



WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®

Let's Talk Turkey- by Mark Lazar

"Debt isn't a problem... until it is"



AUGUST 2018

INSIDE THIS NEWSLETTER

- ❖ **LET'S TALK TURKEY**
- ❖ **WASATCH TEAM UPDATE**

It is incumbent on every generation to pay its own debts as it goes. A principle which if acted on would save one-half the wars of the world. Thomas Jefferson

It's not even Thanksgiving yet everyone is talking Turkey ... the country, not the bird. Turkey's 2018 2nd quarter GDP grew by 7%, yet last week the Turkish lira shed roughly 1/5th of its value (relative to the US dollar) within a matter of three days. Where did Turkey go wrong? In my opinion, Erdogan, Turkey's president, has no understanding of economics and neither does his newly-appointed treasury and finance minister ... who also happens to be his son-in-law. The new regime has been quite vocal in its disdain for free market principles and policies, so the market did what it always does when faced with this type of uncertainty; runs for the exit.

The pummeling of the lira is especially painful since most of Turkey's growth was fueled by foreign borrowing, so the relative amount of debt and debt service just increased by 20%. Ouch! Which leads to this month's commentary focus; government debt. There seems to be a general misunderstanding

when it comes to public debt and just what it means to a nation. U.S. public debt currently stands at [\\$21 trillion](#). U.S. GDP is expected to finish the year at just under [\\$20.4 trillion](#), so debt to GDP is over 100%. Personally, we feel this is a misleading ratio, and a more useful one would be debt to federal tax revenue. The Congressional Budget Office projects 2018 tax receipts at just over [\\$3.3 trillion](#), which would put debt to tax revenues at just over 600%⁵.

To drill down a bit further, U.S. government non-discretionary spending (i.e. Social Security, Medicare, Medicaid, welfare & unemployment benefits) is currently [forecast](#) at \$2.54 trillion, discretionary spending (i.e. national defense, foreign aid, education, transportation, etc.) at \$1.28 trillion, and net interest at \$316 billion, for a total of \$4.14 trillion. But \$4.14T is greater than \$3.3T, which leaves a shortfall of \$853B, which is also known as a budget deficit; something our government is quite familiar with.

But the U.S. isn't the only profligate government. Let's see how the U.S. compares to other developed countries (debt data is from 2017, government bond yields are as of 8/21/18) both in terms of debt to GDP and what their 10-year government bonds are currently yielding:

| Country | Debt to GDP | 10-Yr Yield |
|-------------|-------------|-------------|
| Japan | 253.00% | 0.10% |
| Greece | 178.60% | 4.24% |
| Italy | 131.80% | 2.99% |
| Portugal | 125.70% | 1.77% |
| Singapore | 110.60% | 2.40% |
| US | 105.40% | 2.82% |
| Spain | 98.30% | 1.37% |
| France | 97.00% | 0.67% |
| Canada | 89.60% | 2.26% |
| UK | 85.30% | 1.27% |
| Germany | 64.10% | 0.33% |
| Switzerland | 29.70% | -0.12% |

*[Trading Economics](#)

The U.S. is middle of the pack in terms of debt to GDP, but second highest in terms of government debt yield. Notice Japan's bonds are 1/10th of 1% and Swiss bonds are *negative* .12%. So, what factors determine government bond yields? Monetary policy (central bank policy), inflation expectations, economic outlook, debt to GDP, and political stability are the primary drivers of sovereign bond rates.

A question we hear frequently is *when* will U.S. debt become a concern? IN our opinion, the answer is; *debt isn't a problem ... until it is*. The credit markets will tell us when debt is a problem, and will do so very loudly, clearly, and oftentimes, quickly, in the form of rising treasury yields. With that said, we feel U.S. Treasuries represent quite a bargain compared to other sovereign debt. Yes, we have our problems, but our economy is growing faster, we're more [productive](#) (than Denmark, France, Germany, Netherlands, Switzerland, Sweden, etc.), capital investment is robust, taxes are competitive, and the U.S. enjoys some of the lowest energy costs in the world.

Debt isn't a problem today and the U.S. isn't following in the footsteps of Turkey. We at Wasatch Capital Management are very constructive on the U.S. economy and believe the U.S. economy "has legs" and

will continue to grow for the foreseeable future, likely through 2019 and possibly longer. Bull markets don't die of old age but, rather, from policy failure; monetary and/or fiscal. Presently, interest rates are still low, taxes have been reduced, and the regulatory environment is becoming more business-friendly by the day. In other words, we see no policy risk threatening this recovery. Additionally, unemployment continues to fall, wages continue to rise, business and consumer confidence are strong, corporate earnings are at record levels, U.S. profits formerly held abroad are being repatriated ([\\$1.2T](#) for 2018) at a breakneck pace, home prices continue to rise, and trade negotiations appear to be moving in the right direction. It may not be a perfect economic picture; it never is and never will be, but we believe investors would be wise to dismiss the pouting pundits and, instead, look around at what's happening on Main Street, where capitalism is alive and well.

| Index | YTD Return |
|---|------------|
| Year-to-date S&P 500 Return ¹ | 8.41% |
| EAFE (developed foreign) Index ² | -2.20% |
| Emerging Market Index ³ | -7.54% |
| Barclay's Aggregate Bond Index ⁴ | -0.75% |

Source: ¹Bloomberg, 8/22/18, ²Bloomberg, 8/22/18, ³Bloomberg, 8/22/18, ⁴Bloomberg, 8/22/18, ⁵<https://www.cbo.gov/publication/53770>, ⁶<https://www.cbo.gov/about/products/budget-economic-data#3>

Wasatch Team Updates



Mark

Mark and Savina cooling off from the summer heat with an Alaskan Cruise! They're pictured here on a shore excursion to a Glacier. Sure beats a snow cone!



Morgan

The first thing I always want to do when I go home to upstate New York is hike in the Adirondack Mountains. This year I took my mom, husband, and my Raymond James shirt up Gothic's Mountain in the High Peaks of Keene Valley, New York! If you look in the far back of this photo, my hand is extended to point out can see the Olympic Ski Jumps from the 1932 and 1980 Olympics in the far distance.



John

You can always count on John to represent the team! Here he is at Raymond James Cares, Community Service Day. He spent an entire day helping to fill backpacks with School Supplies for Children in Need. Thanks John!

Views expressed in this newsletter are the current opinion of the author, but not necessarily those of Raymond James & Associates. The author's opinions are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. There is no assurance these trends will continue or that forecasts mentioned will occur. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. It is not possible to invest directly in an index. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The information in this article is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.



About Us

2750 E COTTONWOOD PARKWAY
SUITE 520
COTTONWOOD HEIGHTS, UT 84121

Mark.Lazar@raymondjames.com | Senior Vice President, Investment | 385-275-3609
Morgan.Irvin@raymondjames.com | Financial Advisor | 385-275-3606
John.Bergerson@raymondjames.com | Investment Portfolio Associate | 385-275-3608

www.raymondjames.com/wasatchcapitalmanagement

Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC.

Like us on Twitter & Facebook! @WasatchCapital | www.facebook.com/wasatchcapitalmanagement



*“If you truly believe you’re the best at what you do, why wouldn’t you want to help your friends” –
Tom James*