

TAM INTERNATIONAL INVESTMENT NOTE

Has Santa tried to derail the economy?

The state of New York is no stranger to freak weather conditions but the current winter storm hitting the eastern sea board has already seen over 10 fatalities, thousands stranded in airports covered in snow and the National Guard called out. This time around it seems more than the Fifth Avenue shoppers who are going to have to take cover. No country on earth is immune from freak weather, nor are they immune from the financial and economic impacts Mother Nature leaves in her wake.

The US at present has a very imbalanced set of asset distributions with an attributed 40% of the nation's wealth being owned by 1% of the population. Therefore when a population with this sort of imbalance of assets decides to remain indoors, not spending and potentially not working it could be argued that this alone is enough to see a dip in US Q4 growth forecasts. On the other side of the coin, few politicians will be happy to justify siphoning off hundreds of millions of dollars' worth of funding for a "potential" freak event or for long winter months that may or might not arrive. Justifying this use of reserves to congress will prove trickier than waking out onto JFK's runway with a shovel and mittens!!

There are at present no established economic models that accurately predict the financial impact of freak weather. The very nature of such is unpredictable, making it difficult to project a figure onto future events. In New York's hazard mitigation plan in 2010 over the space of 2 days the city of New York's snow bill amounted to nearly \$70 million. \$30 million of this was attributed to overtime costs for emergency services, snow clearance, and fire fighters. Lost revenue on parking meters and towing fees and the \$14 million spent on overtime for public transport did not match the estimated \$26 million dollars from a downturn in consumer spending on the likes of Fifth Avenue. That was New York State's TOTAL snow budget for the whole year.

Bizarrely there is an almost direct correlation to the temperature of the frozen ground and the temperature of the surrounding economy. When 1% of a nation's population own 40% of the wealth we could realistically start to see some macro-economic ramifications showing up in the US's Q4 announcements depending on the longevity to freak weather. Statistics show that nationally the average US citizen needs to work more than a month to earn what one CEO earns in an hour and arguably New York State and the surrounding States house more millionaires than anywhere else in the continental US, so with a fair portion of that national top 1% living or being connected to NYC only a small proportion of the work force need not behave like working consumers for that \$70 million dollar loss to become a reality.

Chris Rupkey (Chief financial economist at bank of Tokyo-Mitsubishi) - "I think net-net, consumer spending on goods that people buy in shops and malls, the slowdown there is going to trump whatever extra spending consumers do to heat their homes this winter. We haven't seen it for a while, but weather can provide a pretty significant headwind for GDP growth."

If the weather continues over December and into Q1 2015 we could well see earnings and job forecasts out of the US citing the present weather as a major factor for downward adjustments. Initial forecasts of 2014's total weather bill in the US are coming in at \$50Bn with the loss of nearly 76,000 jobs. That figure represents nearly a 3rd of a percentage point move on the US GDP needle. St Nicholas is on the move however. It's QE on the high street with our jolly red friend kicking his GDP sleigh into life. We can expect this to counter some of the negative effect the weather will have on the country's Q4 growth. Time will tell the winner.

In the medium term into Q1 2015 we can expect the population cranking up those thermostats to fuel an increase in energy sector performance. The colder it is the happier the energy bandwagon will feel. However in the longer run, hopes are high for the current drop in oil prices to continue putting around \$800 per head of disposable income into the US's consumer pockets that we can expect to see contributing over the long term.

To conclude; Notwithstanding these fears TAM believes the macro economic growth forecasts for the country outweigh the seasonal weather disruptions to Q4 and Q1 growth that St Nicholas brings with him. We have remained bullish on the strength of the US equity market and will continue to do so for the remainder of 2014 and into 2015.

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