

Interviewee (1): **Michael Shaoul**
Title: **Chairman**
Company: **Marketfield Asset Management**

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Interviewer (1): **Betty Liu**
Interviewer (2): **Dominic Chu**

Betty Liu

We're now joined by Michael Shaoul who oversees \$1 billion. Michael, great to have you back with us.

Michael Shaoul

Thank you.

Betty Liu

What do you make of this conversation we just had about the earnings reports and whether or not this means that, you know, this shows- underscores- that the markets are under-valued.

Michael Shaoul

I heard you use the phrase "less bad". The phrase I would use is "good enough". You don't need great earnings to deal with the S&P at 1250, which is roughly where we are right now. And, you know, the two sectors, which we've been very positive about throughout this very difficult summer were retail and technology, and overall earnings in those sectors look good. I mean, I would disagree with any question that the U.S. consumer is under pressure.

Betty Liu

Right, what Mike was talking about, though, from some of the earnings reports from UPS, from Amazon--

Michael Shaoul

Amazon is its own special case. Amazon is trying to build a new business, which will either work or not. And this particular quarter, it doesn't tell you what's happening to the U.S. consumer. But the vast majority of retail sales points look very positive to us. And I think you have good activity at the level of the U.S. consumer. And in technology, the big question we had was: are smart phones totally cannibalizing the PC industry? And the answer is: no, they're not. So you have decent...

Betty Liu

Because why?

Michael Shaoul

Well, because people are buying PCs as well as smart phones.

Betty Liu

What's telling you that? What are you seeing that's telling you that?

Michael Shaoul

I think Intel's numbers were a key indicator of the chip sector in general, which was really a sector people got quite negative on in the middle of the summer.

Dominic Chu

Intel's story was also interesting because they credited emerging markets and international demand outside of Western Europe and the U.S. as being a driver for that laptop or chip demand. So is that something that you're also seeing as well here: that the growth is not so much in Western Europe and the U.S., but it still remains rather robust even though things are maybe showing signs of slowing down elsewhere?

Michael Shaoul

You know, I mean, I like U.S. growth more than emerging market growth going forward. I've been very consistent on that all summer. I think the emerging markets are still growing quite quickly, but they are significant signs of deceleration in countries like Brazil, Turkey, India. You know, you have the central banks at a very, very difficult point now where they really can't loosen policy any more without weakening currencies. So, as I say, I think the U.S. economy is going to do okay.

Betty Liu

And you think that the U.S. markets, [the] U.S. investor, is getting more "bored" with what is going on in Europe. It's going to matter less and less here.

Michael Shaoul

I think it is. I think that people are beginning to realize that it's not going to end. You're going to be able to get out of bed tomorrow wherever the German, French spread is.

Dominic Chu

Exactly. Let's cut to the chase then.

Betty Liu

We hope we can get out of bed whether or not--

Dominic Chu

Obviously, if we get right down to the real bottom line of this whole thing, people are not paying up for earnings right now. It's the lowest level we've seen in the S&P 500 price-to-earnings in the last 12, 15 years. What exactly gets people out of bed and pay more than 13 times earnings for the S&P 500?

Michael Shaoul

I think at a certain point in time Europe will stop dominating the headlines and you'll see a slow and steady appreciation in particular sectors. I mean, there's a few sectors, which got very close to new 2011 highs earlier this week. That shows you that there is new money going back into this market.

Betty Liu

Just quickly, because obviously we are on this day when they're meeting. EU leaders are meeting. What do you think needs to happen from this meeting to give investors more conviction and come back into the market?

Michael Shaoul

I think you need to see that Europe has some sort of a workable plan it's going to put into action. I think anybody who's looking for a silver bullet isn't going to get it. But you at least need to see France, Germany and the other European nations on the same page and singing from the same score sheet. Whereas what you had going into this meeting is some really quite antagonist comments made by Europe's leaders.

Betty Liu

Okay, Michael, great to see you again. Michael Shaoul from Marketfield Asset Management.

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