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A building spree could really help revive the world economy

◆ UK pledges to spend US\$6.2 billion in infrastructure projects.

◆ Other countries, from Brazil to New Zealand and China are also spending more on big projects.

◆ New bridges and roads construction could increase the demand for base metals and other commodities.

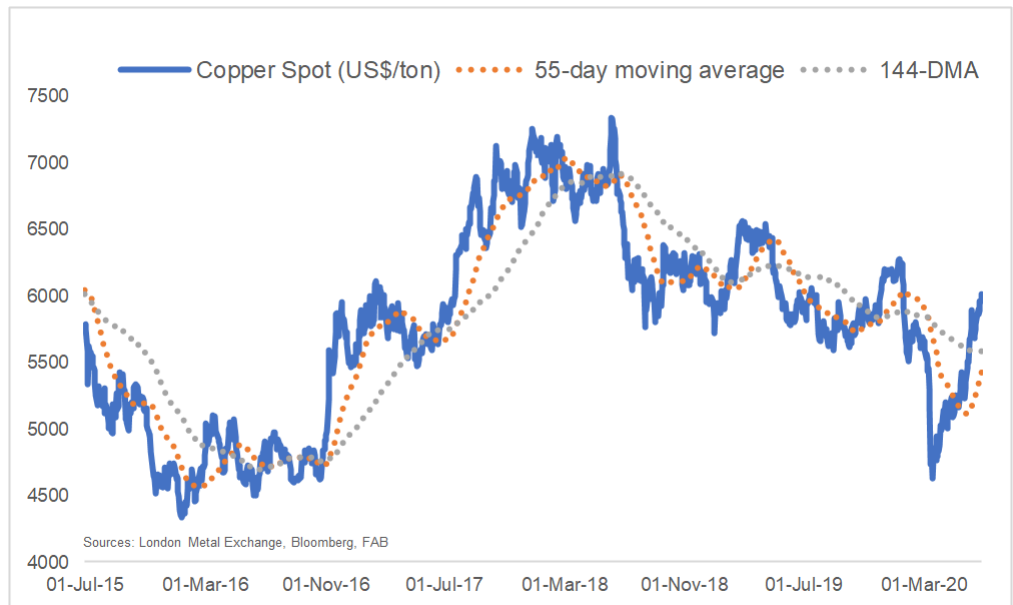
◆ The materials sector has underperformed the S&P 500, down 8% versus 4% for the broader index, year to date and is massively behind in the past five years.

◆ The impact could take a while, though, as large projects take time to start and caution is still warranted.

◆ FAB AAC remains overweight high-quality investment grade bonds.

Build, build, build. This is how UK Prime Minister Boris Johnson summarized his plan to restart the country's economy after it had the worst performance since World War II. The plan was immediately met with a barrage of criticism, including some comments about the relatively small financial commitment to the plans, of only 5 billion pounds (US\$6.2 billion).

Yet, Prime Minister Johnson may be personifying what seems to be increasingly the mainstream thinking among policymakers. Faced with century-high unemployment levels, governments around the world are getting inspiration from the New Deal experience in the US, when then President Franklin Delano Roosevelt pulled the country out of the Great Depression with a series of large scale infrastructure projects.



With interest rates at their lowest in modern history in both the developed and emerging markets, spending on infrastructure makes ever more sense. After all, if governments have to borrow to build, as they do now, it is better to do so when the cost of borrowing is cheapest.

Building roads, bridges and telecommunication networks generates lots of jobs and gets the economy going too. The trouble, though, is that it takes time between when a project is envisioned and it starts being built, especially large projects which can take months to get environmental clearance. That does not make them less attractive, it only suggests that countries looking at infrastructure to rebuild the economy may have to continue to plug the income gap for a bit longer.

For investors, the key thing to keep in mind is that large projects require a lot of raw materials, from copper to steel and cement. And the price of these materials has fallen consistently for nine years.

Copper prices seem about to enter a bullish trend as the world looks at infrastructure

In fact, the Bloomberg Commodities index is at its lowest since the 1970s. Perhaps, it would require a large global building commitment to reverse its bearish trend. Indeed, in the past 100 years, every major commodities bull market was associated with a construction spree in a major economy, whether it was the rebuilding effort after World War II or China's rise to its current global powerhouse status.

Copper prices, at least, seem to be signaling that the market for raw materials could be about to reverse its bearish trend. They breached US\$6,000 a ton earlier this week and are hitting against major resistances. Investors often say that Dr. Copper preempts the wider economy, and commodities. Whether this is it or another false start will be known in due time.

Investment Strategy Update

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