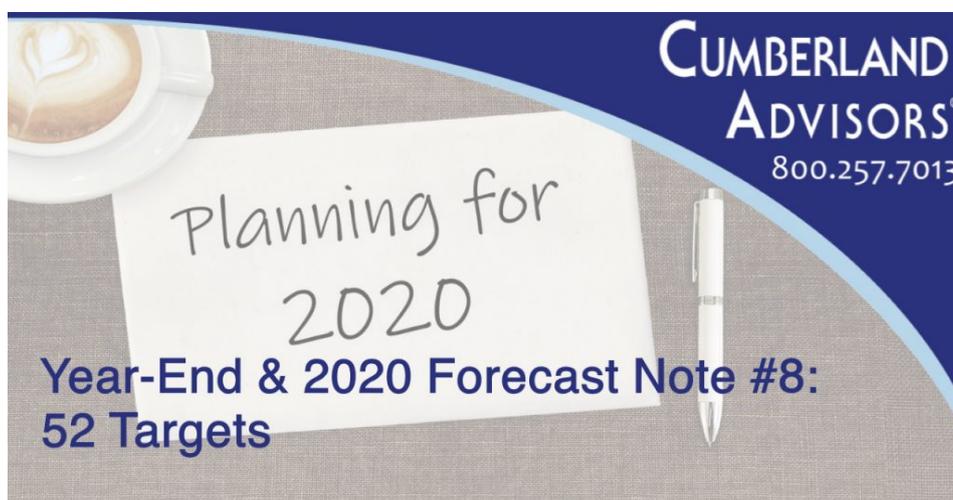# Cumberland Advisors Market Commentary — Year-End & 2020 Forecast Note #8 — 52 Targets

We may not like the direction of the world, but our task as investment advisors is to set aside personal and political views when we make buy-sell-hold decisions for client portfolios that we manage.

As we proceed into 2020, our US ETF portfolio will continue to be overweight the defense and aerospace subsector of America's industrial companies via a single ETF. It is liquid and trades well and will likely remain a core position in the portfolios.

The world continues to be a dangerous place, and the likelihood of that danger's increasing seemed high to me and to all of us at Cumberland as I wrapped up an initial draft of this commentary on New Year's Day. That likelihood is demonstrably higher now, after the assassination of Iran's General Qasem Soleimani. The US's assassination of Soleimani is regarded by many a destabilizing event. Ilan Goldenberg, director of the Middle East Security Program at the Center for a New American Security, has penned a thorough analysis of likely next moves in the US-Iran conflict. See "Will Iran's

Response to the Soleimani Strike Lead to War? What Tehran Is Likely to Do Next," *Foreign Affairs,* Jan. 3, 2020, https://www.foreignaffairs.com/articles/iran/2020-01-03/will-irans-response-soleimani-strike-lead-war

Clearly Iran is at the top of the agenda and the headlines today, and North Korea is not far behind. Just as clearly, the Middle East is coming to a boiling point in several regions and countries. Our focus cannot, however, be limited to what comes next with Iran or what comes next with North Korea.

We must not forget the South China Sea, either; this is a major intersection of China-US competitiveness. And the regional players in the controversy include Vietnam, Philippines, and, hugely, Japan. And don't forget the divisive issue of Taiwan. The demonstrations in Hong Kong may make the TV news, but intensification in the South China Sea military arena is occurring every day.

Nor can we take our eyes off South America and the disruption occurring from Venezuela's bankrupt state and the emigration of millions of people who are leaving if they can. In other South American countries, regimes are behaving in ways that exacerbate risk. Argentina is one of them. Brazil is another, and political turmoil in Chile is disturbing in that Chile was viewed as a stable and reliable player in an uncertain neighborhood.

Let's not forget the Eastern European scene with Russia's activities and Ukraine and particularly the Russian naval base in Sevastopol, Crimea. (See this page to get a sense of Crimean geopolitics: https://www.google.com/search?q=crimea+russia.) And we must focus on the changes in the Mediterranean with Syria and Turkey and the development of the enlarged Russian naval base at the Syrian city of Tartus. For some recent history there see https://www.globalsecurity.org/military/world/syria/tartous.ht

[m](). Remember, the US has abandoned a reliable ally (the Kurds) and sent a message to the entire region that we renege on our promises and don't keep our word about defending allies.

In the midst of all of this worldwide change, the Trump administration is lurching toward a policy shift away from US "global policeman" status. Trump has replaced globalism and diplomacy with nativism, protectionism, and growing isolationism. This is a major policy shift with generational implications. Trump's continued belligerent and erratic style has undermined our traditional alliances. In our view he has exacerbated the danger in a world that is lurching toward more hostility.

Now, I know that Trump supporters feel differently and will defend him as the first president to stand up for what is, in their view, an America-centric posture in preference to a multidimensional diplomatic world view. That is a policy debate that may surface in the 2020 election cycle. We believe it will take a serious international event to bring it to the top of the list of priorities. We recall how US hostages in Iran changed the outcome of the Carter presidency. We also recall how the Kissinger-designed and Nixon-led US China initiative was not enough to save Richard Nixon during his second term. As for the Trump political initiative versus the House impeachment attempt, we expect that initiative to continue and strengthen into Trump's second term if he is re-elected, while the House remains under Democratic control.

It is a failure of American politics if the policy debate of globalism versus isolationism doesn't happen, given the many pressing issues, and if our country can't rise above the partisanship divide. Our national politics have eroded to this extreme.

We note that the US defense budget is expanding and is being funded through ever-increasing debt and without restraint. The budget process has placed deficit spending on a trajectory to

rise above $1 trillion a year, with increased emphasis on defense spending. R&D spending in the US defense budget is at an all-time high. And, lest we forget, the capex spending of the American tech sector now totals about the same as R&D spending in the US defense budget, and a substantial chunk of that FAANMGS capex is defense-related and should not be ignored. So think about defense R&D and FAANMGS capex as an integrated expenditure. Compare that with BAT (Baidu, Alibaba, Tencent) defense-related spending to get a sense of how large this US-China defense competition is and the how the trajectory trends only toward more intense competition. Hat tip to Adam Virgadamo of Morgan Stanley for detailing this issue in a Sunday morning note in early December.

In sum, we're overweight the defense-aerospace sector and are likely to be that way for a while.

What used to be "speak softly and carry a big stick" (see https://en.wikipedia.org/wiki/Big_Stick_ideology) has now become "tweet loudly and erratically." But the stick is still big, and it remains, for better or worse, in the hands of whomever the nation elects as its commander-in-chief.

As we put a wrap on this commentary tonight, President Trump has just warned Iran by tweet that the US has "targeted 52 Iranian sites" should the country strike "any Americans, or American assets."

In closing, we will point readers to 11 Brookings experts' brief but impactful analyses of President Trump's decision to have Iran's General Soleimani killed:

https://www.brookings.edu/blog/order-from-chaos/2020/01/03/around-the-halls-experts-react-to-the-killing-of-iranian-commander-qassem-soleimani/

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