

## Autumn 2019

Based on its box office gross, over \$135 million in North America (and another \$180 million worldwide), most of us have seen or heard of Disney's 2005 animated feature "Chicken Little," based loosely on the European fable. Fewer may be aware it was the second "Chicken Little" film the Mouse House had produced. The first, a short created in 1943, was an anti-Nazi propaganda tale depicting the consequences of mass panic. *(Here is a link if you are interested in seeing for yourself [https://www.youtube.com/watch?v=p\\_GaYdae4j0](https://www.youtube.com/watch?v=p_GaYdae4j0))*

It opens by introducing all the happy members of a poultry community, surrounded by a high fence and locked gate, including the wise leader Cocky Locky, a rooster, and the simple-minded Chicken Little. Just beyond the fence, Foxy Loxy is figuring out a way to catch some dinner. He consults a psychology book (believed by some to represent "Mein Kampf"). It advises, "to influence the masses, aim first at the least intelligent" and "if you're going to tell a lie, tell a big one." So Loxy drops a piece of wood, and a gush of water, on Little's head, telling him, through a hole in the fence, as the voice of doom, the sky is falling. Run for your life. He does, warning others in the process. Disorder ensues throughout the community until Locky settles the birds down and disproves the fears of a humiliated Little.

Undeterred, Foxy goes back to the book and reads, "undermine the faith of the masses in their leader" and "by flattery, insignificant people can be made to look upon themselves as born leaders." Again through the holes in the fence, he starts a whisper campaign that Locky is losing his mind. Next, he showers Little with compliments and an urge to stand up to Locky. An emboldened Little confidently announces he's the community's leader and the sky is indeed falling. "If the sky is falling," responds Locky, "why doesn't it hit me on the head." A second later, Loxy sling-shots a piece of wood into the rooster's crown. The panicked community turns to Little for answers. On Loxy's advice, he yells, "Run to the cave!"

The flock immediately knocks down the gate and sprints to the nearby cave. Once they've all made it inside, the waiting fox ties a napkin around his neck and enters.

"Don't worry, folks," the narrator calmly tells the audience, "this all turns out alright." He's stunned, however, when the last scene cuts to the fox, surrounded by poultry bones, sucking on the last of them. When the announcer protests that this isn't how the story ends in his book, the fox retorts, "Don't believe everything you read."

While perhaps still suitable for our times, it's unlikely this "Chicken Little" would be a contemporary box-office hit, and you can see why Disney's second release featured aliens and happily-ever-after.

With much of the news, on both sides, being billed as propaganda and the constant fears of the worst being just around the corner, the old Disney short, and its warnings and morals, seems introduction to a conversation about the current global economy. However, we'd like to take a different tack this go around. Rather than play Cocky Locky, and dispute the Chicken Littles of the investment world, we're gonna picture two scenarios where they're right-the worst is coming. And, what will happen to your money when it does.

Think of this as "Folio: The Dystopia Edition," focusing on the US-China trade war and Brexit.

Word is there's substantial movement on the US-China trade-war front, but we've heard that before. What if things go sour again, and the stand-off escalates and lasts a couple more years? Well, if the tariffs between the US and China are pushed to, say, 25% and both countries dig in their heels, things could no doubt get bumpy.

In such a scenario, according to Bloomberg Intelligence, using their NiGEM modeling system (National Institute Global Econometric Model), the global impact would be a 0.8% hit or reduction in economic growth. That would amount to \$800 billion of lost goods and services from an \$85 trillion global economy. That's the equivalent setback of approximately one third of a year in global growth, as the global economy is ascending at a pace of \$2.6 trillion annually. Not great, but not recession territory.

But what would that really mean for your investments? Using the same NiGEM model, there'd probably be a 10% drop in equities. Those are significant numbers, that would certainly grab investors' attention, and keep markets jittery. But, with current estimates for Global GDP growth still at 3.5% annually for the next four years, the changes would be absorbed, and the long-term impacts evaluated, before the markets would again move forward. While one's long-term investment plans might suffer a temporary setback, they wouldn't be derailed.

Speaking of derailed, let's move on to Brexit, Great Britain's attempt to leave the EU and all its rules, regulations, and financial obligations (and trade agreements and labor flexibility). Undoing decades of economic integration is obviously a huge task, and the UK and EU's ongoing (since 2016) failure to agree on a settlement has made that glaringly clear. The worst outcome would be a "no deal" exit, meaning Great Britain would leave without treaties, trade agreements, and cross border laws, among many other things. This would call for the UK to start from scratch, entering into new treaty negotiations, one country at a time. In a word, bedlam. In fact, a leaked British government document published last month warns of possible shortages of food, fuel, and water, as well as public disorder and severe border disruptions if the country leaves the EU without a deal.

How would your portfolio be affected by such a bleak outcome? The Bank of England has assessed the "worst case scenario" as a 5.5% drop in gross domestic product from peak to trough. Estimates for UK GDP growth over the next few years is between 1.5% and 1.9% annually. So, Great Britain would be in for a recession that might last more than just a couple of quarters, probably over a year. The effects on Europe and the European Union would also be meaningful. The Bank of England estimates that every 1% drop in the UK's growth will cause a 0.25% drop in the EU's GDP. That equates to a drop of 1.4% throughout the EU. Since the EU estimates for GDP growth over the next few years is around 1.5% annually (using the IMF's estimates), a continental recession is possible. If so, disruptions in the global economy would reverberate throughout the markets. (Again, a drop in global equity prices of 10% would not be unreasonable.)

In this scenario, world governments would, in all probability, expedite negotiations with Great Britain. Leading that charge would be the US and Canada, both close allies, and likely the biggest beneficiaries. This would quickly boost trade and stimulate those North American economies as Great Britain moves apace to replace European suppliers of goods and services. Similarly to the worst-case trade-war picture, short-term upheaval would be followed by longer-term settling, and a return to markets pushing onward and upward.

Because we've recently received some client calls on the matter, and we're all about the rule of threes, we'll add one more. The worst-case scenario for whatever North American political crises has you worried. No matter what happens in Washington or Ottawa, there will be lots of press and angst, but remember that politicians get far too much blame, or credit, for what goes wrong or right with economies. Neither leader will have much say in the profitability of Apple, Inc. or Canadian Tire Corp. Their fates will be decided by the companies' actions, not the political circuses.

If these scenarios, ones we feel are highly unlikely, cause you some unease, that's understandable. Remember your portfolios are designed to protect you from the worst. They're the high fence and locked gate that surrounds your wealth. The worst of the worst-cases is knocking down the barriers, and running for the cave.