

“The implications of globalization”

By Tommy Williams, CFP®

Let’s talk Turkey! So, how did a country that represents just about 1.4 percent of the world’s economy spark a global selloff? Turkey was once a rising star. The country’s Prime Minister Recep Tayyip Erdogan took office in 2003 and his “conservative, pro-business policies helped pull the country back from an economic crisis,” reported *Financial Times*.



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As Turkey’s economy strengthened, investors saw opportunity. Investments from outside the country averaged about \$13 billion a year, according to *World Bank* figures cited by *Financial Times*, although

investment slowed after terror attacks in 2015.

Bloomberg reported Prime Minister Erdogan has become more authoritarian since being re-elected in 2018, giving himself power to name the head of Turkey’s central bank. *Financial Times* reported the Prime Minister’s “...unorthodox views on interest rates...has proved disruptive for monetary policy, leaving...Turkey’s central bank, struggling to contain inflation that is running at close to 16 percent.”

Lack of central bank autonomy concerned investors. The Turkish lira began to weaken against the U.S. dollar, making it costly for businesses to repay dollar-denominated debt. Politics have factored into the situation, as well. During 2018, negotiations were underway to secure the release of an American pastor who was arrested on “farcical terrorism charges,” reported *The*

Economist. However, talks collapsed early in August. Asset freezes and sanctions followed, along with promises of additional tariffs on Turkish goods imported by the United States.

The subsequent steep drop in the value of Turkish lira sparked concerns that rippled through global markets. *Financial Times* reported:

“Turkey’s deepening crisis punished emerging market currencies and sparked a global pullback from riskier assets on Friday...The S&P 500 fell 0.7 percent in New York on Friday. Treasury yields also moved lower, with the 10-year dipping below 2.9 percent for the first time this month, as investors sought safe assets...Investors’ shift from risky assets knocked equities across Europe, with Germany’s Dax, France’s CAC 40 and Spain’s Ibex all about 2 percent weaker.”

For quite some time, investors have appeared immune to geopolitical risks. Perhaps that is beginning to change. Or maybe it's the adage I referred to a couple of weeks ago, "things have a way of working until they don't".

While we are reflecting on global connectedness, I think an observation of various astronauts is very meaningful. Alan Shepard was the first American in space. One of his observations from space while looking back at the earth was that it was different than the globe in his living room. It did not have lines that divided up man made territories or countries with boundaries and borders over which we could fight. Tariffs, wars, nuclear bombs, armed forces, border walls – you name it. It's just a beautiful ball revolving peacefully in space. What a thought! Of course he's best known for being the only man to hit a golf ball on the moon and his famous quote, "It is a very sobering feeling to be up in space and realize that one's safety factor was determined by the

lowest bidder on a government contract".

Of course, I'd be remiss if I did not close with the rock group, R.E.M.'s question: Would you believe they put a man on the moon?

Apparently some theorize that it all was a hoax. No wonder we struggle with things on this planet!

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