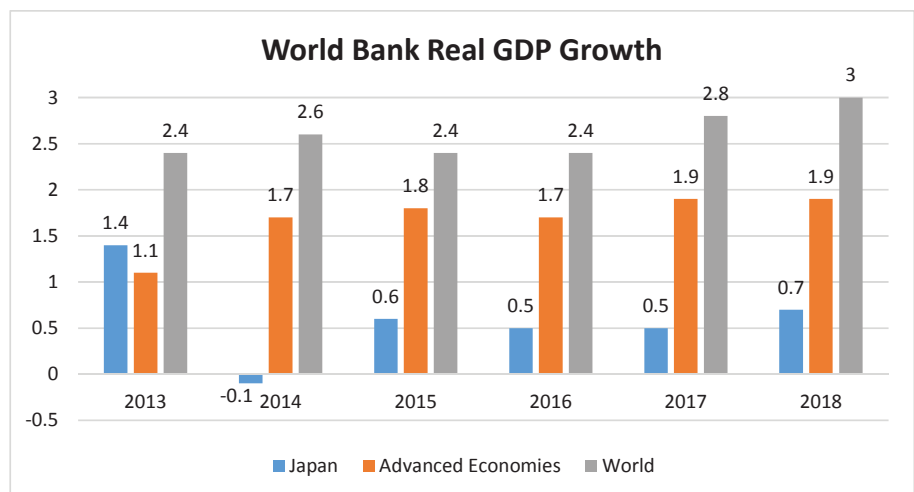
SMITH's Research & Gradings and The Global Economic Doctor are the sole property of TMS Holdings Inc. and is the copyright of TMS Holdings Inc., P.O. Box 1195, Great Falls, VA 22066. TMS Holdings may or may not purchase securities mentioned in SMITH's Research & Gradings' publications. TMS Holdings Inc. does not give financial advice and investors should not rely upon this information to make investment decisions. All Rights Reserved. Copyright TMS Holdings Inc. No part of this publication may be reproduced by any means whatsoever or in any form without prior written consent from the publisher.



The Japanese economy appears set to post another year of real GDP growth below 1.0%. Considering that the Asia-Pacific country is the world's third largest economy and that its multinational corporations play an integral role in many other economies around the globe, this is not good news for global growth. Prime Minister Shinzo Abe's efforts to relaunch the Japanese economy have largely stalled, while the mountain of public sector debt, over 246% of GDP, remains ominous. Can Japan's "go-slow economy" offer any hope? The answer is that perhaps we are worrying about the wrong things in regard to Japan and that muddling along is the best that can be expected. Indeed, muddling along by Japanese standards is positive relative to the rest of the world.

The World Bank's June 2016 Global Economic Prospects report on the global economy was not exactly uplifting reading vis-à-vis Japan. The Washington-based multilateral lending agency revised down its estimate for Japanese growth by 0.8 of a percentage point, putting GDP growth for Japan at 0.5% in 2016. The last time the Japanese expanded at over 1.0% was in 2013. And the outlook for 2017 is another anemic 0.5% and 0.7% for 2018, hardly dynamic growth spurts.

The downgrade in Japan's growth forecast was due to declining consumption and exports, which is evidence of the limited benefits of the Yen's past depreciation as well as key trading partners' flaccid growth. Another factor, according to the World Bank, was weak business sentiment and disruptions from quakes in Kyushu in April. Under the circumstances it is difficult to see business sentiment hitting a sustained upward shift; thus far 2016 has been a tough year for many Japanese corporations.



Source: World Bank, Global Economic Prospects, June 2016



Nobuyuki Hirano  
President  
Bank of Tokyo-Mitsubishi

One indication that confidence in the Abe administration's policies has eroded is the Bank of Tokyo-Mitsubishi UFJ announcement that it is considering quitting as one of the 22 primary dealers that underwrite government bond auctions (for Japanese government bonds or JGBs). If this transpires, Bank of Tokyo-Mitsubishi UFJ would be the first major financial firm to withdraw from

underwriting from JGBs since the Bank of Japan introduced negative interest rates earlier this year.

Bank of Tokyo-Mitsubishi's President Nobuyuki Hirano has been outspoken in his criticism of the central bank's negative interest rate policy introduced in February. In particular, Mr. Hirano has articulated concerns over the reduction in interest income and its impact on securities and growing anxiety among Japanese companies and households. Discussions with Japanese business people indicate that the negative interest rate policy is not seen as a positive.

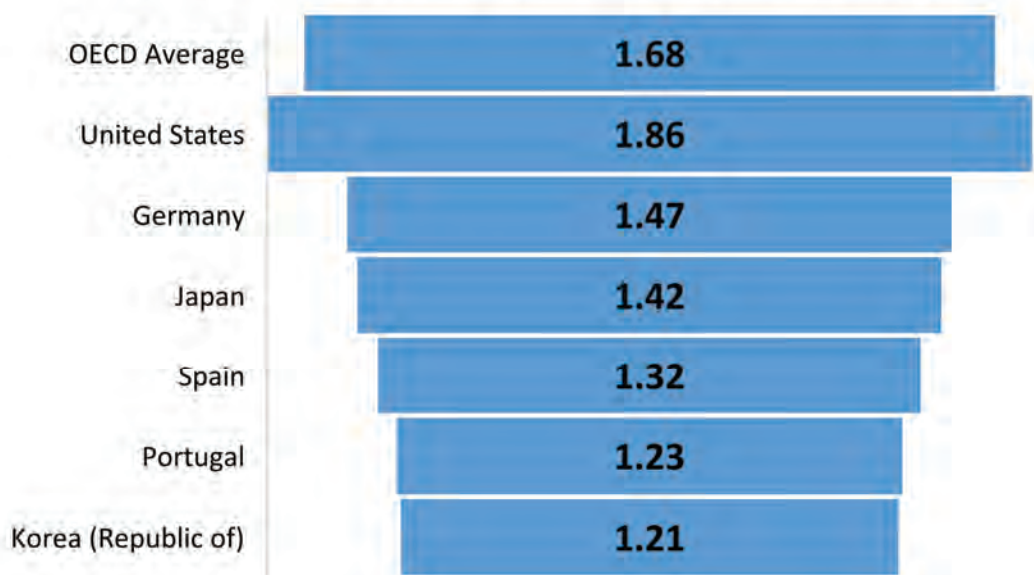
Another critical factor in Japan's slow-growth mode is demographics. The June World Bank outlook noted, "A shrinking and aging labor forces remains a key factor weighing on growth, investment and savings patterns." This points to major questions over who will pay for the health costs and maintenance of the older generations while the country's shrinking workforce will face substantial productivity challenges.

The demographic issue is difficult to ignore. A 2016 report by the Japanese National Institute of Population and Social Security Research (PSSR) forecasts that Japan will enter a long period of population decline. Along these lines, the PSSR calculates Japan's population will decline from 128 million in 2010 to 86.74 million by 2060, a substantial downward shift.

The PSSR also noted that the working-age population will decrease from 80 million in 2013 to 44.18 million by 2060. As Tomoko Kiyota, writing in *The National Interest*, noted in 2015: "This shrinking working population will be expected to care for and financially support an expanding elderly population — a trend that will compound over time. Within 45 years the elderly (65 and over) will comprise nearly 40 percent of the total population, and the young-age population will face an insurmountable economic burden in which 1.3 workers must support each elderly person."

Japan has serious problems related to an aging population — rising healthcare costs, financial stress on families and savings, and problems with productivity which

### Fertility Rates (Total Children/Women 2014)



Source: Organization for Economic Cooperation and Development Website

cannot be entirely answered by industrial outsourcing, robotics and the greater entry of women into the work force. Add to this the Bank of Japan's adoption of negative interest rates, which hurts Japanese savers. It also raises major issues as to how Japanese insurance companies and pension funds will meet future payout obligations to the growing ranks of the elderly, especially considering the disinclination of many Japanese fund managers to invest in what many consider "riskier" assets outside their country.

The combination of long-term slug-like economic growth and an aging population raises geopolitical issues for Japan. Although Japan has one of the world's largest and most sophisticated militaries, big questions loom as to dealing with terrorism, cybercrime, North Korea's saber-rattling and a more assertive China. Future manpower is an issue for the Japanese military as well.

Japan also remains heavily dependent on imported energy, much of it from the Middle East. Japan has considerable economic ties to Southeast Asia, both in terms of markets and supply line linkages, not to mention considerable foreign direct investment in countries like Thailand, Indonesia and Myanmar. In strategic terms, this places an emphasis on the importance of sea lanes that connect Japan to its markets and main sources of energy. Japan's main rival in Asia, of course, is a more assertive China in the East China Sea (where they have disputes over the maritime border) and the South China Sea. It is logical for Japan to be a more active partner to India since both Tokyo and New Delhi share concerns over China's encroachment on maritime routes.



Prime Minister Shinzo Abe

Last, but hardly least, the mix of slow growth, declining population size and changing geopolitical landscape, underscores the deep significance of the US-Japan security relationship. Tokyo is very closely watching the US presidential election, in particular, what both candidates are saying about trade agreements, both past and future. It is felt

that a Trump presidency could lead to strained relations.

The country heads to Upper House Diet elections in August and the ruling Liberal Democratic Party (LDP) under Prime Minister Abe is expected to win over the opposition, which might be strengthened by a recently announced merger

**One indication that confidence in the Abe administration's policies has eroded is the Bank of Tokyo-Mitsubishi UFJ announcement that it is considering quitting as one of the 22 primary dealers that underwrite government bond auctions (for Japanese government bonds or JGBs).**

of the country's second largest party, the Democratic Party of Japan (DPJ) and its third grouping, the Japan Innovation Party (JIP). Both the DPJ and JIP have demonstrated little political acumen, their leaders are not charismatic and new ideas do not seem to be part of the mix.

The last election occurred in December 2014, which gave the LDP and Abe overwhelming control of the lower house of the Diet. Although the Abe administration launched certain reforms and took measures to stimulate the economy, the results have been disappointing. Now Abe and the LDP face Japanese voters once again to a backdrop of economic uncertainty.

But there is no sense of crisis in Japan about the economy or the rising power of China. Concern yes, crisis no. Part of this ties back to how the younger generations of Japanese see themselves, their role in their country's future and what national objectives should be. Much of the hard work that went into creation of the modern Japanese economy in the aftermath of the Second World War came from generations of men and women willing to work hard and make big sacrifices in terms of frugal lifestyles geared for gains in the national economy.

Since Japan's bubble economy burst in 1989-90, Japan has struggled to regain strong economic growth rates. Over the last several years, however, there has been a reassessment about the importance of growth to Japan. As veteran journalist David Pilling stated of Japan in his book, *Bending Adversity: Japan and the Art of Survival* (2014): "Was growth the be all and end all? Did decline have to mean death?"

It has been suggested that although Japan is in relative decline, it is also learning how to live better. This would



**SMITH'S**  
RESEARCH & GRADINGS

# The Global Economic Doctor



**The Global Economic Doctor is "In"**

Refreshingly honest. Intelligently sophisticated.

Your charter subscription to The Global Economic Doctor will assure your access to sovereign news, analysis and insights. Plus, get a greater understanding of how today's market developments and key players are impacting your business interests in the US and around the globe.

The Global Economic Doctor is published 2x per month, 24 issues per year.  
The charter annual subscription rate is \$850

[Subscribe Online](#)

<http://store.smithsresearch.net/the-global-economic-doctor/>  
or Call Today: 1.571.299.4954

The Global Economic Doctor is a publication of TMS Holdings, Inc.

explain why so many younger Japanese do not want to work as hard as those in the immediate generations before them.

Another part of the equation in Japan's go-slow economy is that there has been a long term redesign of Japanese companies that commenced in the "lost decade" of the 1990s. This redesign encompassed cutting debt, enhancing productivity and consolidation in a number of sectors.

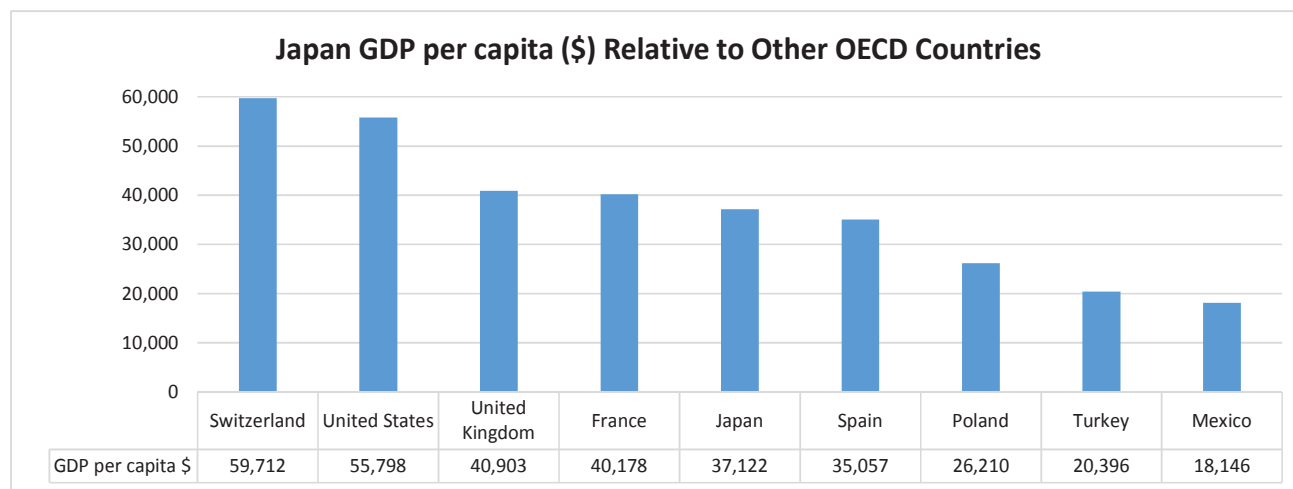
Although Japanese companies still have substantial challenges (relying too much on hierarchy and seniority, an inability to make rapid decisions and a real struggle to include non-Japanese into the decision-making process), they have maintained a competitive position in a number of sectors. That competitiveness may not regain Japan's position as number two in the global economy pecking order, but it is likely to be enough to provide a comfortable life for the majority of Japanese.

James Abegglen, who was a Professor in Management and Economics at Sophia University in Tokyo, noted before his death in 2007, "In my era, Japan was a very exciting place. In the next era, it's going to be a very dull place. Very wealthy and very dull. It's going to be like a very large Switzerland – and that's not such a bad thing."

What to make of Japan's direction over the course of 2016 and 2017? The country will have an election in August

2016 which will bring little change; the LDP and most likely Abe will remain in office. They will seek to push ahead with pro-growth policies, but it will not much matter. At the same time, the economy will stumble along. Weak efforts will be made to chip away at the public sector debt. This scenario is probably the best that can be hoped from Japan. Internal policies are not enough to ramp up growth and key trading partners, like China and Europe, are not going to expand enough to make a difference.

Japan will lumber along, a relatively wealthy country by global standards. Its foreign policies are measured and defined by national interests related to defense of maritime borders and sea lanes, markets and key natural resources. Japan will not, however, have the luxury of being like Switzerland in its neutrality — its geopolitical position off the Asian mainland will keep it part of the new Great Game of Silk Roads, South China Sea gamesmanship and Korean Peninsula nuclear hijinks. Moreover, the debt issue will continue to hang over the country's horizon as an ongoing potential risk. In assessing Japan and what the future will bring for this geopolitically and economically important country, the words of one of its well-known writers, Haruki Murakami, are apt: "We are lost and we don't know which way we should go. But this is a very natural thing; a very healthy thing." 🌐



Source: Organization for Economic Cooperation and Development Website



***There is a hopeful symbolism in the fact that flags do not wave in a vacuum.***  
—Arthur C. Clarke

## **Fear of Convergence**

Afraid of Brexit? Afraid that the US Federal Reserve gets the raising of rates wrong? Afraid that Spain will have another messy and inconclusive election or that the left will win? What about those independence-seeking Catalonians; will they overturn the Spanish applecart? What about China's increasingly messy economic situation? What about the possibility that either a US or Japanese fighter craft gets involved in a dogfight with a Chinese fighter over Asian waters? What happens if Donald Trump wins the US election and promptly launches a trade war with Canada, Mexico, China and Japan? What happens if Hillary Clinton gets indicted?

Feeling queasy yet? The list can easily be lengthened by adding the potential for an escalation of tensions with Russia over Ukraine or some other Eastern European flashpoint; troubles in Nigeria where militants have shut down oil production facilities; a major terrorist attack on US infrastructure (like utilities or pipelines); and labor unrest and strikes in France. And then there is Venezuela, which has become the Zimbabwe of Latin America, with its hyperinflation, social unrest and autocratic rule. A meltdown in Venezuela certainly would not do anyone any good in the neighborhood.

While many of these risks can be absorbed by markets and not hinder global growth, the risk is that they occur roughly at the same time. The math is simple — the

more bad things that happen around the same time, the more challenging it will be for policymakers and markets to regain their equilibrium. People and resources tend to get stretched and response times lag. This was certainly part of the problem in 2008-09. It was only when the dire nature of the situation became painfully evident to all of those involved that resolute, firm action was taken.

In some ways we have come back to 2007, the edge of what could be a new abyss. To some this probably sounds overly dramatic. Yet debt levels are high, growth is uncertain, and a growing number of investors smell blood in the water. It is no secret that George Soros has left retirement and is buying gold and mining stocks. Long time investor, Stanley Druckenmiller has also been active buying gold. Alarmed by China's debt and other factors (some stated above) both Soros and Druckenmiller expect something bad to happen in markets in the not-too-distant future. Indeed, the latter recently stated, "Policymakers have no endgame, markets do."

While we concur with Druckenmiller's assessment, policymakers do have the capacity to steer things in a general direction. Under the right circumstances they can modify the worst excesses. The problem is that in many capitals, including Washington, policymakers outside of central banks have largely walked away from their jobs and been happy to let ideological rigidness trump finding pragmatic solutions to problems. Look at the poor condition



of US infrastructure. Anyone driving from one of the major airports in the greater New York City area will testify to the third world nature of the transportation system. And don't drink the water in Flint, Michigan...

We could once again be facing another major economic test. Is China too big to bail out? What happens if the UK leaves the EU, the European economy is harder hit than initially thought and the Chinese economy tumbles

all at the same time? Holding gold will certainly look good. As for the policy response, the central banks have little ammunition left and the political will among the leading economies will be difficult to unify. Looking to Arthur C. Clarke's quote, there is a lot to be said for vacuums, but most of what can be said of a vacuum in global leadership is bad. We live in interesting times, which are probably going to get all the more interesting. 🌐

Rank	Risk
1. Federal Reserve Stumble	Considering the lackluster nature of many governments in formulating reforms and implementing them, confidence in the US central bank is critical not only for the US economy but also the global economy. Confidence in the Federal Reserve has eroded in 2016 as the central bank has talked up the further raising of rates, but has thus far failed to act, due its "data driven" approach. Poor employment numbers appear to have killed off the June FOMC meeting for a potential Fed funds hike, leaving many to speculate that July will be when the central bank moves. We believe that the Fed has become more driven by keeping the stock market up and avoiding a recession than moving away from its uber-dovish policy stance and pushing the politicians to do their jobs on the policy-making side. Talk of possibly moving to negative interest rates should throw a chill down the spines of investors and savers. <b>The FOMC next meets on June 14-15 and after that July 26-27.</b>
2. Brexit	The referendum on the UK's position vis-à-vis remaining in the European Union (EU) takes place on <b>June 25th</b> and is decidedly penetrating markets as mirrored by the volatility in the UK pound, British equities and a growing list of influential people talking about the negative impact such an exit would have for both the UK and the rest of Europe. We believe that a win by the leave camp would disrupt the British economy (the world's fifth largest), function as a major chill factor for European stocks (possibly down as far as 25% according to Bloomberg) and hurt other European economies, in particular, Ireland, Malta and Cyprus. It is also likely to lead to the end of the United Kingdom as the more EU-friendly Scotland might be induced to leave. Opinion polls have the leave vote with a small lead. We still believe that the vote will fail, but will be very close.
3. Chinese Economic or Market Turmoil	China is a major point of concern as it is one of the world's largest economies, with extensive trade and investment links with the US, Europe, Japan and much of the emerging markets. The challenges facing Beijing are considerable, including industrial overcapacity, severe environmental pollution, and a build-up in debt. The last has gained more attention recently as Chinese economic policies are under intense scrutiny and the country has drawn down on its still substantial foreign exchange reserves. According to Goldman Sachs, the amount of debt in the Chinese economy has marched upwards from 130% in 2008 to 235% in 2015. Moreover, if the current pace of debt expansion continues <b>Chinese debt could rise to a stunning 344% of GDP by 2020.</b> China needs to bring overcapacity and debt under better control; failure to do so could set the stage for a hard-landing.
4. US Presidential Elections	It's official – at least from the primaries – that the two major political candidates are Republican Donald Trump and Democrat Hillary Clinton. This is expected to be an ugly campaign. The key factors to watch going forward are the tone of and platforms from the respective conventions, selection of vice presidential candidates, and debates. We see Trump as the candidate of change, though this remains somewhat undefined, while Clinton represents the status quo, especially as she recently received the endorsement of President Barack Obama. What can derail the Clinton-Trump contest is a federal indictment of the former over her emails. This continues to be an abnormally abnormal election.

Rank	Risk
5. Asian Border Tensions	The issue of overlapping claims to the South China Sea and East China Sea has not gone away. Over the last couple of weeks the US recently sailed the nuclear-powered supercarrier USS John C. Stennis through the South China Sea, while a Chinese J-10 hassled a US Boeing RC-135 reconnaissance aircraft over the East China Sea. It is believed that the buzzing of the US recon aircraft was in retaliation for the US aircraft carrier's sailing through the South China Sea. According to <i>The Diplomat</i> , the Japan Air-Self Defense had to dispatch its warplanes 571 times during fiscal year 2015 to intercept Chinese aircraft approaching or intruding on Japanese airspace, up from 464 sorties in 2014. There is a chance that as Chinese economic issues become more pressing, Chinese aggressiveness in the surrounding waters may become more elevated, possibly for the military to justify spending levels and to focus attention outside of the country.
6. Middle East Political Tensions	The gradual climb of oil prices out of the basement range of US\$26 dollars a barrel to the low US\$50s has certainly been a welcome change for oil exporting Middle Eastern countries, such as the Gulf States, Iran and Algeria. However, the region remains fraught with religious and regional fissures (as in Libya and Yemen), simmering political discontent with autocratic governments (Egypt), and the survival of ISIS in Iraq and Syria. With the advent of the Euro-Cup football tournament in Paris, the opportunity for another round of terrorism cannot be ruled out. It is the potential rise in terrorist attacks that has elevated our ranking of Middle Eastern political tensions.
7. US Recession	Although we do not see a US recession in 2016 or 2017, we believe that the chances for such a development are rising. The World Bank did downgrade US real GDP for 2016 to 1.9%; we are still calling for 2.0%. The key concerns are that the corporate sector is not likely to regain strong profitability any time soon, worker productivity is falling, exports have cooled (due to a stronger US dollar and slower growth in key trading partners), and there are questions on trade policy linked to the US presidential election. There is decidedly a negative undercurrent that could take the US economy into recession if policymakers are not careful.
8. Emerging Markets Dislocation	The slowdown in the BRICS (China in particular) has hit emerging market economies hard. Growth rates and exports have slumped, fiscal balances have deteriorated and, in some cases, countries have had to turn to the International Monetary Fund and World Bank for loans to help them. While some countries have weathered the storm better than others, conditions have been particularly challenging for Azerbaijan, Brazil, Nigeria, South Africa, Russia and Venezuela. The sad fact is that strong demand for commodities is not likely to return any time soon and tough decisions are now having to be made over spending priorities. The combination of tough economic times and political tensions in a number of countries leaves the door open to further dislocation in emerging markets.
9. The Borderlands	The vast region between Russia and the European Union remains a cockpit of international tensions, mainly centered on Ukraine, but includes the Baltic States-Russian border, the Baltic Sea, and Moldova. Although tensions have modified in this region, the potential for a flare-up clearly remains, dependent on the state of Berlin-Moscow relations, the stance of a new administration in Washington, and the make-up of domestic Russian and Ukrainian politics.
10. Japanese Economic Meltdown	This is the largest drop in our risk ratings. Although Japan has substantial problems, most of them are relatively self-contained. The country's public sector debt is tightly held, mainly in Japanese hands. The big worry is that confidence in the government to repay the debt could become compromised, which is not likely. However, the shift to negative interest rates could leave Japanese investors less inclined to own JGBs, which no longer pay next to nothing; they actually pay nothing.

## Key Country Data

Country	Real GDP (%) 2016	Industrial Production (%)	Consumer Prices (%)	Unemployment (%)	Budget balance/GDP (%) 2016
US	2.0	-1.1 Apr	1.1 Apr	5.0 Apr	-2.5
China	6.5	6.8 Mar	2.3 Apr	4.0 Q1	-3.0
Japan	0.5	0.1 Mar	0.0 Mar	3.2 Mar	-6.2
Germany	1.5	1.2 Feb	-0.1 Apr	6.2 Apr	0.4
France	1.3	0.6 Feb	-0.2 Mar	10.0 Mar	-3.5
UK	1.9	-0.5 Feb	0.3 Apr	5.1 Jan	-3.6
Canada	1.6	0.8 Feb	1.3 Mar	7.1 Mar	-1.4
Brazil	-3.6	-11.3 Mar	9.4 Mar	10.9 Mar	-5.4
India	7.5	2.0 Feb	4.8 Mar	NA	-3.7
Russia	-1.3	-0.4 Mar	7.3 Mar	6.0 Mar	-2.2

Sources: *Smith's Research & Gradings, International Monetary Fund, and Organization for Economic Cooperation & Development*

The World Bank published its June 2016 Global Economic Prospects, which was considerably downbeat, as it took global growth down from an earlier forecast 2.9% to 2.4%. The main reasons for the forecast downgrade are:

- Softer-than-expected growth in advanced economies;
- Further declines in commodity prices (that have only partially reversed in recent months);
- Heightened political uncertainties;
- Concerns about the effectiveness of monetary policy stimulus in some advanced economies;
- The pace of monetary normalization in the US;
- Policymakers' ability or willingness to use expansionary fiscal policy; and

- For oil importers, falling prices have not translated into the large boost to growth initially expected, as other headwinds and uncertainty have held back activity.

- On a regional basis, Latin America and the Caribbean have been hardest hit, with the World Bank expecting its real GDP to contract by 1.3% in 2016.

- South Asia is riding through this period with an estimated 7.1% real GDP growth rate for 2016.

- The World Bank expects that growth prospects will improve in 2017 to 2.8% and 3.0% in 2018. Although these are improvements over 2016, the forecast still reflects certain weaknesses in the global economy. 🌐

# SMITH's Research & Gradings: Confidence. When You Need it Most.

SMITH's Research & Gradings focuses on the people, sectors and news that matter the most to you.

SMITH's, founded by Terence Smith in 1992, has become a bellwether research company, often **predicting significant trends and spotlighting controversial subjects** sometimes months before they come to light elsewhere. SMITH's provides independent third-party research and analysis for institutional investors.

SMITH's analysis is an indispensable part of Wall Street and the world's capital markets.

To learn more visit <http://www.smithsresearch.net> or Call us at (571) 299-4954

Photo: Chalani, 2009

## Subscribe Today:

Mail to:  
TMS Holdings Inc.  
P.O. Box 1195  
Great Falls, VA 22066

- Call: 1-571-299-4954
- Register Online:  
<http://www.smithsresearch.net>
- Make Checks Payable to:  
TMS Holdings Inc.

**Name**  
**Title** \_\_\_\_\_  
**Company** \_\_\_\_\_  
**Address** \_\_\_\_\_  
**City** \_\_\_\_\_ **State** \_\_\_\_\_ **Zip** \_\_\_\_\_

**Phone** \_\_\_\_\_

**Fax** \_\_\_\_\_

**E-Mail** \_\_\_\_\_

Rates:	Individual
Standard	<input type="checkbox"/> \$650
Issuer	<input type="checkbox"/> \$125
Single Copy	<input type="checkbox"/> \$30

## Payment Information

- Bill Me  Payment Enclosed  
 Credit Card - MasterCard, Visa, Discover or Amex

Card Number

Exp. Date  /  Verification Number\*

Name on Card: \_\_\_\_\_

Signature \_\_\_\_\_

\*Please enter the Credit Card Verification Number on your credit card.

# Smith's Political Event Risk Alert: Cleveland Unveils Convention Preparedness

*Terence M. Smith*

Smith's Political Event Risk Alert for Cleveland, Ohio, was issued in connection with the upcoming Republican Party's National Convention in July. In the event the major political demonstrations are planned for the RNC to disrupt the process by threatening the safety conventioners or politicians, Cleveland could live up to its reputation as "the Dawg Pound".

Cleveland city officials unveiled a "preparedness plan" on May 31st to show how they plan to secure the large-scale event, touting the work they are doing in collaboration with federal, state, and local law enforcement agencies. "We are prepared," Cleveland Mayor Frank Jackson said during the press conference. "We have done our due diligence in many different ways."

One can hope the blue force will do better than the Cleveland Cavaliers did in their opening games during the NBA Playoff.

Cleveland's public safety departments also spoke, including representatives from emergency medical services, fire and rescue, communications, corrections, and emergency management.

Cleveland's "preparedness plan" includes training in the 1st, 4th, and 14th Amendment rights, crisis management, intelligence gathering and emergency management. There will be police officers on foot patrol, bike patrol, motorcycle patrol and mounted patrol.

Federal agencies will also be involved in securing the RNC, including the Federal Aviation Administration, the Federal Bureau of Investigation, the United States Secret Service, and the U.S. Coast Guard. The Federal Emergency Management Agency is also providing training for all security personnel.

The Secret Service is the lead agency in charge of the "Hard Zone" within the Quicken Loans Arena area, where presumptive Republican nominee Donald Trump will address a crowd of thousands. Though officials can't say where the "Hard Zone" begins or ends, Cleveland's Chief of Police Calvin Williams said, "If you can see Quicken Loans Arena and throw a baseball at it, you're in the Hard Zone."

## Out of State Police Back Out

ABC News reported last week, some out-of-state police departments had expressed concern over a lack of workers' compensation insurance for officers should they be injured while on the job in Cleveland. Cleveland officials finally acknowledged this is true, saying that per Ohio law, Cleveland cannot provide workers' compensation insurance to officers from outside jurisdictions, so out-of-state officers will have to retain insurance from their home states.

North Carolina's police, along with others, have notified Cleveland's police they are cancelling their participation.

The Cleveland Division of Police will supervise all the out-of-state police and the RNC donated \$50 mln. to the City to pay for hotel and food for the out-of-state police.

There will also be medical teams in place to provide treatment for injuries on site, and ambulances will be available to transport patients to area hospitals.

If Cleveland runs out of jail space, Cleveland's Division of Corrections is under contract with Cuyahoga and Geauga Counties for additional jail beds and they will also help with booking and processing. Inmates will have access to 24-hour inmate care in case of medical emergencies.

## Body Cameras

Smith's Research & Gradings has learned the Cleveland Division of Police plans to have officers wear their standard uniforms during the opening ceremonies. The uniforms include the familiar soft hats, ties, shirts and slacks. The police uniforms also include body cameras.

In the event of protests, the Cleveland Police plan to immediately go to their lockers, change into tactical (i.e. military) gear, including K Cups (Kevlar Helmets), shin protectors, and other body armor. Unfortunately, the tactical gear does not allow enough room for the Cleveland Police to wear body cameras. 🌐



*Cleveland City Hall*



## In 1992, Smith's Research launched its own gradings revolution.

Our approach was inspired by the need for a consistent analytical approach across all asset classes. We have fought against the conflicts of interests that permeate investment banking on Wall Street. Smith's Gradings are a time-tested, performance proven, and principles-based approach to risk.

We go beyond the numbers to connect the dots for the world's decision makers. For example, Smith's Political Event Risk Gradings accurately predicted the civil strife in the Middle East and default of the Greek bonds. We can enhance the performance of investments in assets around the globe, while helping to ensure the safety of portfolios here at home.

***Contact us to learn more because  
Smith's Research & Gradings won't leave you in the dark.***

Phone: (571) 299-4925  
<http://www.smithsresearch.net>



Providing Independent Credit Analytics.  
Since 1992.