

Interviewee: **Michael Shaoul**  
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Company: **Marketfield Asset Management**

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Interviewer 1: **Betty Liu**

**Betty Liu**

Our next guest says, "Just take a look at corporate earnings to know that the bull market has more room to run; it is time to buy." We are joined by Michael Shaoul. He's the Chairman of Marketfield Asset Management. He oversees about \$1 billion in assets. Michael, great to have you with us.

**Michael Shaoul**

Thank you.

**Betty Liu**

So, why are the bears wrong here?

**Michael Shaoul**

You know, I think that everyone's calling, you know, for a slowdown in the United States way too early in a pretty strong corporate cycle, and if you look historically, a corporate earnings cycle in the United States lasts for several years. You go through a process of running down inventories at the beginning and then building them up at the end and, you know, we're clearly only about halfway through that process at this point in time.

**Betty Liu**

Halfway through the inventory or halfway through the corporate earnings cycle?

**Michael Shaoul**

You know, I think both go together. I mean we're roughly two years into the cycle. It really kicked in in the middle of 2009 and my guess is it has another 18 months or so to go.

**Betty Liu**

But, Michael, some say that when you look at earnings though, yes, we've had record profits coming out from some really big companies just this last quarter, for instance, but it's still a lagging indicator. There is worse to come.

**Michael Shaoul**

Worse from where?

**Betty Liu**

Worse in terms of consumer spending is lagging. The housing market's not rebounding. Are the Feds going to be pulling out its stimulus-- that kind of worse?

**Michael Shaoul**

Well, you know, if we start with consumer spending, it's actually at an all-time high right now. There's been no sign of it slowing down, and you shouldn't expect it to slow down. In terms of housing, the existing housing market is somewhat normal in terms of activity. The new home market is completely dead at this point in time, but thankfully, it can't do anymore damage to the economy than it already is doing and, in fact, most of the things people are worried about,

unemployment would be another example of, really, things which should actually help the recovery or an expansion going forward.

**Betty Liu**

How?

**Michael Shaoul**

Well, you know, if you have a large amount of unemployed people today and you have a certain amount of activity, as they re-enter the employment market, they're only actually going to add to aggregate demand.

**Betty Liu**

But is that enough to keep driving the earnings though, the record earnings?

**Michael Shaoul**

Yeah absolutely. I think that the earnings start with activity.

**Betty Liu**

All right, let's talk emerging markets for a moment because I know you're pretty contrary in that front. Do you think actually people should start getting out of emerging markets?

**Michael Shaoul**

Yes.

**Betty Liu**

Why?

**Michael Shaoul**

I think you are exactly at the end of the sort of cycle that I was talking about in the United States. The average emerging market had a cycle which started somewhere between 2001 and 2002. Now nine, ten years into that process, you literally have entire industries operating at levels that no longer make sense.

**Betty Liu**

But we've got to be specific. You mean all emerging markets or which ones you think are the worst?

**Michael Shaoul**

You know, that's a good question. I would start with India as one of the most problematic large emerging markets. I'd put Brazil somewhat behind it. China's a much more complicated story, but of the big ones, I'd start with India.

**Betty Liu**

Okay, and is that why you see commodities having peaked, the prices there having peaked?

**Michael Shaoul**

Yeah, I think this time around, emerging markets and commodities really started together in the early 2000's and my assumption would be that they will end together.

**Betty Liu**

That they will end together.

**Michael Shaoul**

Yes.

**Betty Liu**

How does the Fed play into your commodities outlook?

**Michael Shaoul**

The Fed is running an extremely easy monetary policy, obviously, at this point in time and QE2 will end in a few weeks. That may cause some disturbance simply from people considering that to be a tightening. I don't think the end of QE2 is a tightening. The real tightening in the world right now and then people are somewhat blind to this is happening within the emerging market complex and I think you have to understand that a lot of it's not just the

**Betty Liu**

But, Michael, but that point you just made is why people have been chasing the yield overseas in emerging markets, right?

**Michael Shaoul**

Correct.

**Betty Liu**

That likely isn't going to end though.

**Michael Shaoul**

Well, it depends what kind of yield they're chasing. If you're chasing emerging market corporate high-yield securities at this point in time, which is maybe the less popular asset class out there, what you have to understand is that local monetary policy is starting to disturb actual investment opportunities over there. So I think you're actually going to see credit losses in fairly large portions of the emerging market corporate sector.

**Betty Liu**

With India being, again, at the top of your list?

**Michael Shaoul**

Yeah, I would put India at the top of my list. I would put Brazil fairly close behind it in terms of corporate securities.

**Betty Liu**

Okay and from there, then you see money coming back and chasing assets in the US then?

**Michael Shaoul**

Yeah, I think the first thing that happens is people get scared about emerging markets and then they go to cash and then they're cash gets redeployed within the US equity market.

**Betty Liu**

Michael, just on a final note. We're in what? The third year of a two-year bull, we're in the third year, right?

**Michael Shaoul**

Yeah.

**Betty Liu**

So, do you expect the gains to be as much as we've seen in the last two years or do you actually expect that to moderate?

**Michael Shaoul**

Typically, there's maybe three phases. There's the initial recovery, which we've gone through. We had a double. We'd probably go through a period of digestion right now, which will probably have some mini panic in the middle of it and the last portion of a bull market will be quite uncomfortable to participate in.

**Betty Liu**

Uncomfortable.

**Michael Shaoul**

Uncomfortably strong.

**Betty Liu**

Uncomfortably strong.

**Michael Shaoul**

Yeah.

**Betty Liu**

Describe that, just quickly describe that to me. What would that look like?

**Michael Shaoul**

Yeah, sure. If you went back to say 1999, it was very, very difficult for people like me to want to stay invested in the US equity market. It just got ahead of you. If you look at emerging markets, in 2010, they became uncomfortably strong. You made a lot of money, but you were somewhat uncomfortable doing it.

**Betty Liu**

Because the momentum was so much.

**Michael Shaoul**

Exactly.

**Betty Liu**

Okay, I got it. Michael, thank you. Really appreciate you joining us, giving us your views. Michael Shaoul from Marketfield Asset.

**Michael**

Thank you very much.

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