

A Perfect Storm For Political Instability (Part I)

Human societies, economies and financial systems are fragile. They are built on mutual trust and cooperation. When this breaks down, it can result in a wave of political instability, internal conflict and even social collapse. We have touched on the structural problems and risks created by prolonged deleveraging and distorted income inequality in our research reports over the past several years. However, today we take a deeper dive into these issues and the risks that many advanced nations face heading into what has become a volatile U.S. and European election cycle.

Many developed economies have experienced an extended period of historically sluggish growth in response to deleveraging pressures after sobering up from a credit-fueled consumption binge. This has created a chronic gap between what many households perceived was the normal pace of standard of living improvements and what now appears to be a new depressed reality. This combined with extreme income inequality and reduced social and economic mobility has led to frustration, resentment and desperation in a growing segment of society. The desire to throw out the perceived political establishment and willingness to accept radical policies has escalated. At the same time, the surge in the number of extremely affluent individuals seeking power has erupted into an intense battle that is causing ideological and political polarization in many countries.

This theme has gained significant momentum over the past few years, from the relatively unorganized Occupy Wall Street movement to a winning vote in the U.K. Brexit referendum and significant support from more-extreme factions of both the U.S.

- The Great Recession and subsequent years of subdued economic and income growth have forced much of the developed world to realize that their pre-crisis expectation for steady and fairly brisk standard of living improvements are unattainable. This has fueled increased voter frustration.
- Extremely distorted income inequality has meant that a small percentage of the public have captured the bulk of income gains in recent years, while a large portion of society has not benefited materially. This has caused mounting resentment.
- In a world now characterized by an ample surplus of low-skilled laborers, the lack of affordable education has dramatically curtailed social and economic mobility. This is creating a sense of desperation.
- Together these forces are a toxic recipe for social unrest and political instability. The U.S. is an outlier, increasing the potential for an extreme change in political leadership, either during this election cycle or the next.
- Unfortunately, dramatic and abrupt transitions in policies that are driven by a frustrated, desperate and impatient electorate often lead to extended economic pain for those seeking the change. In extreme cases, it can even eventually result in social collapse or the bankruptcy of a nation. Clearly, even a partial shift in this direction is not supportive for capital owners.

Democrat and Republican parties. Elements of this theme have become increasingly evident, and investors have started to take notice. However, a comprehensive assessment has been lacking among analysts and few acknowledge the potential structural downside risks. Indeed, history suggests that conditions could get a lot worse before they calm, threatening the foundations of economic growth and ongoing wealth accumulation.

Although the forces that lead to episodes of heightened political instability are longer-term and structural, they are now very advanced. A breaking point is near and could engulf the cyclical macro and investment trends over the next few years. Investors (especially those with longer-term investment horizons) need to have a clear understanding of this issue, what to watch for and how to incorporate it into their investment strategy, even if developments will remain fluid.

The analysis that follows applies to most developed markets, although we used the U.S. as our primary example due to better data availability and its importance in the global economy. Also, the U.S. is currently the most extreme in terms of income inequality and political infighting among the major developed economies, at a point when the presidential election is around the corner. Either a Democrat or Republican win will likely have a substantial influence on the outlook for the world over the next several years, albeit in very different ways.

Today's report (*Part I*) analyzes the driving forces behind social unrest among the mass population, while *Part II* (released tomorrow) will take a look at the political instability being caused by infighting among the wealthy. *Part II* will also outline the various economic and market implications. For the most part, we have left the xenophobia, immigration, protectionism, and fear of terrorism overlays for other reports, although in many cases these are merely symptoms of the same structural trends.

Weak Growth, Income Inequality And Lack Of Social Mobility: Recipe For Frustration, Resentment & Desperation

An abrupt downshift in trend economic growth after an extended period of prosperity, causes frustration among those attempting to hang on to their previous expectations of income and lifestyle advancement. At the same time, extreme income inequality fuels resentment, while the perceived lack of economic and social mobility creates a sense of desperation. Each of these forces can prove disruptive in their own right. However, history suggests that when they collide, the result is typically heightened political instability and often violence.

Large Intolerance Gap

In 1962, James C. Davies presented his J-curve theory of revolutions, which suggested that revolutions are most likely to occur when periods of prolonged economic and

Investors have started to take note of social unrest, but...

...few acknowledge the downside risks

Conditions could get much worse before they calm

People get frustrated when reality falls well below their expectations

social development are followed by a shorter period of sharp reversal¹ (**chart 1**). Frustration builds when reality materially diverges from expectations. He argues that the actual state of socio-economic development is less significant than the fear that past progress is now being blocked, and that one's previously expected pace of lifestyle advancement may not occur in the future. This creates an intolerable gap between what people want and what they get, causing the mood to turn revolutionary. Davies research used evidence from the Dorr Rebellion (1841-1842), the Russian Revolution (1917) and the Egyptian Revolution (1952). However, in many ways the conclusions can be applied to the current environment.

Over the past several years, MRB has used the term "submerging" to refer to economies that face stiff deleveraging headwinds and are in the process of regressing towards an earlier stage of advancement in either absolute terms or relative to other economies². The process typically takes many years to unfold. Another way to characterize the *submerging* world is that member nations exhibit strong deflationary pressures, usually due to the forced unwinding of structural imbalances. These economies require offsetting support from external demand and/or aggressive reflationary policies to encourage even subdued economic growth.

Although most *submerging* economies are now expanding, they (along with the aggregate global economy) continue to run a large output gap as the rebound from the Great Recession remains subpar (**chart 2**). The divergence between potential and actual aggregate output means that unemployment remains elevated in *submerging* economies, and nominal wage growth has remained stuck below the pre-2008 trend.

In short, weak economic growth has widened the "intolerance gap" between previous expectations and the new reality for the populaces in deleveraging economies, even those like the U.S. that are emerging from the *submerging* world. This has led to growing frustration and driving a shift toward political populism.

Chart 1 The Davies J-Curve

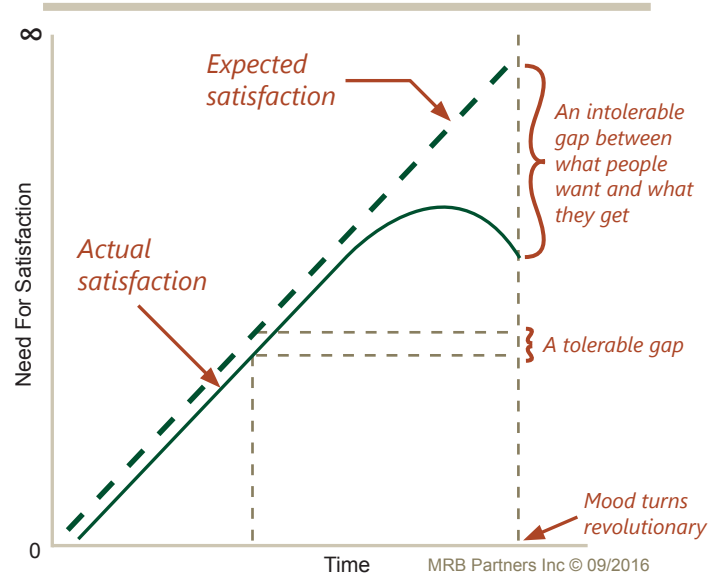
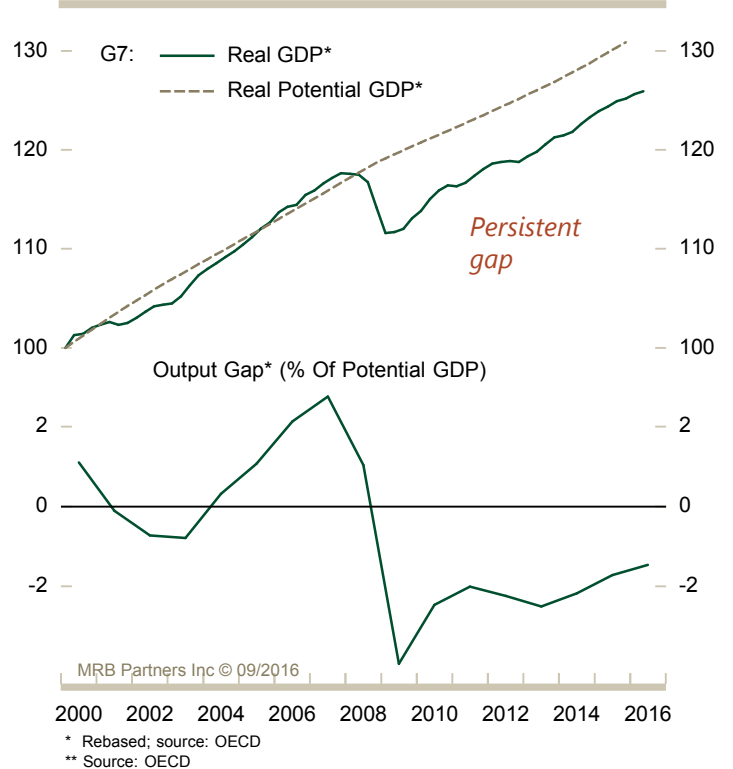


Chart 2 Davies "Intolerance Gap" Has Widened Since The Great Recession



¹ Davies, James C. "Toward A Theory Of Revolution." *American Sociological Review*, vol. 27, no. 1, 1962, pp.5-19

² MRB Theme Report, "MRB's Annual Overview Of Key Macro Themes (Part I)", January 5, 2016

Extreme Income Inequality

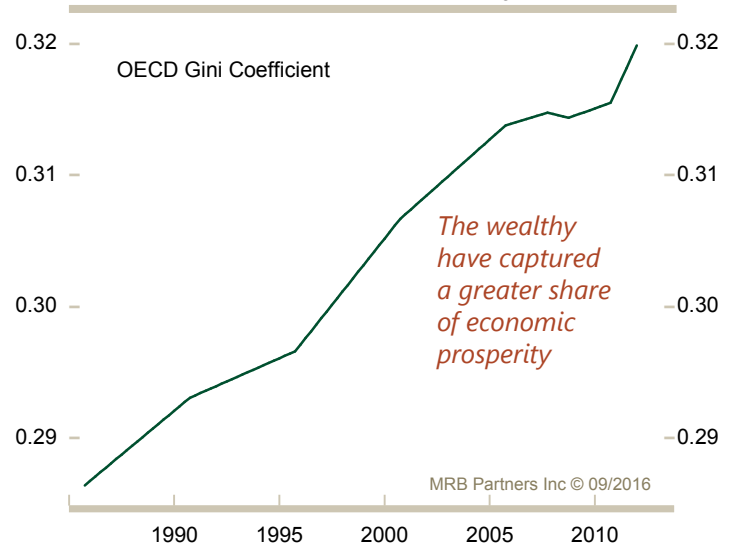
Income inequality is something MRB has flagged for years as part of our global luxury theme (**chart 3**). However, it has now become a hot topic in the press and in political campaigns across the globe. Most traditional political science theorists tend to dismiss inequality as a source of political instability. They cite numerous examples of wide persistent divergences between income classes in underdeveloped economies (such as India) where social unrest remains subdued. In fact, Davies suggested that *"it is the dissatisfied state of mind rather than the tangible provision of 'adequate' or 'inadequate' supplies of food, equality, or liberty which produces revolutions"*. However, such arguments are overly simplistic and do not align with conventional wisdom or current social realities.

Income equality or inequality tends to move in long-term structural trends. The building of the distortion can go unnoticed or ignored for decades. However, when it finally reaches an extreme in either direction, political pressure for change escalates. The push towards greater equality and higher taxation on the wealthy and capital owners reached an extreme by the 1970s, when the squeeze from unions undermined corporate and economic vitality. This led to increased political pressure and eventually ushered in the Regan-Thatcher era. The pendulum has now swung completely to the other extreme and income inequality is leading to social unrest and a shift towards populism (see *"The Path The World Has Taken To Greater Inequality"* in the **Appendix** on page 12).

Extended periods of widening income inequality slowly build resentment among the mass population. Social discontent tends to be tempered when all segments of society are benefiting at least somewhat from economic gains, even if to varying degrees. In other words, the lower income class finds some satisfaction if they are able to gradually achieve a greater lifestyle than their parents had, even if the wealthy are benefiting disproportionately. However, when the deterioration in income equality reaches an extreme and a significant portion of society is no longer participating in economic gains, political and social discontent escalates.

In this regard, income inequality and Davies J-curve are consistent. Extreme income inequality, coupled with the low economic growth and low inflation environment in recent years, has meant that a greater portion of society in many developed countries has experienced stagnating nominal (not just inflation-adjusted) incomes. Since the world tends to operate in nominal prices, this has made the stagnation in standard of living and the widening of the "intolerance gap" much more visible. This has been a major driver of

Chart 3 Prolonged Trend Towards Greater Income Inequality



Extreme income inequality in a low growth world means that a large portion of society is not benefiting...

...this stokes resentment as the rich continue to get richer

heightened social frustration. At the same time, wages for high-income earners (the so called “one percentiles”) has continued to surge, which heightens resentment among the masses, contributing to political instability.

Lack Of Social Mobility

In the late 1960s, Samuel P. Huntington suggested that the lack of social and economic mobilization contributes to political instability³. He argued that everybody seeks social and economic advancement for themselves and their children. His theory is largely consistent with Davies’ in that when development is relatively rapid, an economy can accommodate this pressure for social mobilization in the aggregate. When economic growth is not rapid enough to support the desire for social mobility, the resulting “social frustration” leads to demands on the government.

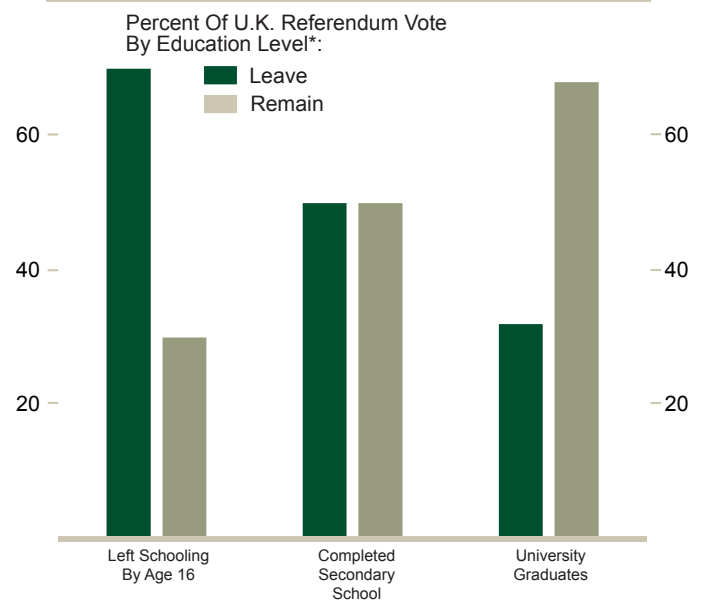
As discussed above, extreme income inequality can make this environment more likely.

Where Huntington deviates from Davies is that he suggested social frustration leads to increased political participation. If the government proves too rigid to accommodate these desires, it then results in political instability. He argued that “*urbanization, literacy, education, mass media, all expose the traditional man to new forms of life, new standards of enjoyment, new possibilities of satisfaction. In turn, these promote new levels of aspirations and wants*” (i.e. create a greater desire for social mobility), which the economy often has difficulty satisfying. His research used evidence from the English Revolution (1687-1688), American Revolution (1760-1791), French Revolution (1789-1799), Dorr Rebellion (1841-1842), Russian Revolution (1917), Egyptian Revolution (1952), and Cuban Revolution (1952-1959).

The acceleration of information flow via the internet and other forms of media has had a major impact on social awareness of what lifestyles exist all over the globe. Undoubtedly, this has rapidly increased desired social and economic mobility. Greater awareness of possibilities is no longer derived from urbanization and education (as was largely the case when Huntington published his theory). Instead, we would argue that the lack of affordable education is now creating social frustration in advanced economies. This is why education has become a major political issue (**chart 4**).

Undereducated workers in any advanced nation will struggle in a global economy that is characterized by a surplus of workers with basic skills. In turn, the lack of affordable education can severely limit social and economic mobility. In essence, it is the vehicle

Chart 4 U.K.: Undereducated Supported Brexit



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The lack of affordable education in select advanced economies is building a new class system...

...this restrains social mobility and creates desperation

³ Huntington, Samuel P. *Political Order in Changing Societies*. New Haven: Yale UP, 1968. Print.

that is creating a new class system. Imposing trade barriers and curtailing globalization will not provide a sustainable solution. Rather countries need to provide their citizens with the education and skills necessary to compete effectively in a globalized world. In the interim, poor education in a non-trivial portion of the population has become a significant source of political instability. The recent U.K. referendum vote is a warning as it highlighted a much greater proportion of undereducated citizens vote for dramatic change (**chart 4**). This is partially because they do not fully understand the adverse ramifications⁴, but also because their hope for upward economic mobility has evaporated, creating desperation.

Final Word: *An abrupt realization that preconceived expectations for standard of living improvements have become unattainable creates frustration. When this coincides with extreme income inequality and the ongoing rapid wealth accumulation among the rich, it fuels resentment and can lead to a breakdown in mutual trust and social cooperation. If there is also a perception that class mobility is being restricted, desperation can set in and encourage support for a radical shift in political leadership. In countries with governments ruled by monarchs or dictators, this can result in a violent upheaval. In democracies, the populace is more likely to vote for extremists that are perceived to be anti-establishment and promoters of change. Much of the developed world is now facing these forces of political instability to varying degrees.*

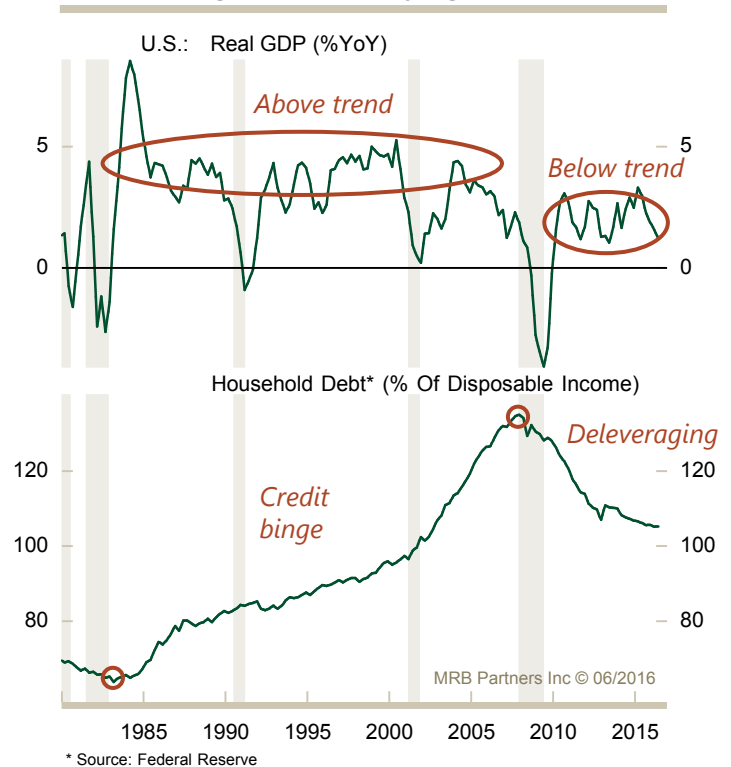
The U.S. Situation: Subdued Growth, Extreme Inequality & Lack Of Social Mobility

The U.S. was at the epicenter of the global financial crisis and Great Recession. Although aggressive reflationary policies have managed to encouraged a sustained economic expansion in recent years (stronger than other *submerging* economies), the pace of growth has been subdued by historical norms. Also, much of the gains have been obtained by the business sector, rather than households. The U.S. job engine has been steady, but it has taken years for the unemployment rate to return to its long-term equilibrium and for wages to edge higher. The improvement for lower-skilled laborers has been even slower.

Many Americans built their expectations on a prolonged but unsustainable episode of credit-fueled growth and are now being forced to adjust to a new reality (**chart 5**).

⁴ MRB U.K. Report, "[U.K. Brexit: Watch The Tail Risks](#)", June 22, 2016

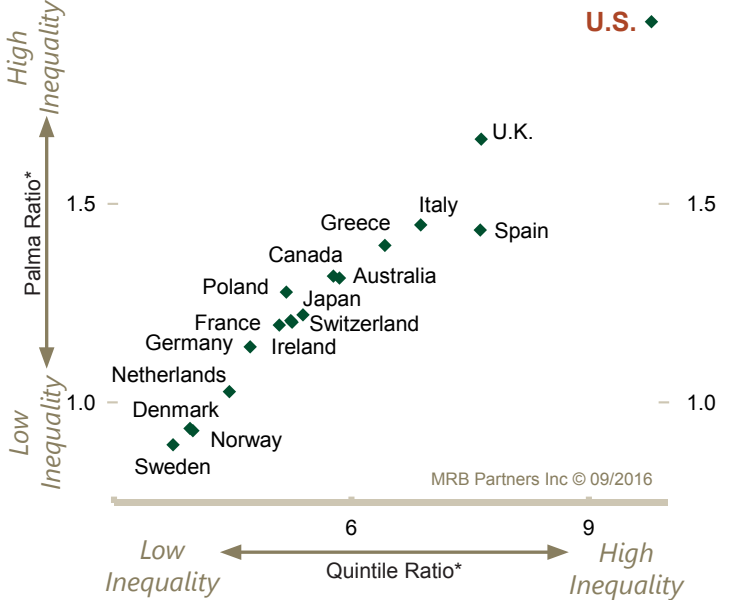
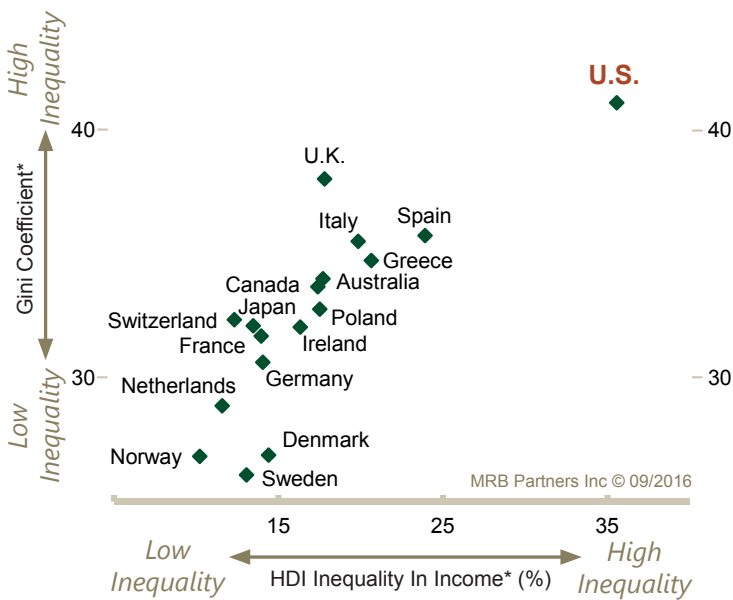
Chart 5 U.S. Credit Swings Have Influenced Long-Term Underlying Growth



Many Americans built their expectations on an unsustainable episode of credit-fueled growth...

...reality is now proving frustrating

Chart 6 Income Inequality Is Extreme Within The U.S.



* Source: United Nations Human Development Report 2015

* Source: United Nations Human Development Report 2015

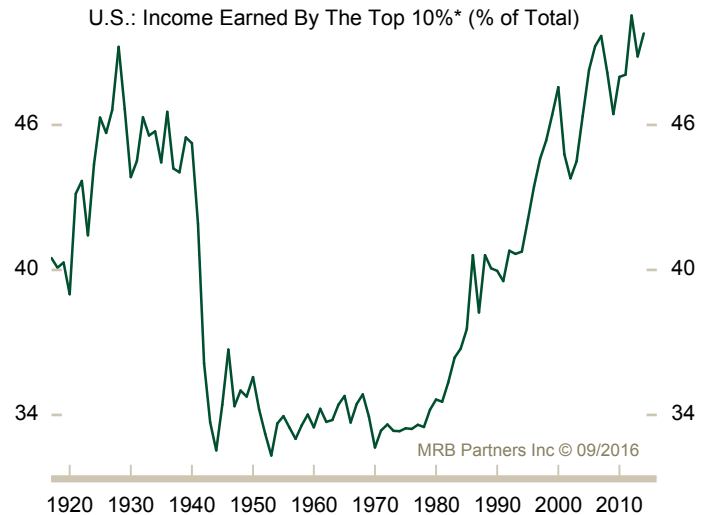
Persistently sluggish growth has crushed hopes of a return to what was perceived to be “normal” before the crisis. Underlying economic activity should gradually strengthen as deleveraging pressures fade, but the “intolerance gap” (outlined above) has already widened to frustrating levels for much of the population.

The U.S. is also at an extreme in terms of income inequality among advanced economies:

- **Chart 6** provides a scatter plot of four different income inequality measures for advanced economies. The U.S. scores very poorly in each of these metrics (the U.K. also ranks unfavorably, which undoubtedly contributed to the recent referendum outcome).

- The top 10% of income earners now account for nearly 50% of total U.S. income, up from just over 30% in the early 1970s (**chart 7**). Indeed, real wages have risen much faster for high income earners. **Chart 8** highlights the alarming divergence among the various income groups over the past 25 years. **Chart 9** shows that average family income (adjusted for inflation) for the top 1% has nearly tripled since the early 1980s, while real wages for the bottom 90% have stagnated over this period.

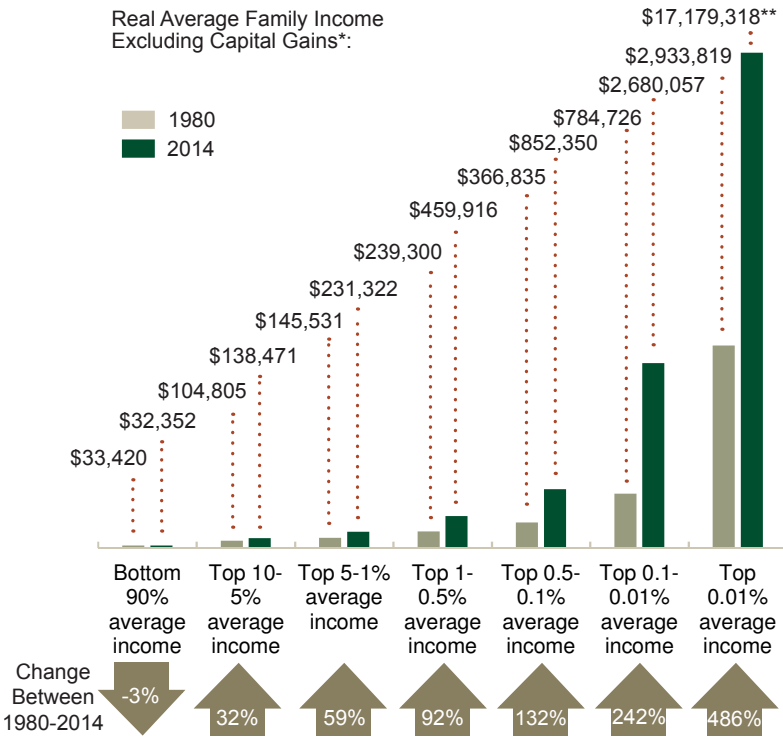
Chart 7 U.S.: Top 10% Captures Half The Income



* Source: The World Wealth And Top Incomes Database, Thomas Piketty and Emmanuel Saez

Income equality is very poor in the U.S.

Chart 8 U.S. Income: Not Distributed Equally



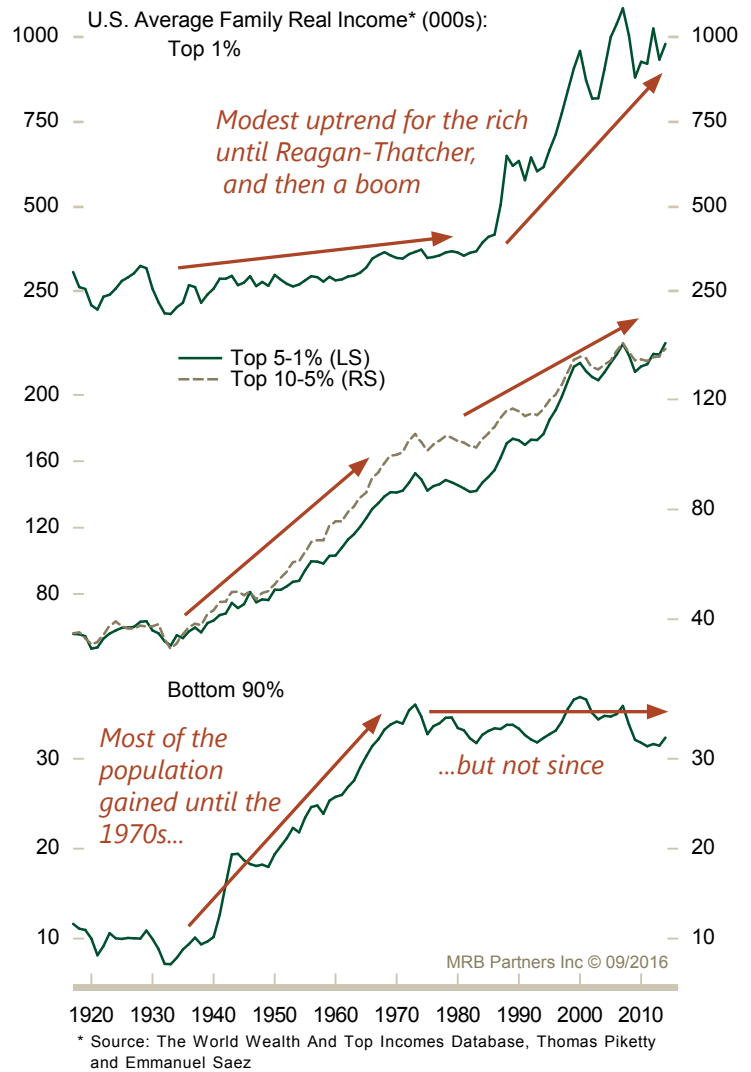
* In 2015 dollars, source: The World Wealth And Top Incomes Database, Thomas Piketty and Emmanuel Saez
 ** Series was curtailed by \$10 million to show variance in other income segments

○ At the same time, taxes for high income earners and capital owners have been reduced substantially over the past few decades (chart 10). The top bracket for personal income taxes has fallen from over 90% to under 40% since the mid-1960s. Likewise, the corporate tax rate has fallen substantially over this same period and the current *effective* rate of approximately 16% is far below the statutory rate of 35% given numerous loopholes.

Income inequality trends are largely a consequence of the political and economic structure adopted in the U.S. over the past few decades. There are clear benefits to free markets and capitalism. However, one must recognize that these political structures have flaws and limitations which need to be addressed by policymakers in order to ensure sustainability over the long haul. The strong focus on capitalism has enabled the U.S. economy and business sector to be tremendously flexible, attracting global affluence and intellectual capital, and become a global economic powerhouse. However, it has also meant that laws favor corporations over laborers, and the country lacks many elements of the social systems/benefits that most other developed economies enjoy.

Focusing too much on building and enhancing social benefits can be draining on public finances, while increasing corporate sector rigidities. This is the problem faced by several

Chart 9 U.S. Real Income Profiles Have Diverged



* Source: The World Wealth And Top Incomes Database, Thomas Piketty and Emmanuel Saez

The U.S. lacks many elements of the social system other developed economies enjoy

European nations. However, the opposite extreme can lead to greater inequality, a reduced pool of educated and qualified workers, and social unrest. This is what the U.S. increasingly faces. Both ends of the spectrum undermine competitiveness, act as a drag on economic growth and are unsustainable over the long haul.

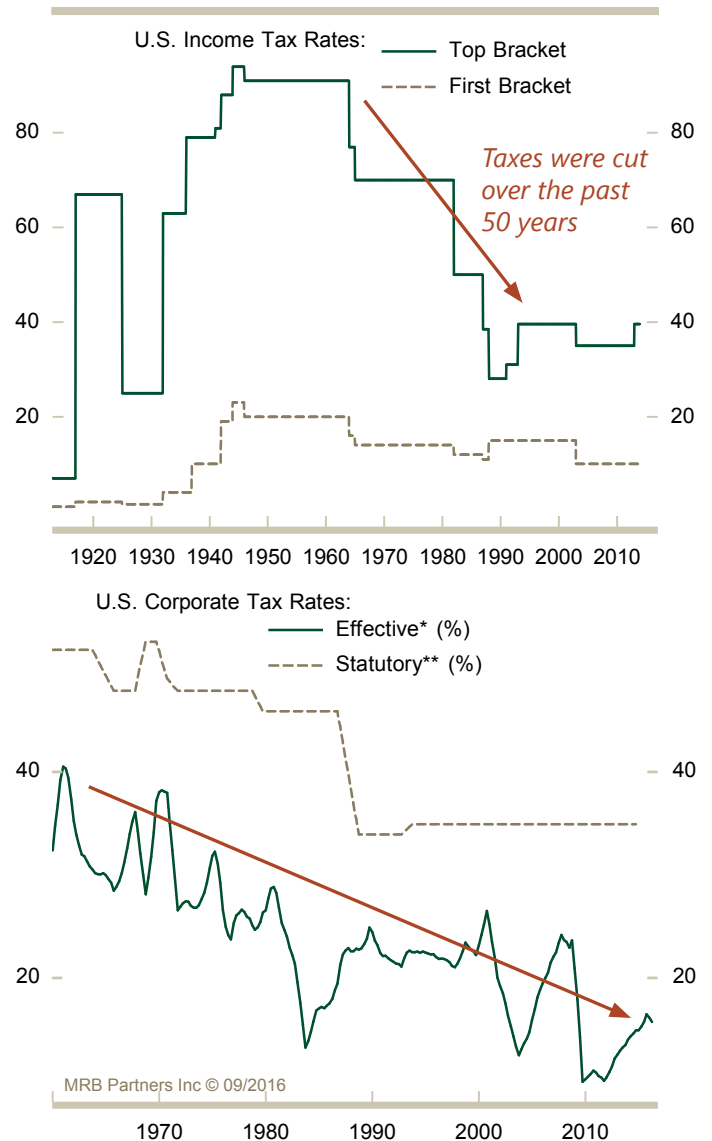
Affordable quality education is perhaps the most significant component lacking in the American social system. Public education varies dramatically across zip codes, and tends to benefit the more affluent neighborhoods. In part, this stems from the fact that public education is typically funded by local property taxes, which reinforces the education disparities between the wealthy and the poor. Also, the cost of university education is punitive for many people, causing this to be a major restraint on social and economic class mobility, as well as exacerbating income inequality. **Chart 11** shows that university tuition fees and total academic costs in the U.S. are among the highest in the developed world, even when adjusting for median income⁵. As noted above, unaffordable education is building a class system and limiting social and economic mobility. In essence the “American Dream” is being shattered, which is causing some of the slogans thrown around by Bernie Sanders and Trump to resonate with an element of the population, even if they do not offer credible solutions.

Final Word: *Many households in the U.S. (and most other developed economies to varying degrees) have gradually come to the realization that their expectations for standard of living advancement were unattainable, creating frustration. At the same time, dramatic income inequality and reduced social mobility is fueling anger, desperation, and political instability.*

Change Is Often Painful

At extremes when social trust is impaired and the populace feels a sense of desperation, the desire to find a leader that will effect change often becomes more powerful than the rational assessment of whether the leader has the qualifications, or if the change being proposed

Chart 10 U.S. Tax Rates For High Income And Businesses Have Room To Rise

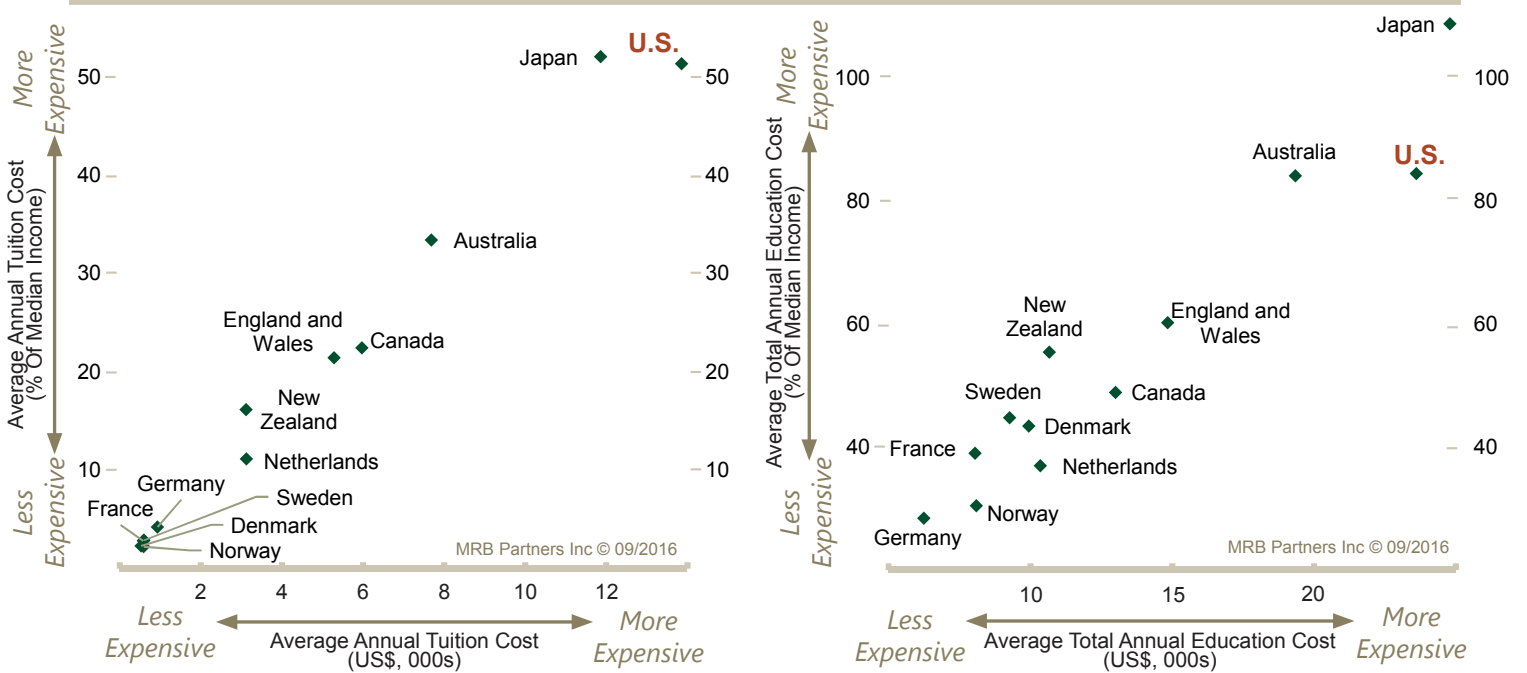


* Corporate tax payments as a share of GDP; sources: U.S. Bureau of Economic Analysis and Congressional Budget Office
 ** Source: U.S. Tax Policy Center

Unaffordable education is limiting social and economic mobility in America

⁵ 2010 data was compared, but rankings are still generally consistent.

Chart 11 U.S.: Unaffordable Education Creates A Class System



* Source: Global Higher Education Rankings 2010, Alex Usher and Jon Medow

will be positive for the masses seeking it. This tendency is amplified when a large portion of the population is relatively undereducated and feels inadequately equipped to either effect change on their own or to assess the ramifications of the proposed policy platforms of competing politicians.

Unfortunately, dramatic shifts in politics are often painful and frequently do not result in the desired outcome. History is littered with the collapse of past empires resulting from internal conflict and political instability. This results from either civil war as the country tears itself apart, or from new leadership running massive deficits in an effort to satisfy a frustrated and impatient populace. The latter can prove particularly challenging or costly in economies facing strong deleveraging forces due to the unwinding of previous imbalances. There are a number of historical examples where efforts to contain social unrest drained public coffers and helped cause countries to eventually go bankrupt, or their rivals "smelled weakness" and increasingly attacked knowing that they did not have the financial resources to fund ongoing battles (the Roman Empire faced these challenges). The modern day analogy to this would be increased terrorism or a greater number of invasions across the globe once advanced economies struggle to afford policing the world.

Moreover, the populace frequently does not get the leadership it desires, as the latter often does not share the interest of the masses. Even when they help drive the country towards a new structural trajectory including greater equality, the transition is usually painful and can result in the destruction of domestic wealth. High net worth

Dramatic shifts in politics are often painful and do not result in the desired outcome

The populace frequently does not get the leadership it hopes for

families typically lose affluence in these episodes, but it is the average population that suffers most through years of transition (which can include war, deep recession and/or high unemployment).

With regards to income inequality, the forces that supported the multi-decade deterioration are rarely absolute negatives. They are usually essential to the foundation supporting an economy, even if the gains are disproportionately divvied up. Thus, transitions should occur gradually in order to limit disruptions, provided that the public is patient enough which is often not the case. Attempts to remove these foundations and abruptly reverse the structural trend can prove destabilizing (a topic that will be addressed in an upcoming **MRB Theme Report** on "forced de-globalization"). Several years of economic pain are likely before any gains for the masses are realized. If the state has surplus wealth that it is willing to use, this can help smooth the transition. However, many of the countries that currently face heightened political anxiety and potential instability are net debtors.

Final Word: *Disappointing economic growth, extreme income inequality and limited social mobility is a recipe for extreme outcomes. These forces together build public support for radical shifts in political leadership. Unfortunately, dramatic transitions in policies that occur abruptly often create extended economic pain for those seeking the change and in extreme cases can even result in social collapse or the eventual bankruptcy of a nation. These substantial longer-term risks have significant ramifications for investors, which will be discussed in **Part II** of this report (released tomorrow). Stay tuned.*

Phillip Colmar

Note: *Appendix* on "The Path The World Has Taken To Greater Inequality" begins on the next page.

Abrupt reversals
in structural
economic trends
can cause
extended pain
for those
seeking change

Appendix: The Path The World Has Taken To Greater Inequality

The shift toward to greater income inequality in much of the developed world began nearly four decades ago. Unionization flourished in Western societies (including the U.K. and the U.S.) throughout much of the 1900s. This provided labor with significant bargaining power and caused wealth gains to be more evenly distributed in these economies. However, trade unionism also limited labor flexibility and prevented real wages from adjusting downward, extending recessions and undermining corporate health. Mass labor strikes also curtailed productivity and efficiencies, while indexation of wages contributed to a self-reinforcing uptrend in inflation by the 1970s. The latter created increased uncertainty, drove up interest rates, and ultimately weakened the underlying fundamentals supporting these economies.

The pressure finally came to a head in the U.K. during the second half of the 1970s. The country had to ask the IMF for a bailout and in late-1978/early-1979 a significant portion of the nation's public sector workers went on strike during the "Winter of Discontent". Political support rapidly shifted away from the Labour party and towards the Conservatives, with Margaret Thatcher winning the general election in May 1979. Likewise, popular support rotated within the U.S. in favor of the Republicans, allowing Ronald Reagan to take the Presidency in January 1981.

- **The Reagan-Thatcher Revolution:** The Reagan-Thatcher revolution began by the early-1980s and resulted in deregulation, a "war" against labor unions (union membership in both countries has been cut roughly in half since peaking around 1980) and a trend towards lower taxation rates. Other nations followed to varying degrees. This contributed to an extended period of structural global disinflation and economic prosperity. However, it also shifted power and wealth gains away from wage earners and back to capital owners, triggering the start of what would be a prolonged trend towards greater income inequality⁶ (**chart 1**). Indeed, profits and incomes of capital/business owners and senior executives have powered forward over the past three decades, even as laborers in many countries have seen only minimal real income growth despite higher productivity (**chart 13**).
- **Increased Globalization & Emerging Asia Industrialization:** The industrialization of emerging Asia (and other manufacturing-based EM economies, including Mexico) since the early 2000s amplified many of the trends started by Reagan and

The early-1980s started the shift towards greater inequality, lower taxation and disinflation

Increased globalization emerging Asian industrialization and the technology revolution amplified the trend

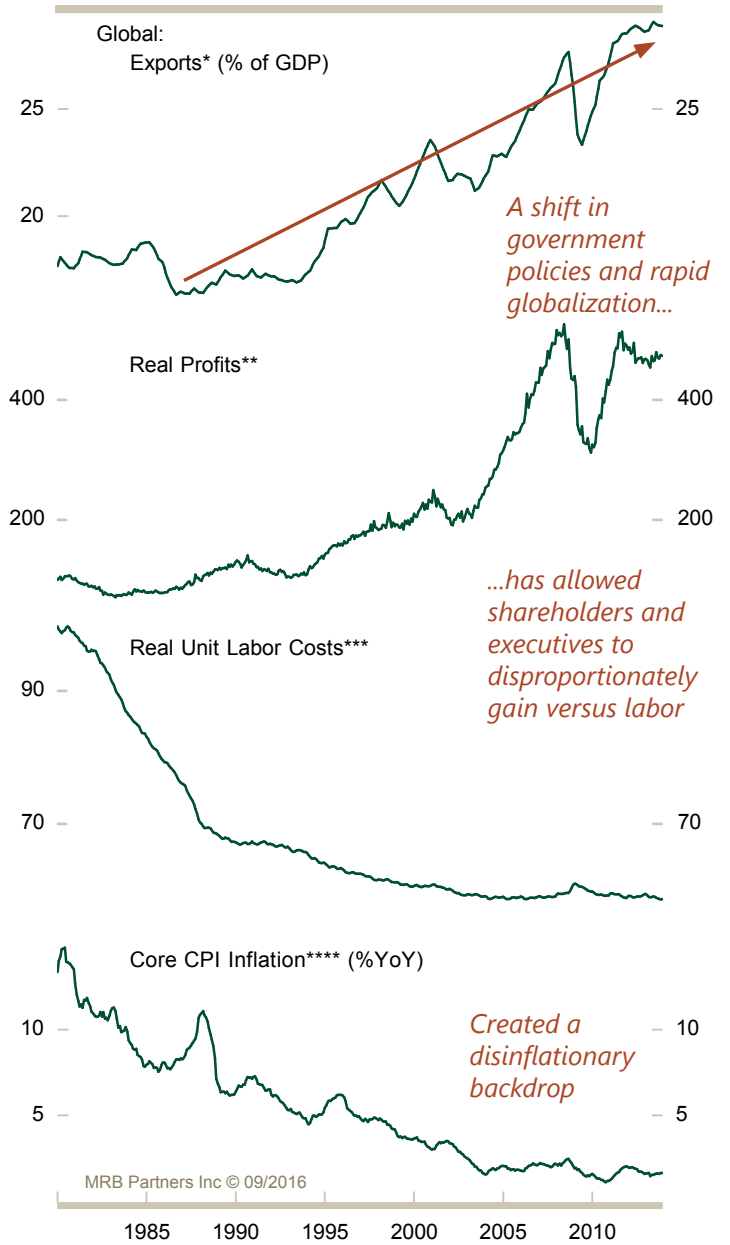
⁶ The Gini coefficient is a commonly used measure of income equality, which ranges from 0 to 1. Zero implies that everyone has the same income, while 1 implies that a single individual earns all the income of the economy. It is named after the Italian statistician, Corrado Gini, who first created it in 1912.

Thatcher. Lower labor costs, rapid productivity gains, and free trade agreements (including the formation of NAFTA in 1994 and the WTO in 1995, which China became a member of in 2001), enabled emerging markets to become major providers of manufactured goods. In turn, globalization surged (as measured by global exports/GDP) and reinforced the disinflationary tailwind by putting downward pressure on tradable goods and services prices (chart 13). Also, increased global competition and the ability to offshore production acted as a drag on OECD manufacturing sector wages and further drove down unit labor costs across the globe. These forces led to efficiencies and lower inflation, but also greater income inequality across a broad range of economies.

◦ **The Technology Revolution:** Although the technology revolution has provided many lifestyle enhancements for all segments of society, it has also supported the trend towards income inequality. While it is politically unpopular (particularly in America) to be critical of Silicon Valley, technological advancements have arguably displaced more low skilled laborers than the forces of globalization. Technology has facilitated “lights off manufacturing” and dramatically boosted efficiencies, allowing many businesses to reduce the size of their labor force. This has bolstered profit margins and aggregate corporate earnings, at the expense of increasing the surplus of low skilled laborers across the globe. The latter has kept downward pressure on wages and reinforced income inequality.

◦ **The Great Recession:** The economic and profit fallout during the Great Recession was dramatic. However, the dynamics during the recovery phase have served to reinforce the pre-existing patterns of income and wealth inequality. Specifically, the economic expansion in the U.S. and other developed economies since the beginning of 2009 has been historically subdued (as expected) given the material deleveraging headwinds (chart 14). Still, corporate profits significantly outperformed the average of past recovery phases until the past year, benefiting capital owners and senior management. This also triggered a bull market in

Chart 13 Global Capital Owners Have Thrived At Labor's Expense



* Source: OECD
 ** Deflated by core CPI; rebased; source: Datastream
 *** Deflated by core CPI; rebased; source: OECD
 **** Excluding food and energy; source: OECD

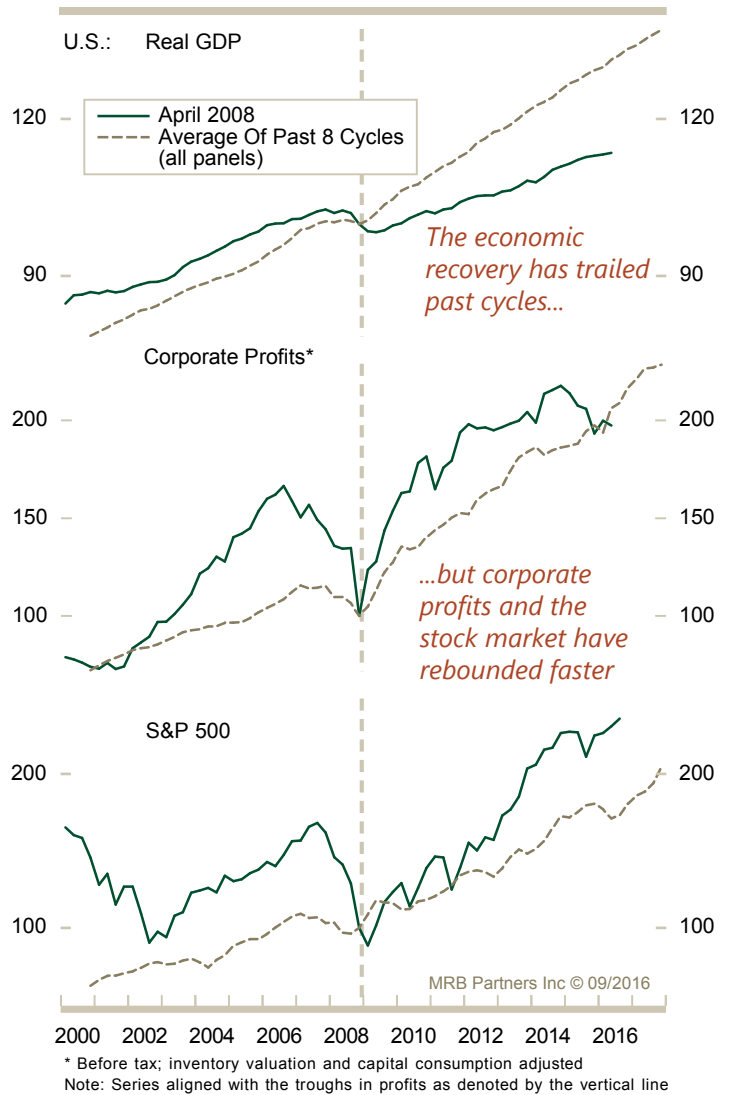
The Great Recession reinforced income and wealth inequality

global equity prices, while the disinflationary tailwind has kept bond yields low. In turn, high net worth individuals have disproportionately benefited from financial asset gains in recent years.

In contrast, labor has not participated equitably from the economic gains. U.S. and G7 unemployment rates surged during the Great Recession to levels well above equilibrium and have been slow to decline, as job creation has trailed historical norms. This has removed the bargaining power of workers and allowed companies to maintain wide profit margins. In short, businesses slashed costs during the downturn and have successfully defended their profit margins during the recovery. Correspondingly, capital owners and senior executives have been able to capture a greater percentage of economic growth in recent years, at the expense of the average household.

Final Word: *The Reagan-Thatcher revolution kickstarted the path to greater income inequality in the developed world. Increased globalization, emerging Asian industrialization and the technology revolution amplified the trend, while the Great Recession ended up reinforcing it. This collection of powerful forces over nearly 40 years has left the world imbalanced and at a breaking point.*

Chart 14 U.S.: Sub-Par Economic Recovery, But Above-Par Profits



Phillip Colmar

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