2020 Mid-Year Update

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Mid-Year Update

At *Nuclo Independent CIO*, our investment year runs from February 1st through January 31st of the subsequent calendar year. Thus, now is an optimal time for our mid-year note. This 2020 has turned out to be a far more tumultuous and eventful year than we envisioned. We have thus gotten much wrong. We have also gotten quite a few things right, although some of them for the wrong reason.

For instance, we expected some convergence in the volatilities of various asset classes, and expected assets such as *Tesla* (TSLA), cryptocurrencies and other relatively exotic investments to be bid up as investors searched far and wide for volatility in a world whose markets had become uncharacteristically stable. Alas, volatilities did experience meaningful convergence, but in the 'wrong' direction, as newly stable currencies, let alone stocks, saw their volatility spike way higher at the height of the global virus crisis (GVC) brought about by the coronavirus COVID-19 pandemic.

At the time of publishing of our year-ahead report on January 30, the pandemic was not yet called that, and most observers (we included) did not realize how big a deal it would turn out to be. That said, we did write "one should also be careful not to draw false comfort from comparisons now in the midst of the 'coronavirus scare' to previous somewhat similar episodes, such as the SARS and Ebola-led market corrections. Again, it is always somewhat different." – It indeed was! The unfolding GVC turned out to have much more serious global consequences, and the end is not yet in sight.

The pandemic has posed a meaningful crisis management challenge for people and entities all the way from city halls and states to countries and even major economic zones (such as the European Union – EU). It was also the catalyst for the shortest (yet very vicious) global bear market in equities. The EU, at least, has shown itself to be up to the task. Was its approach towards dealing with such a major crisis perfect? By no means!

Yet, it was proactive and effective enough to earn it high relative marks on a global basis. Again, the crisis is not yet over, so only time will give us a better idea as to the final scorecard. In the meantime, all that can be said is that much of Europe has succeeded in flattening the curve of the first wave of the spread of the virus in 2020. Germany has been arguably the leader among major countries (in Europe and beyond) in this successful effort, as explained in this recent op-ed by *Morgan Stanley* Investment Management's chief global strategist Ruchir Sharma.

Thus, we at *Nuclo* will be increasingly focused on Europe's largest economy, but as the next section discusses, a major regulatory 'black eye' is probably resulting in the latest near-term obstacle to the desirable development of more of an equity investing culture in Germany. The paragraphs below also provide some of the material with which we believe German savers should become more familiar in order to develop more of a long-term appetite for stocks.

The Wirecard Scandal - More than a black eye on the regulator, a blow to the development of a German equity investing culture

Introduction to some equity investing concepts

I have written countless times that -- for all its virtues (including meaningful economic development) -- Germany is still 'in diapers' when it comes to an equity investing culture. Perhaps due to cultural and historical factors, many Germans still consider investing in the stock market to be too risky. The mere fact that the verb "spekulieren" (to speculate) is widely used when referring to investing in the stock market tells it all.

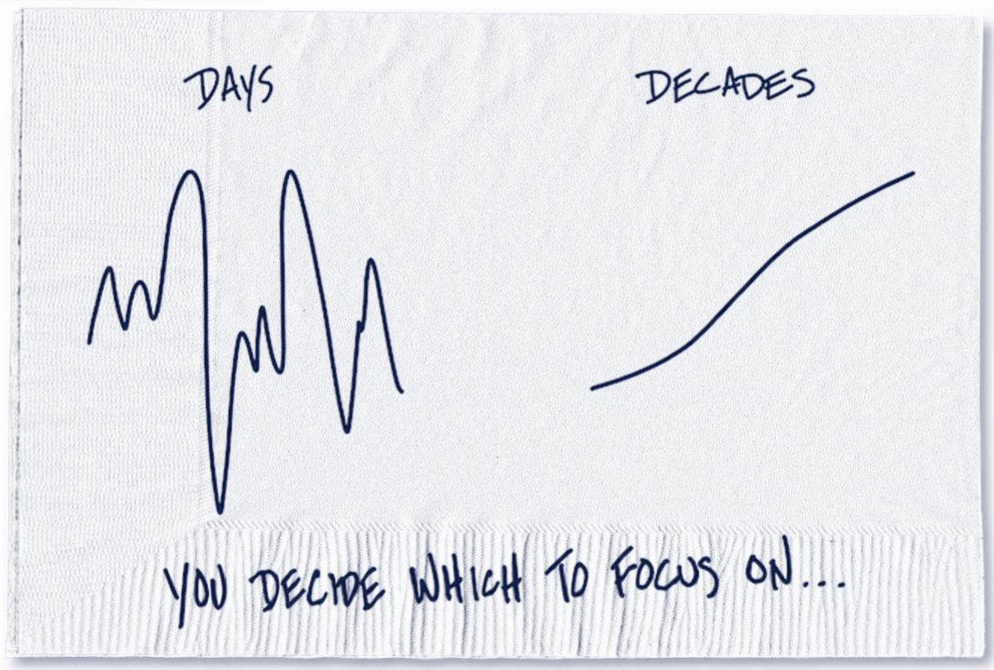
English-speaking countries generally have a more embedded culture of equity investing. I fear that due to cultural differences, this task will be a bit like swimming against the stream, but I strongly believe that a larger share of the German population should embrace equity investing to reduce a ***long-term*** risk they increasingly face.

Germans, not unlike people in many countries (including the USA), view equity investing as inherently risky. This may seem true at face value. Even the most preliminary finance courses will tell you that investing in stocks is riskier than investing in bonds, let alone the money markets, or simply putting your money in a savings account. The equity risk premium is designed to compensate investors in the stock market for the higher risk they face than when they invest in government securities, for example.

There are different kinds of risk

While investing in stocks is widely acknowledged to be riskier than investing in government bonds, this is the case (in my opinion) only when one refers to the risk of *short-term* price fluctuations. To be sure, stock prices are more volatile than those of securities considered to be far safer. Thus, equities do carry higher relative *short-term price risk.*

As the simple illustration below courtesy of Carl Richards via Professor Scott Galloway highlights, price risk is something which can be mitigated if the investor's time horizon is long enough.



Because the ***price*** volatility of equities is inversely proportional to the time horizon of the investment, the longer one is willing to hold on to stocks, the less one will be affected by the price swings. See, equity prices are indeed quite risky if one invests in them for the short run.

Stock prices are very volatile (swing back and forth significantly) ***over the short term***. The shorter the time horizon, the more investing in the equity market is actually akin to mere ***speculation***. The shorter your time horizon, the more likely the market will be to humble (and possibly bankrupt) you!

Germans, however, do tend to think more long-term in other facets of life. If you look at *stocks* over the very long term, you can see a much smoother slope upwards in their trajectory. Stock prices trend up over time, and the longer the time horizon, the clearer this trend becomes. Thus, over the long haul, price ***volatility*** is less relevant, and one can therefore say that price risk diminishes with longer time horizons.

That is the key reason why I always say ***nobody*** should put even one euro in the stock market which they expect to need within five years. Thus, in my opinion, the ***shortest*** time horizon everybody should have to invest in the equity market is ***five years***. In other words, the stock market is only for long-term wealth accumulation. Everything I write should be interpreted as referring to the long-term portion of any reader's money.

The fact that you *can* sell stocks on most weekdays does not mean you *should*. In some perverse sense, it would appear better if stock prices were only available every few years. The long-term trend of those data points would be significantly less volatile than what gets produced with minute-by-minute pricing and liquidity.

Over the long haul, the stock price of a company tends to quite closely follow the actual intrinsic worth (the net present value of the future cash flows generated by the company). It is important to remember here that stocks are nothing like lottery (*'Lotto'*) tickets. Stocks are actually certificates of ownership of small parts of a company. When you buy a stock, you become a part-owner of a company!

Therefore, it even seems silly to follow stock prices on a daily basis. As I have explained, the shorter the time horizon, the more severe the price fluctuations. What truly matters is the ability of the stock market to create long-term wealth. The value of companies should -- over long periods of time -- show a gradually-ascending trend reflecting the underlying fundamentals (their ability to sell goods and services and make money).

It seems increasingly clear to me that there is a significant risk that the savings of many Germans will not be enough of a complement to the typical *'Rente'* (pension) for most to sustain their customary standards of living.

I strongly believe that many investors are underestimating the increasingly large risk that their 'conservative' investment portfolios dominated by fixed income will not generate sufficient returns in the long run. Such investors are drawing false comfort from the lower short-term price volatility of their investment portfolios. They are, in my view, taking a ***high risk*** that they will not accumulate enough wealth over the long haul.

Paraphrasing Mr. Warren Buffett (one of the richest persons in the world and arguably the biggest and most famous investor of all time), once remarked how absurd it would be if a homeowner liquidated his or her home just because a neighboring home was sold at a discount versus its fair value. Homeowners do not track the theoretical value of their homes on a daily basis, and their investment psychology is not affected by the price fluctuations in their homes anywhere near to the extent that they are when they see the price swings in their stock holdings.

I believe investors who find it difficult to stomach the volatility that more aggressive portfolios entail should discipline themselves not to look at their account balances much more frequently than once a year (when they should take the opportunity to rebalance their portfolios on an annual basis).

Thus, Mr. Buffett often reminds us of the lessons he learned from his own legendary mentor, Benjamin Graham that, in the short term, the equity market functions as a voting machine, whereas in the long run, it more closely resembles a scale or weighing machine.

That is one of the key reasons behind the success of *long-term* equity investing. In the long run, the stock market weighs the cash-flow-generating ability of the underlying corporations. In the short term, however, fads and popularity tend to determine the price at which a particular stock trades at specific points in time through near-term changes in its supply and demand dynamics.

This implied discrepancy is what often creates wonderful buying opportunities in very desirable equities for the long term. It is what opens up what I have long called time horizon arbitrage (THA) opportunities. As the popularity of stocks swings in the short run, the equity market gyrates, saying nothing about stocks' long-term prospects (the ability of individual companies to generate cash flows well into the future). This is what creates extraordinary buying opportunities for long-term investors during periods of severe market-wide selloffs.

Still on the subject of stock price volatility, intriguingly, the Dax (arguably the benchmark for German 'blue chips') is a particularly volatile equity market index. The German economy is not particularly volatile. Still, the Dax index is generally viewed as a highly cyclical equity barometer. At the same time, however, many of the companies in the German benchmark are not overly exposed to the domestic economy. This may actually explain the index's high volatility in light of the relative stability of the German GDP.

Somewhat similarly, the ability of a specific Standard & Poor's (S&P) 500 index company to generate growing cash flows in the long run depends only to a limited extent on the health of the US economy alone. S&P 500 index constituents do benefit at the margin from a robust American economy but are generally large multinational corporations operating in many geographies.

Individual companies which tend to see their stocks perform well over the long haul tend to have a deep economic moat (and thus pricing power), boast managements who are great stewards of capital, and rely on multiple sources of growth (or at least stability) in their cash flows.

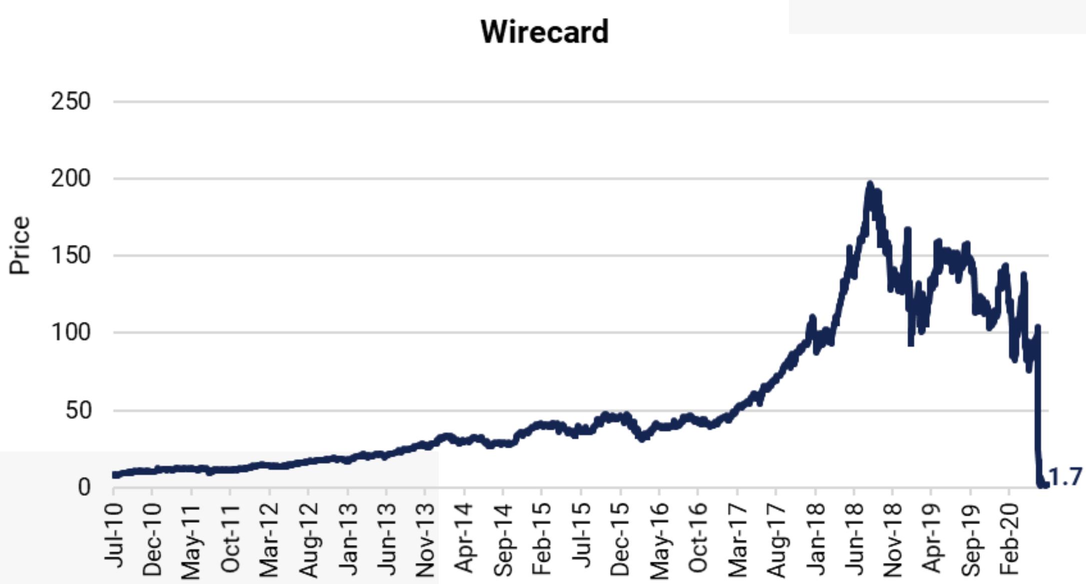
Beyond all this, even the broader market at large correlates very poorly with any single country's GDP, particularly over the short- to intermediate term. The ability of ***individual*** stocks to in the long run equate the net present value of a specific company's future cash flows gets obscured in the short term by all sorts of factors, as I have often discussed.

The Wirecard debacle

It is in this context that the recent news regarding Dax index component *Wirecard* is particularly disastrous. Any recent progress which may have taken place in the long-term process towards the development of some equity investing culture in Germany has likely been dealt a meaningful (though not fatal) blow.

Germany is a country whose culture garners a very high net positive score (NPS) in my proprietary rating framework. Most recently, it has shown those cultural competitive advantages when it comes to its very adept crisis management capabilities in dealing with the ongoing global virus crisis (GVC), brought about by the coronavirus COVID-19 pandemic, at noted earlier.

Despite its many positives, obviously like every culture, the German one also has some negative characteristics. Based on my own (admittedly biased) priorities and preferences, one of the negative traits -- when it comes to dealing with a free-market economy -- is Germany's inclination towards a 'paternalistic' *(Vater Staat)* attitude by the State, which tends to 'overprotect its subjects'. Just as is the case with individuals, overprotective parents often, despite their best intentions, end up damaging their children.



I believe the *Wirecard* collapse may be a case in point. According to the *WSJ* per this [Bloomberg note]():

> On May 12, 2016, Bafin [the German financial regulatory agency] sent its report to Munich prosecutors, outlining the case against a 'network of suspects' involved in market manipulation.

> The report criticized *Zatarra Research* for 'emphasizing incriminating information but nothing that spoke in favor of' *Wirecard*. Although factually accurate, the *Zatarra* report's negative findings were 'misleading', it concluded.
>
> In the report, Bafin pointed to the fact that Braun, the CEO at the time, had bought shares in the company, illustrating his faith in it. Braun 'is convinced of the positive development of his company', Bafin officials wrote.
>
> It followed up a few days later, forwarding an email from *Wirecard*'s lawyers to prosecutors that accused short sellers of 'acting as a pack' against the company.

It does seem to me that, in its attempt to 'protect' German small investors, the financial regulator (Bafin) ended up not only devastating many, but also providing a probably long-lasting blow to any fledgling German equity investing culture. It must be noted that *Wirecard* was (still is, in fact) a member of the 'select' Dax index of thirty leading German stocks!

But there is reason for hope!

Again, I am neither an expert nor objective on Germany. Based on my very biased view as a foreigner here, I admire many of what I see as very positive traits of the German culture, leading to my high NPS on it, and my belief that for me (at this stage of my life) Germany is the best country in the world – even as I continue to believe that from a more 'objective' standpoint, all things considered, the USA can still be considered the greatest country in the world overall.

One of the key positive attributes I find in the German culture is the relentless pursuit of improvement. Contrary to my native Mexico, for instance, Germans never seem happy or satisfied with what they have accomplished. They could always be better. There is always more to do. The flipside of this is that (admitting gross overgeneralization), while the Mexican culture tends to be overly optimistic, its German counterpart seems overly pessimistic to me.

I have written repeatedly in articles and posts on *LinkedIn* and elsewhere that the German crisis management capabilities have shined bright, and have somewhat tongue-in-cheek said that there were global Summer Olympics indeed in 2020, and Germany came out way ahead. As I always say on the matter, I apologize if it seems as if I am making light of the very tragic consequences of the GVC.

Every unnecessary and untimely death must be mourned. There has been much human suffering on a global basis, and it does pain me each and every day. Having said that, the world would be much better off if more countries, entities and individuals had reacted to the pandemic the way Germany has.

I again urge you to read this [New York Times op-ed](#) by Ruchir Sharma in its entirety. However, this is a relevant excerpt:

> Germany is an aging, conservative society, but critics who assume it is too slow to change have been proved wrong before. In the early 2000s, when Germany was dismissed as the proverbial 'sick man of Europe', it adopted labor market reforms that restored its status as the continent's most stable economy. As the pandemic accelerates the pace of digitalization and de-globalization and drives up the world's debts, Germany stands out for its relative lack of weakness to those challenges, and for a government prepared to handle them.

Obviously engaging in confirmation bias here, but Mr. Sharma's views of Germany – and in the country's potential to emerge relatively stronger out of this pandemic, let alone its crisis management capabilities (despite, like the US, the limitations entailed in its federal system), -- are even more glowing than my own!

Because of the positive cultural attribute, which entails learning from its historical mistakes, Germany is likely to make the best for the long run out of the disastrous experience in the *Wirecard* case. There is much (and only growing) political pressure to investigate, correct and improve financial regulation in the wake of this supervisory failure. I am increasingly convinced Germany is up to the challenge, but this may actually be a prerequisite to embark back on a course towards developing more of an equity investment culture worth its name. For the long haul.

Taking all this into consideration, we at *Nuclo* remain sanguine on the outlook for the German equity market, and our global top picks list includes more than its fair share of German stocks. In fact, during the first half of our investment year, we added two additional stocks of companies headquartered in Germany, *Deutsche Telekom* and *Vonovia*. More on these a bit later, but in general we believe that, in the long term, the strength of the German investment marketplace, highlighted by the country's high net positive score, will tend to be reflected in improving stock valuations.

While I have repeatedly written over the years that a country's stocks do not generally correlate well (particularly in real time) with the strength or weakness of the country's GDP, I also believe that over the long haul, the country's fundamentals *do* have some impact on the valuations and performance headquartered there and doing meaningful amounts of business in-country.

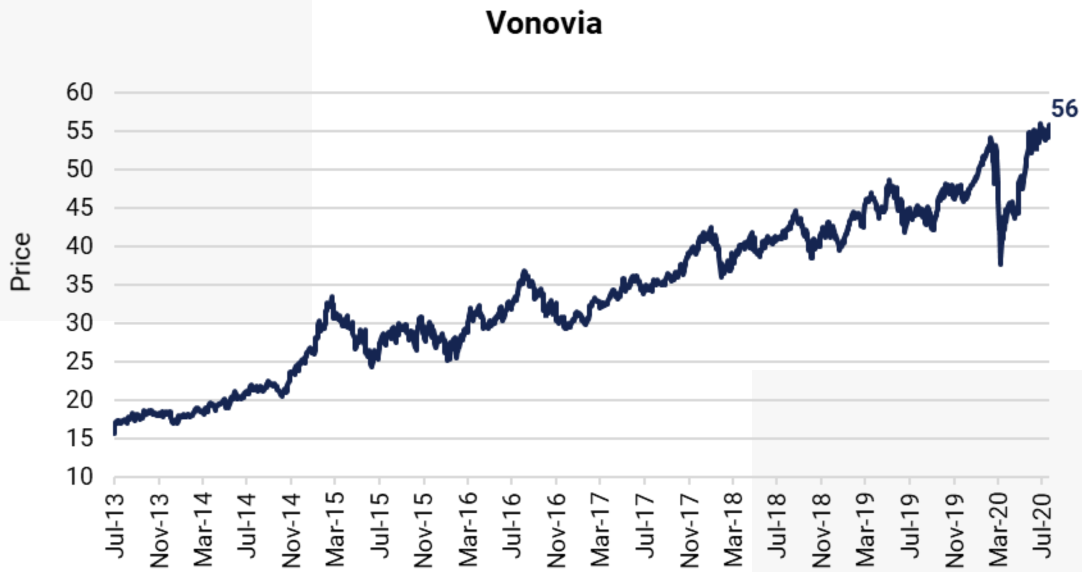
This may turn out to increasingly be the case in Germany going forward. In my experience dealing in many markets around the globe, I have observed that the relative long-term economic prospects of a country tend to have an impact on three key financial variables: the country's prevailing interest rates (led by its sovereign debt yields), the country's currency, and the nation's equity market, particularly if it is of any meaningful size. It appears increasingly evident that a country's crisis management response to the GVC is being reflected in its financial markets. This [Bloomberg note](), for instance, highlights the market's short-term assessment of the UK in recent weeks.

In the case of Germany, the currency can neither benefit significantly (or get severely hit, for that matter) by changes *only* to the country's economic fundamentals nor the market's assessment of the quality of Germany's crisis management capabilities. By being a member of the Eurozone, Europe's largest economy shares the common European currency with 18 other nations. Given its large relative weight within the bloc, of course, German economic issues must impact the euro, but not as much as if Germany were the single country utilizing the currency.

In a similar way, the common-currency area to some extent affects the sovereign bond yields of *all* Eurozone members, which really leaves the equity market as the financial markets' barometer arguably most impacted by individual country distinctions. I would argue that, at the margin, the *Wirecard* scandal has kept the country's broader equity market from benefiting even more from Germany's comparatively strong fundamentals and global crisis response.

As this negative issue fades in the rear-view mirror, and the country's regulatory framework learns from the experience, I believe the German equity market has the potential to rerate. In any case, bottom-up company fundamentals make us constructive on a number of German stocks.

Deutsche Telekom and *Vonovia* are the most recent additions to our global top picks. They replaced *Berkshire Hathaway* and Japan's *SoftBank*. As far as *Vonovia*, this stock is a logical beneficiary from the likelihood that an area outside of financial assets in which countries may be 'rewarded' for relatively solid macroeconomic and crisis management qualities may turn out to be their real estate prices. As I wrote on *LinkedIn* already in 2017, *Vonovia* is arguably the best way to play European real estate -- but perhaps also a natural place for the novice German investor to get early exposure to the equity market.



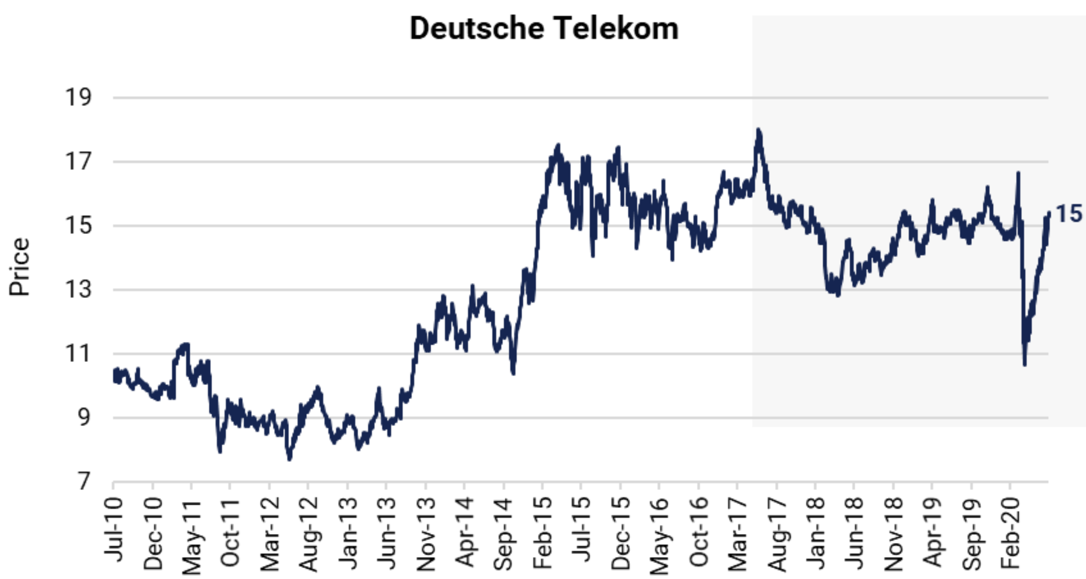
The stock has performed quite well since I first wrote about it over three years ago, but it remains quite attractive. One of the risks I saw (for the stock, if not really for the company as a whole) was that *Vonovia* shares tend to react more than many to changes in interest rates, benefiting from low yields. Now that I expect quite an extended period of time of low for much longer interest rates, this (if anything) may be a continuing tailwind for the stock. In a sense, *Vonovia* stock has some of the characteristics of a fixed-income investment, with which German savers have become much more comfortable than with equities.

The fundamental outlook for *Vonovia* shares is more tied to developments in the German residential real estate market. Property prices, despite their meaningful rise in recent years, remain lower in Germany than in many countries with much less economic might, let alone domestic purchasing power. There are a couple of unique features that make *Vonovia* the stock particularly compelling.

Contrary to the shares of other types of companies, where their global competitiveness may be negatively impacted by a strong euro, in the case of residential real estate, a stronger domestic currency is likely to benefit, rather than hurt. Investors from countries with currencies relatively weaker than the euro should see the price of their investment in *Vonovia* rise not only due to translation effects, but also due to improving fundamental prospects for Germany's leading residential real-estate company.

Furthermore, *Vonovia* shares enjoy another unique feature in that the company's relatively large dividend is ***not*** automatically taxed on a yearly basis. Rather, *Vonovia*'s annual payout, due to its special fiscal treatment, is to be subtracted from the cost basis of the shares in question at the time of their sale. Thus, all accumulated dividends are only taxed at the time the investor sells the shares, which implicitly encourages long-term investing in the stock -- exactly what we at *Nuclo* favor.

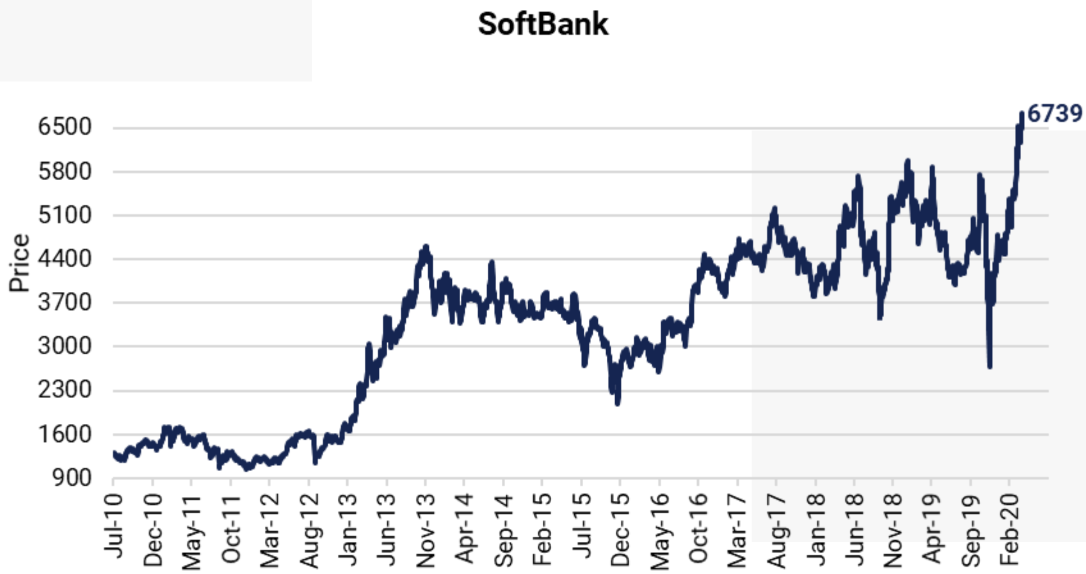
Moving on to *Deutsche Telekom*, the company is the incumbent telecom operator in Germany. The telecommunications conglomerate operates in several countries, notably in the US, where it is the largest shareholder in *T-Mobile*. There is a *SoftBank* connection in that *T-Mobile* recently merged with *Sprint*, which had up to then been controlled by the Japanese conglomerate.



T-Mobile US is now a solid number three among mobile communications operators in the US, behind only *Verizon Wireless* and *AT&T Mobility*. Through the combination with *Sprint*, *T-Mobile US* is about to catch up (if it has not already done so in the most recent quarter still to be reported) with the American number two, *AT&T Mobility*, in terms of US mobile subscribers. Based on some analyses, the current stock price of *Deutsche Telekom* reflects the valuation of only its holding in *T-Mobile US* -- implying that investors get all of *Telekom*'s operations outside the US free of charge.

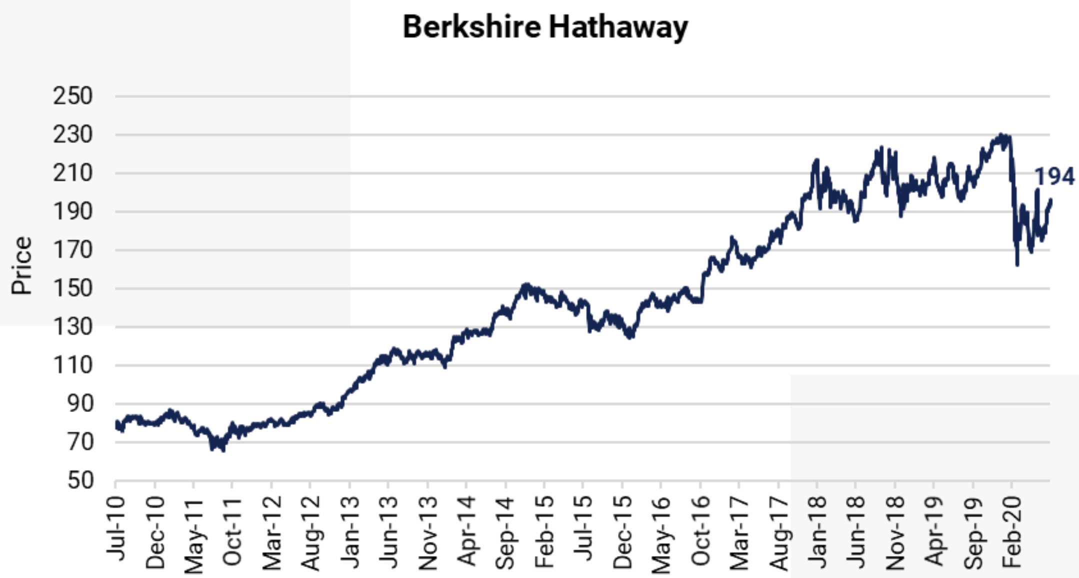
And now on to the stocks which made room for us to add *Vonovia* and *Deutsche Telekom* to our global top picks list. Both recently-removed stocks can (and probably are quite likely) to be global outperformers years into the future. However, we cannot just keep adding constituents to our list without removing some. Both *Berkshire* and *SoftBank* are well-managed conglomerates that have created immense wealth over the long haul.

Company-specific issues that made us prefer other global top picks list constituents over *SoftBank* include the fact that it had become increasingly difficult to defend company leader Masayoshi Son's missteps over the last year. While he remains a visionary investor likely to do well over the long haul, he seems to have strayed away from process, and the net positive score of the investment case deteriorated relative to those of our other global top picks.



As far as *Berkshire* and its legendary leader Warren Buffett -- who remains on the whole, one of the greatest investors of all time and a role model from whom I wish to continue to learn much – the "Oracle of Omaha" also seems to have altered his modus operandi in the recent past. In fact, learning from the lessons of Buffett himself, I decided to remove *Berkshire* from *Nuclo*'s top picks, as a key reason to own the conglomerate's stock no longer seemed present. The Oracle has repeatedly said that -- while he makes a major investment with plans (and hopes) to own it forever -- as soon as the reason for his owning the company no longer holds, he sells out of the position (rather than simply trimming it, for instance).

Mr. Buffett did exactly that in the last few months with *Berkshire*'s substantial holdings in airline companies and appears to have done so with key investments *JP Morgan* (JPM) and *Goldman Sachs* (GS). I wrote much about this in recent weeks. Please refer to the articles section under my *LinkedIn* profile for much more detail on how my thinking evolved regarding the recent actions by Warren Buffett announced since early May.



My coverage of this specific topic in recent articles started with this one from May 4, just over 24 hours after the online version of *Berkshire*'s annual meeting of shareholders -- which due to the pandemic had to be done for the first time in this unusual format. Thus, while confident that the stock will probably be a great investment in absolute terms, I see better opportunities among our remaining global top picks.

A major addition to this list, which took place during the first half of our investment year, was that of the stock of *Tesla*. I had already written quite a bit on this unique investment in Nuclo's year-ahead piece. Yet, our level of conviction continued to increase, and in a later section of this report we will provide further explanations as to why. Immediately below, however, we will first hear from our Contributing Economist Geoffrey Dennis.

One of *Nuclo*'s key accomplishments in the first half of 2020 was enlisting the contribution of this prestigious economist, who happens to be also one of the best-known and most respected global emerging markets (EM) equities strategists. Mr. Dennis will help us navigate the top-down decision-making environment in one of the globe's most promising areas for equity investing for the long run, the emerging economies. Over upcoming months and years, we expect to further develop our stock-picking capabilities across EM as well.

Sound foundations for EM outperformance: China is the risk

Geoffrey Dennis

I published my second calendar half outlook for emerging market equities in early-July. My view then – and, three weeks later, I would modify this only slightly now – was for modest gains in EM equities in H2, but with considerable volatility (as overall global equities, themselves, remain very volatile). I also forecast at that time that EM (MSCI EM index) would see an extension of its outperformance of DM equities (MSCI World index) that followed the end of the sell-off in late-May associated with the launch of the new security law for Hong Kong.

The macro base case supporting further modest equity market gains includes:

- **The Global Economy: 'Depressed, but Growing'.** My favorite current expression for the global economy is '*depressed, but growing*'. That is the level of global GDP/economic activity may now have bounced off the bottom but it remains far below the late-2019/early-2020 peak. This label avoids the alphabetic designation of any sort of recovery (V, U, W etc.), which is so much in vogue currently. I have also already argued that, with the start of the US 'COVID-19' recession already having been tagged as February and US data starting to bounce in May, this could be the 'sharpest but also the shortest' recession in the US economy since the Great Depression of the 1930s. This assumption does not rule out new dips in the US data in the months ahead due to the current rebound in coronavirus cases in many states. Meanwhile, Chinese GDP is clearly starting to recover now and there are early signs that this may be happening in Europe also;

- **Further Fiscal and Monetary Policy Support across the globe.** The IMF estimates that over $10trn of policy support has now been either injected into the global economy or pledged in an effort to offset the impact of COVID-19. More such support will be forthcoming in the weeks ahead across both developed countries (witness the current discussion in Congress over a new support package and the recent agreement of the €750bn EU Recovery Fund) and the emerging world, despite budget deficit and debt figures that are 'off the charts' for many countries;

- **Further falls in the US dollar.** I argued in a post in early-July that the USD/€ would fall in H2 to €1.15, maybe beyond. Well, we are already well through that level to €1.17-1.18. This is still not quite fair value yet for USD/€ in the Nuclo view, and further modest falls seem likely to the end of the year (based on weak US data, the very poor performance of the US in taming the coronavirus and still some remaining USD overvaluation). I have long argued that the main driver of EM equities is the USD, with the US equity market also playing a big role. As the S&P500 bounced off its late-March low, the weaker dollar supported a strong rally also in EM, defying the negative market commentary at that time. Since then, the falling dollar has allowed most EM countries to rebuild their foreign exchange reserves, has pushed oversold

EM currencies higher, which -- combined with some reduction of debt spreads versus US bonds -- has reduced the servicing costs of debt denominated in foreign currency. The earlier vicious circle of foreign outflows, falling currencies and rising yields/debt-servicing costs has been replaced by a virtuous circle of increased foreign inflows, rising currencies and falling yields/debt-service costs all set against a background where domestic short-term rates in many EM nations have fallen to historically low levels anyway. The MSCI EM index is up over 42% in dollars since that late-March global market low. Consistent with this, EM currencies that are over 10% above their 52-week lows versus the dollar include the BRL, MXP, CLP, COP, IDR, RUB, ZAR and the CE3 currencies. Not every EM has benefitted. Where local fundamentals are particularly weak, the FX gains have been modest (Turkey) or non-existent (Argentina). If the dollar has further to fall, this should provide more support for EM currencies and equity markets;

- Bond Yields stay Low. Clearly, there is a risk that, in time, as economies recover and given the huge amount of monetary policy support for economies across the globe, inflation will begin to rebound which, in turn, will force global bond yields higher. Sharply higher US yields and a possible accompanying widening out of EM debt spreads again represent a major risk for EM equities. However, we see little reason for this to occur in the near-term; with inflation currently dormant, we expect US yields to remain low – around the current 0.5-0.7% range – for the rest of 2020, which will be an important support for EM equity markets.

How does China play into this scenario?

I noted recently that the DIRECT performance of Chinese equities must now be added to the existing list of key drivers of EM equities: the US dollar and US equities. This is for two reasons. First, China is now up to 41% of the MSCI EM index, up from 28% in mid-2017 and just 14% as recently as June 2008; secondly, the Chinese market often trades off different factors than do EM equities as a whole.

China has been the second-performing EM equity market in 2020 so far this year with a gain of 9.8% in dollar terms, beaten only by Taiwan (which has just taken over the top spot) at +11.5%. Reflecting this robust Chinese performance, the MSCI EM ex-China index is down 10.8% in 2020, over 700bp worse than the full EM index (-3.7%). Further, as we have also argued previously, it is remarkable that only four markets have outperformed the EM index so far (the above two plus Argentina and Korea), with the other 22 markets lagging the index.

In 2020, China's outperformance may be largely explained by it being 'first in and first out' (in terms of emerging markets) of the COVID-19 economic downturn and by the huge, mainly fiscal, stimulus that the Chinese authorities have injected into the economy to support recovery. (In turn, Taiwan's outperformance may be explained by its very good management of the COVID-19 pandemic and because of its strong macro links with China.)

The importance of China to the EM index has been illustrated during some very short-term phases recently, driven essentially by Chinese 'events':
May 21st – **China proposes new security law for Hong Kong.** In the following week, the MSCI China index fell by over 5% and the year-to-date underperformance of EM v DM blew out from around 400bp to 850bp by May 28th;
May 28th – **China's National People's Congress approves the new Hong Kong Security Law.** On a 'sell the rumor, buy the news' basis, the Chinese market rebounded strongly, as did the overall EM index (boosted also by a weaker dollar), such that by July 8th, MSCI China had jumped 26% in just over six weeks and all of EM's (-4.9% year-to-date) 2020 underperformance of DM (-4.1%) had been eliminated;
July 8th – **Profit-taking and US Tech Weakness.** Since then, MSCI China has fallen back by over 5% due to profit-taking and some recent weakness in the US Tech sector. As a result, despite further dollar weakness, EM has only edged higher (by 0.3%), and emerging markets (-3.0% in 2020) are again lagging DM (-2.5%), albeit only slightly.

We are bullish on the Chinese economy and on Chinese equities over the long-term. I see the Chinese market as a major positive driver of the overall EM index. However, with the current wide range of 'external' influences on the Chinese market - such as the ongoing US/China trade war, the Huawei situation, the ongoing global fallout from the new Hong Kong security law, the risk of new sanctions on China including on Chinese companies listed on US exchanges – plus fears that, driven by retail money flows, the local A-share market itself is exhibiting bubble-like characteristics, there remains the risk of a further short-term bout of profit-taking in China. Given the arguments of this paper, such a pullback would impact the EM index quite negatively.

Strategy: Big Three to Continue to Lead; Best of the Rest: Brazil, Russia

Given the above sort of analysis, I noted recently that, in assessing performance versus the MSCI EM index, emerging market investors should perhaps 'forget' about Brazil, Russia, Turkey, etc., and simply focus on:

- where the US dollar is going;
- the outlook for Chinese equities plus, to an extent, Korea + Taiwan (a combined 65% of the index at end-June); and
- the US market.

For the second half of 2020 (with the dollar likely to fall further), I would stick with China (bearing in mind that a bursting of the equity market bubble is a risk) and Taiwan plus, to a lesser extent, Korea. Elsewhere, with a lower dollar coming through, commodities should rally further as should most EM currencies; these trends favor Brazil and Russia. Markets that look oversold include Indonesia, Colombia, Peru and Greece (all lagging EM by 2000bp or more in 2020). We would avoid India, Thailand, outperforming Argentina, Mexico and South Africa.

Thanks, Mr. Dennis! It is great to have you onboard to help us navigate the always choppy and tricky waters that are emerging markets.

The renewed case for Tesla

The globe's largest electric vehicle (EV) manufacturer remains a unique asset, poorly understood, and quite likely an important vehicle towards wealth creation over the next five years and well beyond. During the first half of our investing year, we added the stock to *Nuclo*'s key list, built a position and added to it, to the point where it is now a top-five holding with a weight of approximately 7% of our global equities portfolio as of the time of this writing, following meaningful price appreciation.

To many -- particularly professional -- investors, *Tesla* (TSLA) remains a -- or has actually become an even more – speculative stock. Its volatility has spiked towards ever-higher levels so far in 2020, which does make it a speculative security in its own right. With a five-plus year investment time horizon, however, I would argue that it is not as risky an investment, and due to its unique characteristics, will be an important source of diversification, and even more importantly, wealth creation.

As is the case with any stock, I would advise readers not to touch TSLA with money they expect to need within five years. The longer you can afford to set funds aside, however, the more promising an investment in *Tesla* looks to me. As with any stock, its volatility (and the wild swings in its own chart) will seem more muted when viewed through a longer-term lens. I have written quite a bit on *Tesla* in previous articles and posts. In this one, for instance, I argued that (along with *Apple*) it was a poorly understood investment. It still is.

Tesla has become (by an even wider margin now) the largest company by market capitalization in history ***not*** to be a constituent of the S&P 500 index. In fact, recent speculation that it may be poised to finally join that select list contributed to the latest major leg up in the company's stock price.

Having for a long time been a professional portfolio manager at US fund companies, I know how many of my former colleagues tend to operate. I strived never to be a 'closet indexer', but I tried to be 'index aware'. Even active fund managers must, in my view, be at least cognizant of what stocks constitute the benchmark against which their performance is measured. Furthermore, they must understand the weight each of the major stocks has in that index to know whether (and how big) an active bet they are making when owning (or not owning) key benchmark constituents.

At its current market cap already, *Tesla* will eventually join the S&P 500 index with a meaningful weight. Portfolio managers benchmarked against that index will no longer be able to readily ignore TSLA anymore. Given the professional investor consensus that *Tesla* stock is too speculative (and its performance supposedly not rooted in fundamentals), many have simply ignored the stock up to now.

At the latest once it is in the S&P 500, the career risk from simply ignoring TSLA will increase, perhaps exponentially. Particularly in the case of 'closet indexers', it is almost dogma that if you do ***not*** have any conviction (bullish or bearish) on a company with a significant weight in the index, the prudent approach towards minimizing career risk is to own close to a benchmark (index) weight in the security.

When it comes to professional portfolio management, if you do ***not*** own a major index component, you are making a bet *against* it, so you'd better be actually bearish on it. If you happen to just not know enough or not to have any conviction, the path of least resistance is thus to buy a position roughly equal to the stock's weight in the index.

Then there are the actual index funds -- as is the case with most exchange-traded funds (ETFs). Those indexed against the S&P 500 will *have* to add *Tesla* to their portfolios at the time the stock is included in the index, regardless of perceived fundamentals or *any* valuation considerations.

Finally, the more explicit short sellers: As explained in our year-ahead note, TSLA has been a long-term favorite of hedge funds and others who like to bet *against* stocks by selling them short (without actually owning the shares). In that late January report, we also provided a detailed explanation of the specifics of short selling. Again, based on its perceived lack of reflection of fundamentals and/or the widespread perception that it is overvalued, *Tesla* is a heavily-shorted stock.

While there has been some short *covering* of late, due to the surge in the price of the shares, the so-called *short interest* in *Tesla* stock hovers at historical highs in absolute terms – and at its recent record levels represented the largest dollar amount being short *any* stock in US history.

One of the (few) positive surprises from the GVC has been the return of more meaningful interest in individual stocks in the US by the public at large. The trend of the last many years had been that, to the extent the retail investing public was involved in the equity market, it was increasingly through ETFs, at the expense not only of actively-managed mutual funds, but also of individual stocks.

Time will tell how much of this Millennial-led embrace of bottom-up stock picking will be long-term-oriented investment (as opposed to simply speculative day-trading). Whatever the case turns out to be, I view it as a net positive development for the US stock market at large. Just as I have written regarding widespread short-selling in previous articles, anything that adds to the number of participants in a marketplace (and to market liquidity) is a *net* positive, in my view.

Again, this does not imply there can be no negative consequences, particularly to individual day traders themselves, who may well get in way over their head. Nevertheless, for the market at large, I strongly believe that the positives outweigh the negative ramifications from broader participation in the equity market. *Tesla* is reportedly one of the stocks which have captured the imagination of these new investors.

The advent of zero-commission trades, let alone fractional-share trading (which allows virtually everyone to buy high-priced stocks such as TSLA), most likely has contributed to near-term demand for this stock. The higher the weight with which *Tesla* stock is eventually added to the S&P 500 index, the stronger the need for *fundamental research* resources to be applied in the market at large to *really* understand its investment case, as I implied earlier.

These are some of the 'technical' reasons why the price of *Tesla*'s stock is likely to have a floor in the near- to intermediate term. As for the long haul, as I will explain in the next section, there are poorly understood reasons why *Tesla* shares can eventually rise towards much higher levels, based on the fundamentals.

Key long-term fundamental drivers

Fundamentally (though with a fair deal of speculative prognostication and biased optimism), I see a very bright future for *Tesla* indeed. I see important parallels between the *Tesla* and Elon Musk of today to the *Amazon.com* and Jeff Bezos of some twenty years ago. Most fundamental analysts and investors who care to state a public view on *Tesla* and its valuation are quick to assert its excessive overvaluation relative to the legacy carmakers with which *Tesla* indeed competes.

These comparisons remind me of those made (even by myself) in the early years of *Amazon* to the valuations of *Barnes & Noble* and *Borders*! Having learned from that mistake (and from the visions of the likes of Bezos and Musk), I now realize that it is probably just as short-sighted to view *Tesla* as a vehicle manufacturer as it was once to see *Amazon* as a bookseller. The Seattle e-commerce giant did start out competing against and disrupting *Barnes & Noble*, let alone *Borders*, but the vision was a lot larger than that.

Musk may be as much of a visionary as Bezos (or not), but I am increasingly convinced that *Tesla* will disrupt more than one industry. Beyond the still-nascent and related shared transportation (eventually through autonomous driving expansion), *Tesla* is ever-more active in the new energy industry. Its controversial *Solar City* related-party acquisition put *Tesla* squarely into the installation of solar panels, but its Gigafactory, charging stations and giant-battery operations among other projects, already make *Tesla* a promising player in what will be one of the key industries of the 'new 20s'.

In choosing Berlin and its surroundings in Europe's largest economy for its continental Gigafactory, Tesla is implicitly linking fates with Germany, which wants to be a key player in new energy. Already a global leader in renewable energy, this country poor in hydrocarbon resources -- and thus one which does not have a large domestic industry to cannibalize -- is moving aggressively towards becoming a key global hub for new energy more broadly.

Battery technology, which lags other technological developments, and in my view represents an important bottleneck when it comes to higher levels of digitalization, is a key area of focus for German world-leading engineers. Tesla has most recently hinted at plans to work on battery technology in Germany.

Since Europe's largest economy obviously *does* have a key domestic legacy auto industry facing disruption and cannibalization, more of the net upside for Germany as a whole from hosting *Tesla* is in the era of new energy, and I expect to see many exciting developments here over the next years and decades. But even when it comes to *Tesla*'s initial business in EVs, the German fiscal stimulus program which resulted from the global virus crisis has the subsidy for these 'green' vehicles at double their previous level, and it is a key German government goal to expand the fleet of all-electric vehicles, give the segment critical mass and thus meaningfully expand the EV charging network nationally. *Tesla* can and likely will play an important role in this ambitious project.

Over the long haul, the pool of cash flows available for *Tesla* to tap into are quite significant. Just like virtually nobody saw that the cloud would represent a meaningful source of cash flow (and thus valuation upside) for *Amazon* twenty years ago, most investors are arguably missing the upside for *Tesla*'s available cash flow pool. In turn, there are massive amounts of global market capitalization in *Tesla*'s future, if it seizes the opportunity, as I speculate it will. The global energy sector (where there are still huge companies in government hands and thus practically hidden from market capitalization analyses) is massive.

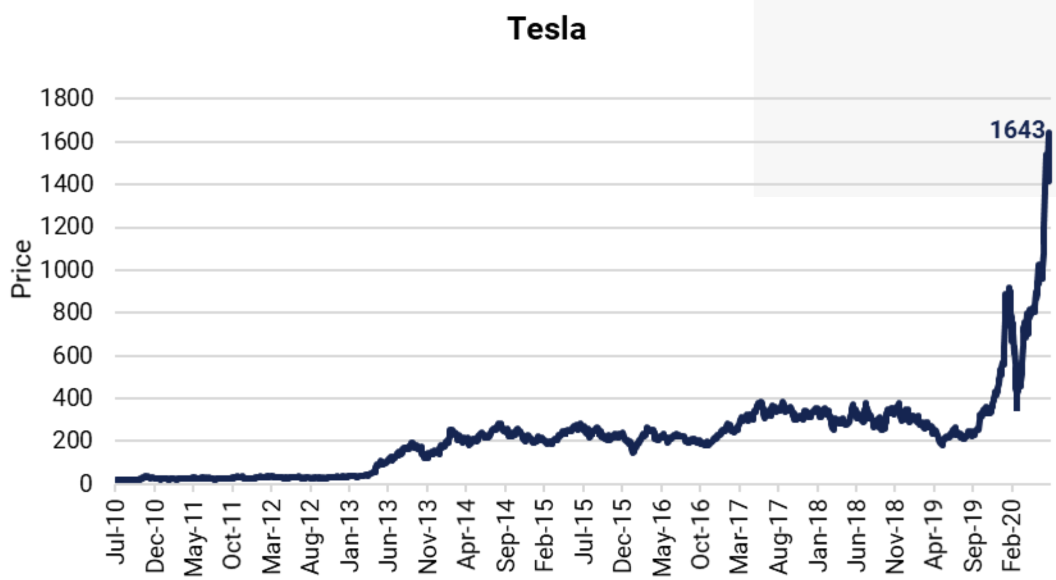
I realize that my investment thesis on *Tesla* is not only quite optimistic, but rather speculative. In the next section, my outside-the-box thinking will turn even more adventuresome. To introduce the next part of this report, please let me leave you with a speculative thought to ponder. Could *Tesla* buy *Intel?* Recent market disappointment with the legendary US semiconductor designer and high-end manufacturer has led to some fear that *Intel* may exit chipmaking in the US, eventually.

I believe Elon Musk has demonstrated that very sophisticated manufacturing is definitely still possible and profitable in the US. A Tesla EV in some ways is more computer than it is classic automobile. It uses very high-end chips, which *Tesla* could end up 'insourcing'. Technically, it would be possible for *Tesla* to acquire *Intel* in an all-stock deal.

I have no idea as to how the market would react if such a speculative thought were to become a reality. Very likely there would be comparisons made to *America Online's* disastrous acquisition of Time Warner, which ended up heralding the abrupt end of the TMT (technology, media and telecommunications) bubble at the start of the current millennium. Perhaps. As I always say, times are always at least *somewhat* different, and keeping high-end semiconductor manufacturing solidly in the US is not a crazy idea in and of itself, in my view.

My 2020 price target for Tesla

The remainder of this note before I hand things over to Nuclo's geopolitical analyst Anthony C. Brocado will be either largely tongue-in-cheek or merely lightly-curated 'stream of consciousness' musings, so you can skip over to the next section entirely if you don't have either a sense of humor or a radically open mind. The only statement I mean in all seriousness is the one about contacting Anthony directly if you'd like to learn more about the state of polarization in any country.



I do not personally put much stock on price targets by Wall Street analysts on the securities they cover. Particularly when the price targets sound (deceptively) precise, they come to me as a clear warning sign not to pay much attention. Equity research is a mix of art and science, in my view, with the former playing the leading role in my book. I do believe that over the long run, stock prices reflect the discounted value to the present of the future cash-generating ability of corporations. However, much speculation is embedded in *anybody's* attempt to calculate such net present value. There are subjective assumptions all along the way.

Anybody who has ever worked on a DCF (discounted cash flow) model knows that all the variables involved are to some degree or another just guesstimates or at best educated guesses. Any astute analyst can come up with whatever fair value one chooses to eventually emerge out of the DCF valuation process. Then there is of course the choice to apply an additional discount to the DCF output to come up with the specific price target.

Wall Street analysts are increasingly compelled by their firms to either revise their published price targets higher or cut their rating on the relevant stock soon after the stock has reached that target (or even shortly before). Many then busily rejigger their models to come up with new upside (a revised, higher price target), if they do not wish to downgrade the stock. Sometimes this process is more arbitrary than others. Because of my true focus on the long term, I do not care much for quarterly earnings, let alone for short-term price targets by Wall Street analysts.

Thus, it is rather mockingly that I unveil my price target for *Tesla* to be $1,764, to be reached still in 2020. How did I come up with such a precise number? Well, it is *420 times 4.20.* And why this tongue-in-cheek precise-sounding target? Elon Musk himself threw around 420 when he tweeted just about two years ago that he had lined up financing to take *Tesla* private at that price! This eventually landed him in trouble with the SEC, which eventually resulted in Musk giving up the chairmanship of *Tesla*.

Not only Jim Chanos and many other short sellers, but even Musk too bearish

Thus, it is not only the short-sellers – and Musk himself mocked the Securities and Exchange Commission (SEC) as actually being short for "Short-Sellers' Enrichment Corporation" – but the then-Chairman and CEO of *Tesla* who turned out to be way too bearish on the outlook for *Tesla*'s stock price. 420, of course, represented meaningful upside to the then trading level of the largest EV manufacturer. The stock now trades at a multiple of that, so why not use 4.20 as the multiplier applied to that in order to come up with my own price target?

Roughly 420 happened to also be the level around which infamous short-seller Jim Chanos made the financial media rounds earlier this year as the price at which he remained happily *'maximum short'* the stock. I refer you to this May 7, 2020 article of mine for more on this. Mr. Chanos has had plenty of company in his *Tesla* shorting journey, as I have discussed regarding the short interest in TSLA stock. In recent months, extremely bright people whom I much respect have also made public statements regarding their belief that the stock is way overvalued.

Prof. Scott Galloway, the author of *The Four,* a book I very much enjoyed and recommend, has joined the chorus. So has the 'king of valuation' Prof. Aswath Damodaran, whom I also much admire. The latter teaches corporate finance and valuation at the NYU Stern School of Business.

Prof. Damodaran is widely respected for his impressive work on stock analysis and his detailed and sophisticated approach to assessing a corporation's fair value. He even admitted to having owned *Tesla* when it was undervalued based on his work, but he subsequently sold the stock earlier this year at a meaningful gain, yet much below current levels.

The bullish camp is much more thinly populated, particularly at today's price, where even most Wall Street analysts covering TSLA (including some *not* with a negative recommendation on the stock) have price targets at much lower-than-prevailing levels. The small bullish camp among professional investors includes people such as Ron Baron of the firm which bears his name and James Anderson (partner and head of global equities at *Baillie Gifford*). Who will be proven right? My money remains with the small, contrarian professional investor cadre.

The final section of this report will focus more squarely on politics, the key area followed much more closely by *Nuclo*'s geopolitical analyst Anthony C. Brocado. In past decades, I have only on-and-off followed political developments closely. It is not a field I particularly like, and my strong interest in it tends to be rather limited to the market ramifications of political- and geopolitical events. It is an area which often triggers heated discussions and even increasingly bitter arguments -- and in our current era of 'polarization of everything', people seem more divided than they have been in decades over political issues. This, as Anthony will demonstrate at some point, is a rather *global* phenomenon.

In fact, Anthony has devoted much of his behind-the-scenes research this year to the issue of polarization across countries throughout the world. On a bespoke basis, if you are interested in a report on the current state of political polarization in any specific country, please contact Anthony directly at abrocado@nuclo-cio.com for more details.

I have recently come to call the current environment one of the 'politization of everything'. As growing numbers of people appear to voice their political beliefs more forcefully than in many decades (at the least), the concurrent trend of polarization tends to result in an 'us versus them' attitude spanning a growing number of areas. Recently, for example, the attitudes towards wearing or not wearing facemasks as a protective measure against the rapid spread of COVID-19 is but an example of this phenomenon, in my view.

Happily, I enjoy the full-time support of Anthony now to focus on all the ins and outs of politics and geopolitical developments. Moreover, as this recent *Forbes* article notes, which political party holds the US White House tends *not* to be as important factor as it is widely assumed. I pride myself in attempting to be as open-minded as I can, and evaluate just about everything within the framework of the net positive scoring process I have discussed in various *LinkedIn* articles and posts.

Not everything that any president or political party tries to implement is bad or good, in my view. Unfortunately, I believe that -- in the increasingly polarized world to which the US is by no means an exception -- partisanship tends to get in the way of many people evaluating *anything* the 'other party does' objectively. In my opinion, in the US both Republicans and

Democrats have some good and some bad ideas, and I strive to open-mindedly evaluate all (particularly when it comes to the economy and markets), regardless of where they come from. Thus, I prefer a 'no labels' approach, and if anything, would call myself a libertarian, with a strong belief in the power of free markets.

A libertarian manifesto

Admittedly (perhaps excessively so), I believe in the power and wisdom of markets. While *some* government services and regulation are probably indispensible, the more that can be delegated to the markets to arbitrate upon, the better, in my view. We talked about the *Wirecard* scandal in Germany earlier on. This was clearly a failure of regulation. The German state is criticized in some quarters for being too paternalistic. I believe it is often a valid criticism. The US, culturally more inclined towards libertarianism, does undoubtedly have a powerful state too, nonetheless. In fact, I could argue its Securities and Exchange Commission has more effective regulatory- and far-reaching powers than Germany's BaFin.

Longer term, however, in an increasingly globalized equities marketplace, my hope would be that more of the 'regulation' and supervision of markets and corporate practices is eventually crowdsourced. The aggregate wisdom of a global market may at some point in the future be much quicker to identify and effectively penalize abuses and illegal practices than any country's regulator ever could.

As I will expand upon below (and have written in earlier articles), I believe globalization – while certainly flawed – is net positive, and more importantly, irreversible. In fact, while the global virus crisis will invariably deal a blow to *some* aspects of the globalization of manufacturing, it is also acting as a catalyst towards more rapid advancement of the globalization of services, in my view.

Going back two decades, when the Worldwide Web (WWW) first took our whole globe by storm, I theorized that, eventually, this would empower the cream of the crop among service providers (on an individual person basis) to offer their services to a global marketplace, enhancing the earnings potential of the world's top performers. I increasingly think that vision is becoming closer to a possible reality, albeit much, much later than I originally thought.

On a somewhat related subject, I believe that the global virus crisis will permanently change the world in some ways, to the significant benefit of some (though, also unfortunately, to the detriment of many others). Certain entities all the way from individuals to larger geographies are (naturally) better prepared than others to thrive in the post-pandemic world. Some creative individuals will be able to change their fate in the new world brought about by the GVC. I do with more conviction now envision a world in which key professionals in many fields will be able to offer their expertise and services to a global marketplace, benefiting from the new environment of more work-from-home (WFH) practices. *LinkedIn* is likely to emerge as a key platform for the emergence of such a potential 'services exchange' on a global basis, in my view.

This is probably yet another way in which I seek to indulge in confirmation bias by trying to spot areas in the real world where my libertarian inclinations (and preference for an increasingly borderless world) appear to me to be ratified by anecdotal evidence. Increasingly, for example, I believe that a good portion of the relative success Germany has demonstrated in the early phase of the global virus crisis is due to bottom-up rather than top-down directives.

I would argue that German cultural traits, which contributed to the vast majority of the population exercising appropriate caution immediately after the Italian news made it clear that the spread of the virus must be a serious concern, contributed to Germany's relative early success. Adept crisis management from the top down was the proverbial 'icing on the cake', but it could not have been anywhere near as successful without the bottom-up-led action.

My initial reaction when the increasingly global spread of COVID-19 made it clear to me that it would indeed turn into a pandemic was that its mitigation would entail a 'complex multi-variable optimization process' -- in an effort to minimize the adverse impact on the global economy, while also curbing the loss of life. My thinking then evolved into the conclusion that there was in (my perceived version of) reality not actually a (somewhat perverse) trade-off between saving the economy and saving lives. I concluded at the time that saving lives *was the best* approach towards saving the economy -- if, at least, one was willing to take anything but the shortest of time horizons.

My current thinking has now turned somewhat back into the theory of the complex multi-variable optimization process in that, unfortunately, one must accept the inevitable loss of some lives due to the pandemic, in order not to devastate the economy, but perhaps even more importantly, cause immense damage to individual rights and freedoms. Broad general lockdowns and stay-at-home orders at the state- or even national levels are no longer politically feasible, but (fortunately) these are not necessary in a growing number of countries at this point in time, in my view. Testing and contact-tracing capabilities have improved, intensive care unit (ICU) capacity with ventilators has increased, and medical professionals have developed more effective treatments to keep as many people as possible from landing in the ICU in the first place.

It is in this area that Germany's approach to the pandemic has arguably had the best results. While a strong top-down federal administration was probably only possible and successful due to solid bottom-up acceptance and compliance, the checks and balances -- and federal nuances -- quickly resulted in pushback on any major federal government directive. What has emerged, in my view, is close to the best of both worlds, where there is federal government guidance, but strong state executive- , legislative- and judicial powers curb any excess or attempts to impinge on key individual liberties.

In my admittedly personal libertarian take on globalization, my view is that it is irreversible. I have argued in prior missives that the process of globalization is tens of thousands of years in the making, and no political force is about to reverse it. Sure, there have been ebbs and flows, setbacks to the long-running trend of an ever-more-globalized planet over the very long term, but (in my opinion), globalization is as natural as evolution. Even if one accepts my personal definition and theory, it does not mean that globalization does not have pernicious consequences.

In my analytical framework of the net positive score (NPS) – and attempting to never let the perfect be the enemy of the good – I am the first to admit that there are *many* negatives associated with globalization. Just like nothing else in this world is perfect, an ever-more homogenous globe is not either. But fighting globalization is in my opinion akin to battling windmills or rejecting the force of gravity. These are realities -- and I personally believe the process of globalization to be among them -- that must be accepted and dealt with. I admit this is only my very subjective opinion and nowhere close to provable fact, but if one accepts that I have a point, the best approach towards dealing with globalization is to strive to improve upon it (rather than attempt to repeal it).

The quick spread of the novel coronavirus was no doubt enabled by the degree of globalization we have reached. The global virus crisis also highlighted some of the very negative sides of our current version of globalization, with an incredibly large number of countries not having any domestic production of critical PPE (personal protective equipment), including very simple facemasks, which were in extreme shortage early in the crisis.

It has become evident to a large number of constituencies that more local manufacturing of certain products begs to be 'de-globalized'. This does not mean, in my view, that we should (or ever could) attempt to truly reverse the long-running process of globalization. At the most -- as I am fond of saying -- any positive quality or good thing, if taken to the extreme, becomes a vice or a bad thing, so some manufacturing processes may have taken the process of globalization to an unsustainable extreme. The lesson to be learned is thus to curb any excesses, and a better version of globalization is likely to emerge, in my view.

Perhaps clouded by my libertarian tendencies, my belief is that the best form of globalization stems from the bottom-up emulation of global best practices. In this view of the world, individuals observe what works in other parts of the globe, and are ready to embrace global best practices. This results over time in the cultures with the 'best' characteristics exerting a gravitational pull to which other countries eventually tend to converge. This also results in immigrants to countries with such strong cultures being more likely to assimilate, by *embracing* the host country's key cultural features.

To start wrapping up this section, which admittedly has been replete with my own opinions, not corroborated with anything other than personal anecdotes, I wish to add a couple of these. They are extremely trivial, but thus subtle indications of what makes Germany 'work' for me. Coming from a very different culture, and having lived in many places, it amazes me that Berlin is a relatively quiet global capital. The sounds of sirens (police, ambulance and fire trucks) seem quite subdued when compared to those in large American cities.

In a reflection of consideration to others, it seems to me, most of the sirens are only set off when it is necessary to compel obstructing vehicles to make room for the emergency equipment. Thus, rather than having the siren on during the entire emergency journey, police, ambulances and fire trucks only sporadically turn the loud noise on.

Separately, I would also like to address a misconception that I have come across a few times recently. In response to my posts on *LinkedIn*, there have been comments to the effect of "I'm not trying to be critical of Germany because I like Germany but let's not forget it does have a socialist economic system." It *does* have a socialist system? Well, that's really news to me, and I currently reside here. Maybe it is *very old* news, and the professed expert was referring to the now-defunct German Democratic Republic (aka East Germany)?

Admittedly, the current administration under Chancellor Angela Merkel is criticized in some quarters for her having shifted the so-called *Union* leading the federal ruling coalition to the left in recent years. The 'grand coalition' with the Social Democrats (SPD) is led by Merkel's CDU and its Bavarian sister party (the CSU). The *Union* spearheaded by the Christian Democrats had traditionally been considered a *conservative* party. The CSU even more so. In my opinion, some of the criticism regarding the ruling coalition under Merkel effectively gravitating leftwards is rather valid. Yet, I most strongly believe calling Germany's economic system 'socialist' is way off the mark.

Sure, there is much more of a social safety net in Germany than there is in the US. The German culture has, by most accounts, long been more communitarian and less individualistic than the one of the US. That is (probably correctly) perceived to be one of the key cultural differences between Western Europe and the US.

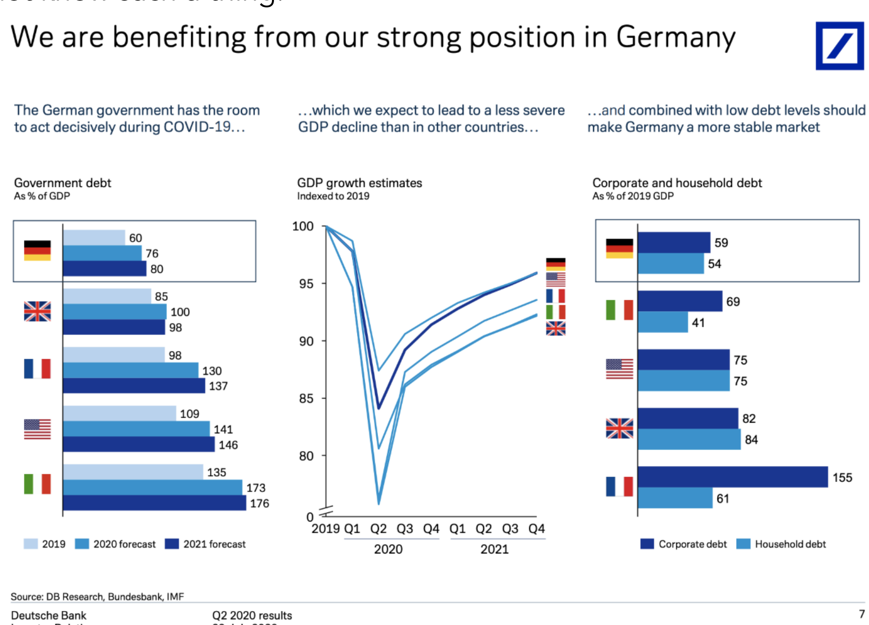
Yet, even in the op-ed by Ruchir Sharma, which I mentioned a couple of times above (and whose posting in *LinkedIn* elicited the 'socialist' comment), the following point is made: "Yet Germany is not dropping its commitment to balanced budgets. Since much of this spending will be drawn from savings, Germany's public debt is expected to rise, but only to 82 percent of G.D.P. — a much lighter debt burden than that of the United States and other highly developed countries, which are spending far less on economic rescue packages."

By today's standards, the relative size of Germany's government (the fiscal burden to its economy) would hardly qualify as anywhere close to that of a socialist country. In fact, based on raw numbers alone, the US is more of a socialist system than Germany. Calling the US socialist is obviously laughable. As a rather libertarian individual, I would prefer the government being out of as many sectors as possible. The USPS (United States Postal Service) is owned and managed by the federal public sector in the world's leading economy. Arguably, 'universal' postal service in a country is a key role for government – or so many Americans seem to believe.

In 'socialist' Germany, however, the counterpart to the USPS is the *Deutsche Post,* a listed corporation with private sector shareholders. Having been privatized by the German government it is, in my opinion, a more efficient entity than the USPS. Interestingly, this [very recent article on Welt] (available, unfortunately, only in German) discusses a new venture by Deutsche Post. Teaming up with a large email services and mobile communications provider (*1&1*), the German incumbent postal services behemoth -- which also owns international package delivery company *DHL* -- is introducing a major innovation.

Given that 'snail mail' is still more relevant in Germany than the US, this analog-digital project to offer regular mail recipients advanced notice (and eventually advance reading) of paper-based mail online is arguably something that it took the private sector to develop. It is indeed remarkable to me that this venture by *Deutsche Post* is with *1&1*, and not with its former sibling under government control (our new global top picks constituent *Deutsche Telekom*).

Prior to their privatization, *Deutsche Post* and *Deutsche Telekom* were (up to 1989) fully public-sector entities under the umbrella of the then-*Deutsche Bundespost* 'bureaucracy'. Therefore, at least when it comes to postal services, the US is still more of a 'socialist' country than Germany. I can almost bet that the person recently calling Germany by that name would not know such a thing.



Finally in this rather-speculative section, I would like to address my most recent thoughts on some of the possible ramifications of Brexit. While I am a fervent 'globalist libertarian', I lamented the decision through a British referendum for the UK to leave the European Union. It is increasingly likely now that the final departure of the Brits from the EU will *not* be accompanied by a new trade agreement with the remaining European free-commerce entity.

Again, while lamenting the Brexit decision, early on I believed that the British may end up making the best of it, cementing closer commercial ties with other English-speaking nations such as the all-important US, Canada and Australia, for instance. Because of the relevance of the American economy, I saw a serious possibility for the UK to eventually emerge better off from leaving the EU.

This is increasingly unlikely, in my view. The very haphazard approach not only to the referendum itself, but to all the negotiations that have followed, the failure by two previous prime ministers, and now Boris Johnson bungling the pandemic response, among other key failures, will probably result in a rather-isolated UK coming out of the Brexit process. I had also regretted the British decision to leave the EU as a blow to the prospects of the European Union itself.

Not without controversy, the British had played what I saw as a *net positive* role in the union, by curbing some of its left-leaning excesses and promoting more conservative economic thinking than might otherwise have been the case. Nevertheless, the role previously played by the UK has arguably now been taken up by the Netherlands, with strong support from the Austrian administration, not to mention the fiscal discipline insisted upon by key Scandinavian members of the EU.

I increasingly believe that the departure by the UK may end up working as a positive catalyst for a better European Union in the long run. This admittedly reflects my optimistic bias, but I speculate that it will, for one, stimulate competitive energy, and make the EU prove that it is a union worth being a member of. The final objective arbiter of who the winner is out of the Brexit process may be the relative capacity of the UK when compared to the EU to attract foreign direct investment (FDI). Time will tell. For additional outside-the-box speculation of possible Brexit ramifications, please refer to this article. The final section of this report, by our geopolitical expert, will deal with politics a lot more specifically.

Outcomes of- and Updates Regarding This Year's Key Elections

Anthony C. Brocado

Whereas our original "Year Ahead"-piece published on January 30th had detailed key elections slated to take place in 2020, the politics section of our "Mid-Year" report will naturally pick up where we left off, analyzing the various results yielded and how the all-encompassing coronavirus crisis has since helped to shake up our world's geopolitical landscape.

Unsurprisingly perhaps, many previously-scheduled elections were postponed to later dates, with some having shifted to the latter half of the year, while others were held under restrictive conditions in order to protect the relevant electorates from potentially contracting and spreading the novel coronavirus in these times of global uncertainty.

A general trend which *has* been observable in most nation-states, however, has been the fact that parties involved in leading their respective countries through the crisis have tended to enjoy a form of 'rally to the flag'-effect, though this cannot be said to be the case universally. Accordingly, previously-observable local political paradigms have often seen dramatic adjustments in the 'post-corona'-era, leading to significant realignments which may or may not become the new norm once a sense of normalcy returns to everyday life (whenever that may be) – presumably, only time will tell.

February 8th, 2020: Following Taoiseach (i.e. Prime Minister) Leo Varadkar's call for snap elections in mid-January, Ireland held a General Election to reconstitute the make-up of the Dáil Éireann or "Assembly of Ireland", the lower house of its bicameral legislature, the Oireachtas on the 8th of February. As mentioned previously, grounds for the dissolution of government had been back-to-back motions of no-confidence which had been issued against the Minister for Housing, Planning and Local Government, Eoghan Murphy, and the Minister for Health, Simon Harris, both members of Varadkar's liberal-conservative Fine Gael party.

Seeking a stronger mandate for his party and its legislative agenda (Fine Gael had led a minority government since May of 2016, leaving the party reliant on confidence and supply from the liberal-conservative Fianna Fáil – The Republican Party as well as the support of several independent Parliamentarians), Varadkar would thus roll the proverbial dice, leading to the Saturday vote, which would ultimately fail to pay off for the gambling Taoiseach.

With 62.9% of registered voters turning out to cast their ballots, the evening would end up producing an unprecedented result, as three parties (namely the aforementioned Fine Gael and Fianna Fáil, as well as the left-wing nationalist, Irish republican party, Sinn Féin) would win similar shares of the vote, each garnering 20%+. Notwithstanding, Fine Gael, having contested the election with 47 seats to its name, would close out the evening having lost 12 seats in the lower house, leaving Varadkar's liberal-conservatives with only 35 MPs, with the party having managed to secure 20.9% of the vote, a loss of 4.7% when compared to the already-depressed results achieved in late-February of 2016.

Likewise, Fianna Fáil would also underperform its previous showing (albeit not to the degree of Fine Gael), managing to pull in 22.2% of the vote and thereby leaving the Christian democrats with 38 MPs (a loss of seven), though this would nonetheless be sufficient to make the party the strongest in the Assembly, besting Sinn Féin in this regard by one single Parliamentarian. As for the latter, the democratic socialist Sinn Féin, led by Mary Lou McDonald, would arguably finish the night as the election's victor, managing to earn 24.5% of the vote and 37 seats, a gain of 15 when compared to 2016.

Despite her party's strong showing, however, McDonald's Sinn Féin would ultimately fail to make it into government, due in part to both Fine Gael and Fianna Fáil's campaign commitments ruling out a coalition with the left-wing nationalists. Accordingly, following several months of wheeling and dealing, a government coalition would finally be agreed to on June 26th, leaving both Fine Gael and Fianna Fáil in government, along with a new partner, the Green Party - An Comhaontas Glas. Under the new arrangement, Fianna Fáil's Party Leader, Micheál Martin, will take over as Taoiseach, albeit only until December of 2022, after which time Leo Varadkar will resume his former office.

February 21st, 2020: Amid rising domestic tensions, the Islamic Republic of Iran held the first round of its Legislative Elections to reconstitute the make-up of its unicameral legislature, the 290-seat Islamic Consultative Assembly (also known as the "Iranian Majles"), on Friday, the 21st of February. With the second round of voting scheduled to take place on September 11th, it will remain to be seen how the nation moves forward, particularly following the heavy toll which the ongoing coronavirus crisis has taken on the country.

Given Iran's having started out as one of the nations most-affected by the pandemic, it is perhaps unsurprising that overall turnout for the first round of voting was quite low, with only 42.57% of registered voters managing to make it to the polls. To put this into a broader context, the turnout rate on February 21st would in fact mark the lowest levels of participation seen in an Iranian election since the 1979 Revolution, with the Republic's Supreme Leader, Ayatollah Ali Khamenei, blaming the "negative propaganda" about the coronavirus for the lack of enthusiasm.

Notwithstanding, Iran's fundamentalist regime will undoubtedly have welcomed the first round's results, with the Iranian Conservatives (or "Principlists") having further strengthened their hand in the Majles at the expense of the country's dwindling percentage of Reformists and independents. Thus, the first round would ultimately result in massive gains for the Principlists, which would add 138 seats to their previously-held total of 83, with 76.2% of first round voters choosing to side with the right-wing faction.

The Reformists, conversely, would see a massive downturn in voter approval, losing 101 seats and managing to hold only 20 by the end of the election. Independents, for their part, would also see a decreased seat-count, finishing the day with 38 seats, while 11 seats remain up-for-grabs when the second round of voting, which was postponed due to COVID-19, takes place in September.

February 29th, 2020: Saturday, the 29th of February witnessed the Slovak Republic's holding its Parliamentary Election to reconstitute the make-up of its unicameral legislature, the 150-seat National Council. Following the murder of Ján Kuciak, a 27-year old investigative journalist, along with his fiancée, Martina Kušnírová, over Kuciak's investigative work in 2018, the coalition government headed by then-Prime Minister Robert Fico would become embroiled in controversy as the nation exploded into protests. Following the resignation of Fico and his Cabinet, Slovakia would be governed by Fico's former Deputy, Peter Pellegrini of the Direction – Social Democracy (i.e. "Smer–SD") party.

Perhaps unsurprisingly, Slovakian voters would ultimately punish Direction – Social Democracy at the ballot box, with the traditional powerhouse of a party losing 11 seats on the National Council, leaving the social democrats with 38 Parliamentarians. Comparing the party's 2020 results to those of 2016, Direction – Social Democracy would thus underperform its prior showing by 10% pp, thereby allowing the populist OĽaNO ("Obyčajní Ľudia a Nezávislé Osobnosti" or "Ordinary People and Independent Personalities") to become the strongest group in Parliament with a total of 53 seats (an increase of 34).

Following this upset, OĽaNO Party Leader Igor Matovič would be tasked with the formation of the next Slovak government by President Zuzana Čaputová, culminating in an agreement on March 21st between Matovič's OĽaNO, the right-wing populist We Are Family (i.e. "Sme Rodina") party, the liberal-conservative SaS (i.e. "Sloboda a Solidarita" or "Freedom and Solidarity") and the fellow liberal-conservative For the People (i.e. "Za Ľudí") party.

Though it would take some time to iron out Cabinet positions following the March announcement, Slovakia's National Council would ultimately sign off on the coalition on April 30th, voting 93-48 to approve the nation's new right-of-center government.

March 2nd, 2020: In German there is an idiom which states "aller guten Dinge sind drei" or "of all good things there are three"; following the April- and September 2019 Elections' failure to produce a viable government, the State of Israel held its third Legislative Election on Monday, March 2nd, thereby hoping to reconstitute the nation's unicameral legislature, the 120-seat Knesset, and restore a sense of order to the country's government amid the ongoing COVID-19 pandemic.

With 2019's two votes having produced neck-and-neck results between the incumbent Prime Minister Benjamin Netanyahu's liberal-conservative Likud – National Liberal

Movement and Benjamin Gantz's Blue and White Coalition (consisting of the centrist Israel Resilience- and Yesh Atid parties, as well as the center-right Telem party), a third attempt hardly seemed likely to produce a more workable outcome, though ultimately common sense and civic responsibility would indeed prevail amongst key members of Israel's political class.

Unsurprisingly, March 2nd would thus see Likud and the Blue and White coalition achieve a near-tie, with Likud managing to secure 36 seats to Blue and White's 33, reflecting an increase of four seats for Likud when compared to the latter of 2019's elections. Immediately thereafter, negotiations would begin, with Benjamin Gantz receiving the initial 'nod' from Israeli President Reuven Rivlin to attempt to form a workable government, as Gantz would be the first to secure the support of a majority of the Knesset's members.

Despite the coronavirus pandemic's leading to Benjamin Gantz undergoing a change of heart with regards to his previous rejection of entering into coalition with Netanyahu's Likud, the formation of such a unity government would prove extremely difficult, with both Gantz and Netanyahu failing to reach a workable agreement within the allotted time provided to do so. Accordingly, it would take several extensions (which President Rivlin would graciously provide) in order to produce a consensus between the two rivals, ultimately culminating in a signing of a coalition deal between Likud and Blue and White on April 20th.

Under the approved deal, Netanyahu would thus retain his post as Prime Minister of Israel for another 18 months, after which time the Prime Ministership will rotate to Benjamin Gantz, who in turn will serve for at least 18 months at the head of Israel's government. Though a few minor hiccups would bubble up along the way, the 35th Cabinet of Israel would finally be sworn in on Sunday, May 17th, with each of the two parties involved receiving an equal number of cabinet positions.

March 29th, 2020: Prior to the emergence of the novel coronavirus, Italy was set to hold a Constitutional Referendum on the question of whether or not the number of Parliamentarians should be cut from its current total of 945 to a "mere" 600. Following the rapid rise of cases across the Republic, particularly in its heavily-affected northern region, the referendum was understandably postponed for a later date. Though nothing is certain in the age of COVID-19, Italians will now presumably head to the polls on September 20th and 21st in order to cast their ballots.

April 15th, 2020: Despite ongoing concerns regarding the spread of the novel coronavirus, South Korea would nonetheless hold its Parliamentary Election to reconstitute the make-up of its unicameral legislature, the 300-seat National Assembly of the Republic of Korea on Wednesday, the 15th of April.

As originally discussed in our "Year Ahead"-piece, available polling data (though scant) had seemed to indicate that the Democratic Party or "Minjudang" looked set to improve on its prior showing in 2016, which had yielded the social liberals a total of 123 seats on the National Assembly. Following the beginnings of the global pandemic, however, many nations' preexisting political paradigms have seen a significant shift, with governing figures/parties generally seeing a "rally to the flag"-effect (with notable exceptions including the United States and Brazil).

Accordingly, it would come as only a minor surprise when the governing Democratic Party (particularly following its almost-unparalleled success in dealing with COVID-19 following a brief spike in the city of Daegu) would achieve a landslide victory, adding 57 seats to its previously-held share for a new total of 180 seats. The right-wing United Future Party (previously the "Saenuri Party" or "Liberty Korea Party"), conversely, would continue its downturn, losing 19 seats and leaving the conservatives with only 103 Parliamentarians.

Given the degree of success achieved by the Democratic Party and its satellite, the Platform Party, the alliance now holds a crucial three-fifths super-majority, thereby allowing for the fast-tracking of legislation through the National Assembly. Overall, the election will undoubtedly be seen as an historic milestone, as the Democratic Party achieved the highest number of seats claimed by any South Korean political party since 1960, while turnout was recorded at its highest levels since March of 1992.

May 3rd, 2020: Following the nation's political crisis experienced as a result of the rigged October 2019 Election, Bolivia was set to hold a new General Election to elect the Bolivarian Republic's next President (with Juan Evo Morales Ayma having been replaced at the helm of MAS-IPSP by Luis Alberto Arce Catacora, Morales' former Minister of Economics and Public Finance) and reconstitute the country's bicameral legislature, the Plurinational Legislative Assembly, consisting of a 130-seat lower house, the Chamber of Deputies, and an upper house, the 36-seat Senate.

As was the case with the second round of voting in Iran and the planned constitutional referendum in Italy, however, coronavirus concerns have led to the postponement of the General Election in Bolivia until September 6th.

June 17th and 18th, 2020: On Wednesday, the 17th of June, the United Nations General Assembly (i.e. "UNGA") held elections to fill five of ten seats on the United Nations Security Council (i.e. "UNSC"). The vote took place as scheduled during the meeting of the 74th Session of the UNGA in New York City, NY, with these seats carrying a two-year mandate, which will be set to commence on the 1st of January, 2021.

Due to the UNSC's allocation rules, one seat was reserved for each of the following regions:

- *Africa*
- *The Asia-Pacific Nations*
- *Latin America & the Caribbean*

with the two remaining seats being allocated to the so-called "***WEOG***" or "***Western European and Others Group***", also known as the "***Group of Western European and Other States***".

Given India's having run uncontested for a seat representing the Asia-Pacific group and Mexico's unrivalled bid to represent Latin America and the Caribbean, it is unsurprising that both nations went on to secure their desired positions.

With Canada, Ireland and Norway all vying to take one of two available seats representing the Western European and Others Group, Canada would ultimately lose its bid, despite having spent approximately $1.74 million during its campaign for the position.

As for the African Group, a two-way race between Kenya and Djibouti would surprisingly emerge, leading to a bit of a diplomatic spat between the two nations, as Africa tends to have a rotating system whereby such UNSC Elections are rarely contested. Despite Kenya's bid receiving a significant endorsement by the Permanent Representatives' Committee of the African Union, Djibouti would choose to dispute Kenya's claim, arguing that the East African Republic had already sat on the Council for two terms. Rhetoric would escalate along these lines, with the Republic of Kenya stating that Djibouti's refusal to drop out of the race "brings dishonor and disrepute to the African Union".

As tensions increased, Djibouti would receive endorsements to rival that which Kenya had picked up earlier in the race, garnering the support of not only the Arab League but also the Organisation of Islamic Cooperation (i.e. "OIC") and the Organisation Internationale de la Francophonie (i.e. "OIF"). To further complicate matters, both the People's Republic of China and the Russian Federation would throw their support behind the small Republic of Djibouti, highlighting the growing international influence campaigns taking place on the African continent.

Despite such interventions, however, Kenya would ultimately clinch the nomination, though two rounds of voting would end up being necessary to secure the two-thirds majority of 128+ votes required to win a seat on the Council. Accordingly, the second round of voting would see Kenya earning 129 votes to Djibouti's 62, with the first vote having yielded results of 113 to 78, respectively.

June 21st, 2020: As has been the case for the first half of the year (and as will presumably be the case for the foreseeable future) Serbia looked set to hold its Parliamentary Election to reconstitute the make-up of its unicameral legislature, the 250-seat National Assembly, when COVID-19 derailed these plans and forced the Balkan nation to postpone the vote until late-June.

As of June 29th of 2017, Serbia had been governed by a broad coalition consisting of members of the right-wing populist Serbian Progressive- and Serbian People's parties, left-wing populist Socialist Party of Serbia and Movement of Socialists, and the center-left populist Social Democratic Party and Party of United Pensioners, with the controversial Aleksandar Vučić serving as President since May 31st of said year (with Vučić previously having held the position of Prime Minister from April 27th, 2014 until his assumption of the Presidency).

Against the backdrop of a series of protests which began on November 30th, 2018 (and have yet to truly subside), the country's rampant corruption issues, press censorship and political violence at the hands of the autocratic Vučić regime have become more widely recognized, with several prominent Serbian politicians standing accused of an array of criminal activities. As mentioned in the previously-released "Year Ahead"-piece, January 20th of this year would thus see the center-left social-liberal Movement of Free Citizens, led by citizen activist Sergej Trifunović, call for a boycott of the elections, and we had mentioned that it remained to be seen to what degree such resistance would in fact materialize come Election Day.

Fast-forward to the 21st of June and the Republic of Serbia and its electorate would present us with the unsurprising answer; by the time all ballots had been counted, it would thus become clear that only 48.88% of registered voters had bothered to make their voices heard, with a plethora of parties including the Democratic Party, Serbian Movement Dveri, People's Party, Party of Freedom and Justice, Movement for Reversal, People's Movement of Serbs from Kosovo and Metohija "Fatherland", United Trade Unions "Sloga", Civic Platform, Social Democratic Union, the Civic Front coalition, Together for Serbia and the Social Democratic Party keeping their previously-made pledges to not contest the election (with some parties making an exception for the municipal level).

Accordingly, the results would prove to be rather lopsided, with the Serbian Progressive Party (i.e. "SNS")-led coalition "Aleksandar Vučić — For Our Children" (i.e. "Александар Вучић — за нашу децу"), headed by the incumbent President Vučić, earning a whopping 60.65% of the vote or 188 seats, an increase of 59. In order to put these results into context, the next-strongest bloc in Serbia's National Assembly will henceforth consist of the SPS-JS coalition (consisting of the left-wing "Социјалистичка партија Србије" or "Socialist Party of Serbia" and the right-wing populist "Јединствена Србија" or "United Serbia"), which holds a paltry 32 seats between the two parties, an overall increase of only three.

According to the *Center for Research, Transparency and Accountability* (i.e. "*CRTA*"), an independent, non-partisan organization headquartered in Belgrade and tasked with the oversight of the elections, the June 21st Election was "the worst since 2016 when the *CRTA* election watchdog started monitoring the ballot in Serbia, with twice more irregularities and incidents than four years ago," with such 'irregularities' including "buying votes, pressure on voters outside the polling stations, taking photos of the ballots, parallel registration of the voters, multiple voting by a single person and voting without control of the IDs".

Rasa Nedeljkov, *CRTA*'s Program Director, would issue a scathing quote, going on the record on the organization's website to state: "These elections have met a minimum of the democratic standards, but they imperil democracy because the next votes will be even worse as will be the state of democracy".

June 28th, 2020: In what will perhaps become one of the more important political milestones of 2020, Poland held the first round of its delayed Presidential Election on Sunday, the 28th of June amidst the ongoing coronavirus crisis, with the incumbent President, Andrzej Duda, (who prior to 2015 served as a member of the right-wing PiS or Law and Justice party) facing off with several challengers including the liberal-conservative Civic Platform's Rafał Trzaskowski, journalist and politically-independent Szymon Hołownia, the Polish People's Party's Władysław Kosiniak-Kamysz, the Confederation Liberty and Independence Coalition's Krzysztof Bosak, The Left Coalition's Robert Biedroń and several minor contestants such as Stanisław Żółtek, Marek Jakubiak, Paweł Tanajno, Waldemar Witkowski and Mirosław Piotrowski.

Given the iron grip with which the Law and Justice party has held onto the reins of power in Poland since the organization's rise to political stardom in late-October of 2015, President Duda would naturally enter the race as the favorite to win, though the coronavirus pandemic would work to shake things up in the Republic of Poland. Furthermore, with resistance building within the Central European nation (particularly among younger voters) against PiS' hardline positions on homosexuality, immigration and the European Union, a galvanized opposition would frame the election as a potential 'last chance' to decide Poland's future, arguing that 'Polish democracy is on a knife's edge' under its current leadership.

Accordingly, despite Law and Justice's strong record in the past half-decade's elections, the PiS-backed incumbent, Andrzej Duda, would nonetheless face significant hurdles to secure a new term as President, earning 43.5% of the first round's vote, with Civic Platform's Rafał Trzaskowski coming in a distant second with a share of 30.46%. With nine further candidates having contested the first round of voting, all eyes in Europe were thus on Poland on July 12th, when the second round of voting was set to take place. With 68.18% of registered voters casting their ballots, the incumbent Duda would thus face off with Warsaw's Mayor, Rafał Trzaskowski.

By the next morning in Europe, the results were in: Andrzej Duda had been reelected as the President of Poland, having received 51.03% of the vote to his challenger's 48.97%. Despite Mr. Trzaskowski's having conceded to President Duda and congratulating him on his victory via *Twitter* on July 13th, the Civic Platform's Party Chairman Borys Budka would nonetheless tell reporters on July 17th that the Civic Coalition's (an electoral alliance consisting of several parties including the Civic Platform, Modern Party, Polish Initiative and The Greens) Barbara Nowacka, a well-known left-wing activist and Party Chairwoman of the Inicjatywa Polska (i.e.

"Polish Initiative"), had challenged the election's results, lodging an appeal with the Polish Supreme Court.

With regards to Budka's backing of the appeal, Budka would tell reporters that: "We have asked for the election to be declared invalid. This election was neither equal nor universal. It was dishonest. The whole apparatus of the state broke the law [by supporting Duda]." The complaint, as reported by *France24*, specifically takes aim at *Telewizja Polska S.A.*, commonly known as *TVP*, Poland's state media corporation and largest television network, which Chairwoman Nowacka has accused of political bias. According to *France24*, Nowacka's appeal includes "complaints about irregularities from 2,000 people, including problems with voter registration, ballot papers not being sent out in time and issues with voting abroad".

Concerning Poland's controversial elected leadership, Ms. Nowacka argues: "One of the reasons why I'm submitting this electoral protest today is so that those in power know that citizens are keeping an eye on them. Because if we were to let this go today, then they would tighten the screws even more during the next election." Needless to say, Poland's polarized state does not look to become less so in the months ahead.

July 5th, 2020: Perhaps unsurprisingly the Dominican Republic, which was originally scheduled to hold its General Election on May 17ths in order to elect its new President, Vice President and reconstitute its bicameral legislature, the Congress of the Dominican Republic (consisting of the 190-seat lower house, the Chamber of Deputies, as well as the 32-seat upper house, the Senate), saw itself forced, like several countries before it, to postpone said vote until Sunday, the 5th of July.

With regards to the Presidency, the incumbent Danilo Medina Sánchez of the center-left populist PLD (the Dominican Liberation Party) was ineligible to stand for reelection, having previously served two terms. With regards to the Dominican legislature, the PLD and its allies had previously held 127 of the Chamber of Deputies' 190 seats, with the party's primary opposition consisting of the PRM (the Modern Revolutionary Party) and PRSC (the Social Christian Reformist Party), which collectively wielded 60 seats in the lower house. In the Senate, 28 of 32 seats were also under the control of the PLD and its allies, while 26 of these were held exclusively by the center-left populists. The PRM and PRSC, for their part, wielded only three seats in the upper house, by contrast.

With six primary candidates running for the Dominican Presidency, the race effectively boiled down to a three-way race, with Luis Abinader Corona representing the PRM, Gonzalo Castillo Terrero running on the PLD's ticket and former President Leonel Fernández Reyna representing a new party, the Fuerza del Pueblo or "People's Force" party. By the time ballots were in and counted, it would become clear that a runoff election had been averted, as the PRM's Luis Abinader would secure a majority of votes, earning an overall share of 52.52%.

As for the Chamber of Deputies, only two of the 26 parties/coalitions to run for representation would manage to secure double-digit seat counts, namely the PRM and PLD, which would claim 86 and 75 seats, respectively. This result would see the Chamber undergo a significant shift, as the PRM had previously controlled only 42 seats to the PLD's 106. Effectively a two-party system, the lower house's next-strongest party, the right-wing PRSC, would end up with a mere six seats in the Chamber.

Looking at the Republic's upper house, the Senate reflects a similar picture, with only two- to three parties featuring relevant seat counts. As reflected in the Chamber of Deputies, these consist of the PRM, PLD and the honorable mention, PRSC, with these three parties having won 17, six and six seats in the upper house, respectively.

Despite its having won a majority of seats in the Senate, the PRM only managed to secure a plurality in the lower house, and given the PLD's implosion, both parties will henceforth see themselves forced to enter into coalition with other groups in order to pass legislation. President-Elect Luis Abinader, meanwhile, having recovered from COVID-19 (for which both he and his wife tested positive on June 11th), is set to assume the Presidency of the Dominican Republic on August 16th.

July 15th, 2020: Following former Prime Minister Zoran Zaev's call for snap elections, North Macedonia scheduled an early Parliamentary Election to reconstitute the make-up of its unicameral legislature, the 120-seat Assembly of the Republic of North Macedonia or "Sobranie", for Sunday, April 12th, though the coronavirus pandemic would come to necessitate a postponement until Wednesday, July 15th.

Following Zaev's decision to dissolve the country's government, the outgoing Prime Minister would promptly be succeeded by his former Minister of Internal Affairs, Oliver Spasovski, who in turn would take over the reins of power as North Macedonia's Acting Prime Minister on January 3rd. Prior to the July vote, the nation's governmental coalition consisted of members of the Social Democratic Union of Macedonia, the Democratic Union for Integration, the New Social Democratic Party, Liberal Democratic Party, Alliance for Albanians, Party for the Full Emancipation of the Roma of Macedonia and Party for the Movement of Turks in Macedonia.

Despite former Prime Minister Zaev's failure to achieve a deal with the European Union for North Macedonia's desired accession to the bloc, Zaev's SDSM (i.e. "Социјалдемократски сојуз на Македонија" or "Social Democratic Union of Macedonia") would nonetheless remain the strongest party in the Sobranie following the election, with the party receiving a vote-share of 35.89% to the runner-up VMRO-DPMNE's 34.57%. Notwithstanding, these results would mean a loss of seats for both of the country's top finishers, with the SDSM holding onto 46 of its previously-held 54 seats while the VMRO-DPMNE would retain 44, representing a loss of seven Parliamentarians.

Third- and fourth-place would be clinched by North Macedonia's two largest Albanian minority interest parties, namely the BDI (i.e. "Bashkimi Demokratik për Integrim" or "Democratic Union for Integration") and the AS (i.e. "Aleanca për Shqiptarët" or "Alliance for Albanians"), and given the fact that both the SDSM and VMRO-DPMNE's electoral results failed to deliver either party a sufficiently significant mandate to govern alone, a governmental coalition will undoubtedly have to be formed with either the BDI, AS or both for a workable government to be achieved (barring a highly-unlikely unity government between the center-left social democrats of the SDSM and the right-wing nationalist conservatives of VMRO-DPMNE).

With deliberations remaining ongoing at the time of this piece's publication, it will be interesting to see the deal North Macedonia's political class ends up managing to produce in such volatile times, and who will ultimately be tasked with leading the nation through the remainder of the unpredictable coronavirus pandemic.

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