



## Beasts

**P**aris, at the turn of the 20<sup>th</sup> century, was the center of the world: the City of Lights embraced innovative entrepreneurs and artists alike. The new automobile industry burgeoned with 600 manufacturers around the city, making France the world's largest exporter of cars. The even newer aeronautics industry was dominated by Frenchmen, who were among the most famous men of their day. Louis Blériot was the first to fly across the Channel in 1908, and Roland Garros was the first to cross the Mediterranean in 1913.<sup>1</sup> The Lumière Brothers invented cinema, and soon France was leading the world in film production.<sup>2</sup>

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<sup>1</sup> Garros was killed in the last month of the First World War, and his name was given to the 1928 tennis stadium that hosts the French Open Championships.

<sup>2</sup> The Lumière Brothers gave the first public showing of a film in 1895, and within a decade France was producing more than 1,000 films per year, from such pioneers as Léon Gaumont and the Pathé Brothers, whose studios are still making movies.

The engineering marvel that was Gustave Eiffel's wrought iron masterpiece, built for the 1889 World's Fair in honor of the 100<sup>th</sup> anniversary of the French Revolution, dominated the skyline (as it does today). Galeries Lafayette, with its vast domed roof of stained glass, was the most spectacular retail store in the world. The Theatre des Champs-Elysees, a concrete marvel from celebrated architect Auguste Perret, had just opened. Sergei Diaghilev's *Ballet Russes* would perform Stravinsky's *Le Sacre du Printemps* there in 1913, inciting a riot. But it was not the first riot that art would provoke.

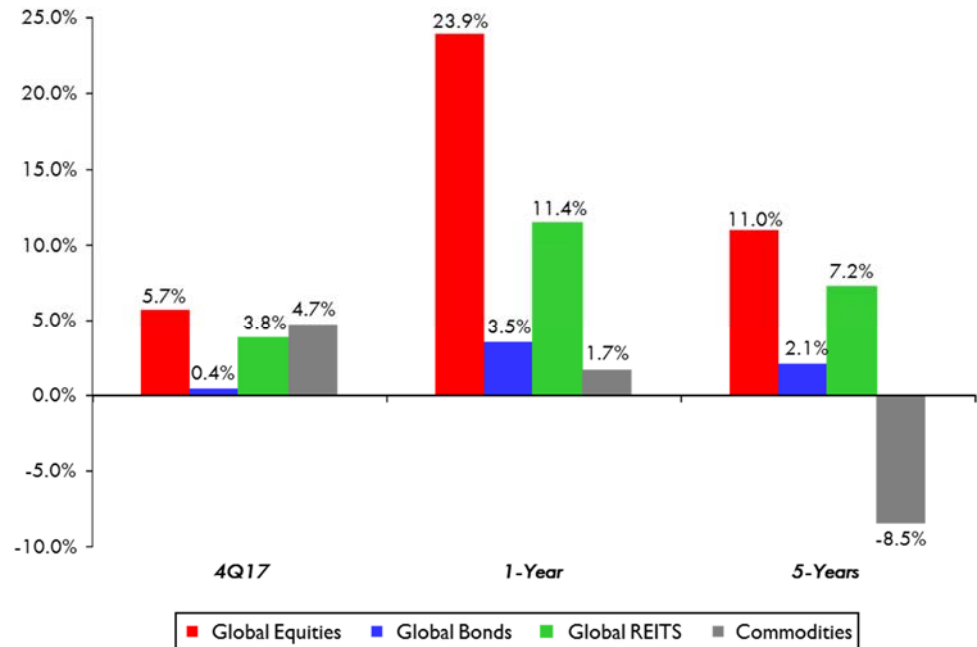
The *Salon d'Automne* was founded in 1903 by a group of artists and patrons, including Auguste Renoir, meant to showcase modern art in all its forms. It was an upstart to the official (i.e., staid and stale) *Salon de Paris*, which was founded in 1667 by the *Académie des Beaux-Arts*, and had become the most prestigious art exhibition in the world. In time, the renegade *Salon d'Automne* was the venue that unveiled the crystal art of René Lalique and the furniture of Le Corbusier.<sup>3</sup> But it was the *Salon* of 1905 that shocked the world with the painting above, a portrait of the artist's wife.<sup>4</sup>

*La Femme au chapeau* marks a decisive break with tradition with its bold, vibrant and expressive use of

<sup>3</sup> The *Salon d'Automne* is exhibited in mid-October each year, on the Champs-Elysees.

<sup>4</sup> *La Femme au chapeau*, San Francisco Museum of Modern Art.

Chart 1 Capital Market Performance



colors. The woman's face is blotched with green, pink and yellow, her hair is both red and blue, her huge purple hat and clothes were multi-colored, colors that came entirely from the mind of the artist, not her actual appearance. The daring colors were unsettling, but what the critics found more upsetting than the audacious colors was the idea that an artist would create a work of art out of individual expression. Art was supposed to be for the enjoyment of the public (critics), which meant portraying the world as it is, not as the artist's emotional, intuitive interpretation of it. Color was no longer representational, but was used here as an entirely independent element of art. *Sacre dieu!*

This new artistic movement enjoyed fleeting fame before being eclipsed by other genres. But its influence on art over the following century cannot be overstated. It is appropriate that we view our world analytically, but

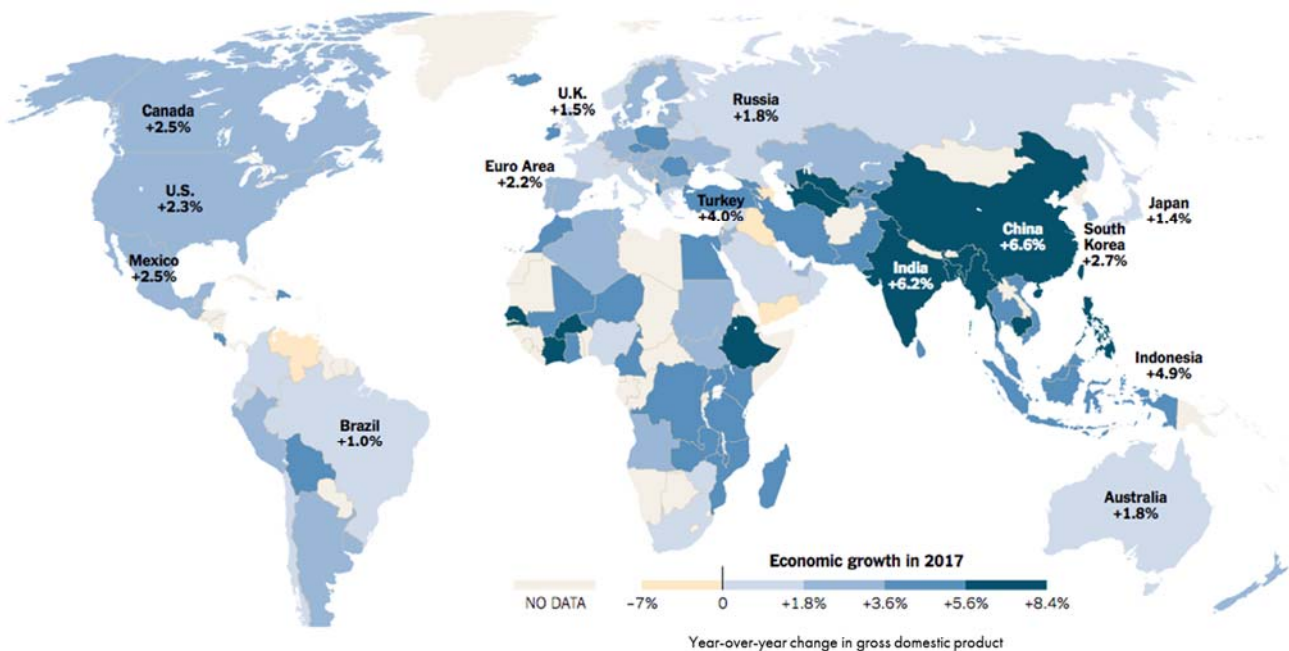
this artist shows us that an emotional perspective is not only valid, but can offer us a deeper appreciation of what we see. This lesson stands independently, but viewing this artist in the context of his time and in that place offers parallels for our own time and place and how we can view our world.

**L**aissez les bon temps rouler.<sup>5</sup> All asset classes advanced in the final quarter of 2017, with equities leading the way with gains of more than 5%. Pacing the group was South Africa, up 21% for the quarter, and Kazakhstan, adding 25% for a yearly gain of 68%, just behind Jamaica’s 75% rise for the year. On the losing side in the quarter was Mexico, off 9%, although it still posted a respectable 14% gain for

the year. Pakistan dropped another 7% in the quarter, sealing its place at the bottom of the pack for the year, off 28%. As usual, commodities were a source of volatility, mostly on the downside. More people must be skipping breakfast because coffee prices fell 8% in 2017, cocoa dropped 11%, sugar lost 22% and orange juice plunged 31%. On the other side, and although it’s a dull metal, copper shined last year, rising 31%, presumably on the back of greater electricity demand from all those Teslas.

*Les bon temps* rolled in the world’s capital markets because the global economy is partying to its own *bon temps*. Every major economy in the world is expanding in a cyclical recovery (Chart 2) “reflecting a rebound

Chart 2 Global Economic Growth in 2017



<sup>5</sup> “Let the good times roll.”

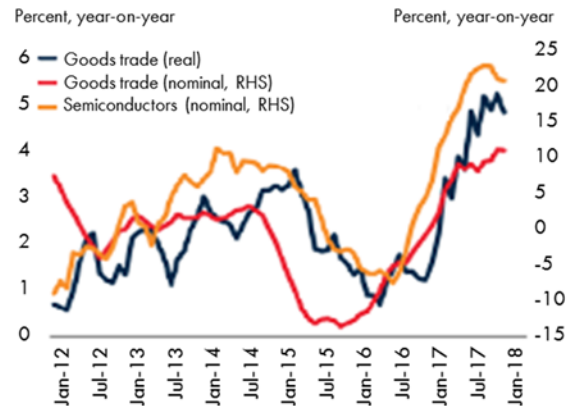
Figures are estimates  
Sources: The Conference Board; Bureau of Labor Statistics  
Karl Russell/The New York Times

in investment, manufacturing activity, and trade," per the World Bank, which cited "benign financing conditions, generally accommodative policies, rising confidence."<sup>6</sup> Global GDP growth accelerated from 2.4% in 2016 to 3.0% last year, and is expected to be a little higher in 2018. Trade is rising at a faster pace than overall economic activity, up 4.3% last year, in a growth spurt that began in mid-2016 and has been sustained (Chart 3).

Survey data confirm the hard numbers. Business surveys are strong across every major economy. In China, business confidence is at a five-year high, and in the US it is close to a 15-year high. The German IFO survey is at its highest since records began in 1991. Japanese business confidence is close to the highest levels since the late-1980s. Developed world unemployment is at 40-year lows, and for the first time in a decade, there are no negative employment outlooks among the 43 countries surveyed by Manpower.

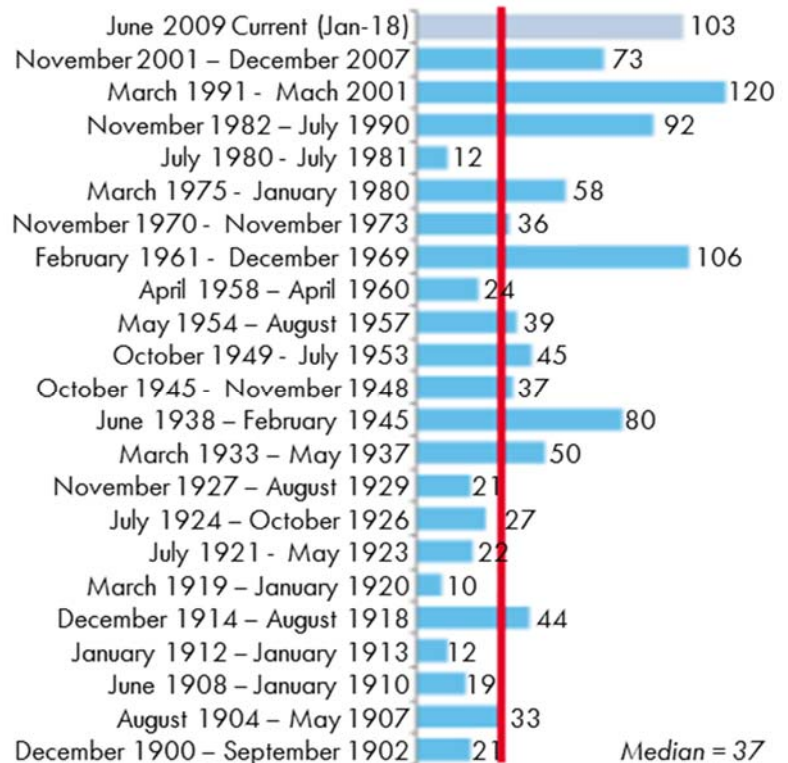
In the US, the expansion that began in June 2009 is now in its 103<sup>rd</sup> month, closing in on the record of the 1990s (Chart 4). We have a good chance of reaching that milestone, as the risks of a near-term recession remain low. To take one (very reliable) datum, each of the past seven recessions in the US has been accompanied by a large (+10%)

Chart 3 Global goods trade growth



Source: World Bank

Chart 4 Duration of U.S. Economic Expansions (Months)



<sup>6</sup> Global Economic Prospects, January 2018.

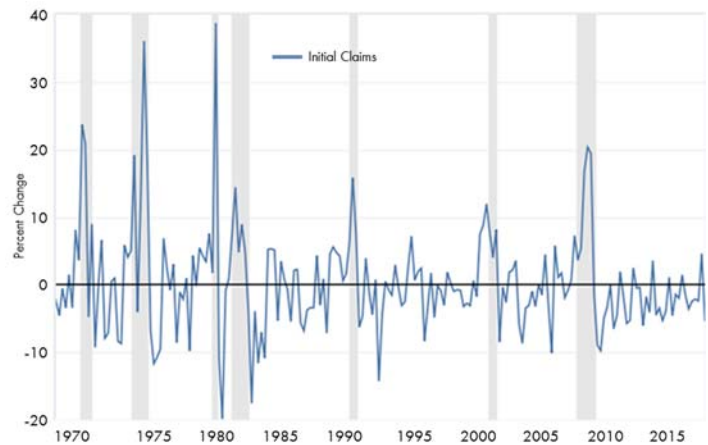
Data as at January 2018. Source: National Bureau of Economic Research (NBER), KKR Global Macro & Asset Allocation analysis

surge in initial jobless claims; the good news is, we are still trending lower (Chart 5).

All signs point to full employment in the US: the voluntary quit rate, at 2.2% of the labor force, is back to pre-crisis highs, the percentage of part-time workers wanting full-time jobs and the percentage of people not in labor force that want a job are back to 2005 lows. The NFIB small business survey shows the highest percentage of respondents (since 2000) saying they have jobs that cannot be filled, and the same survey of hiring intentions by small businesses is at the highest since the survey began in 1974.

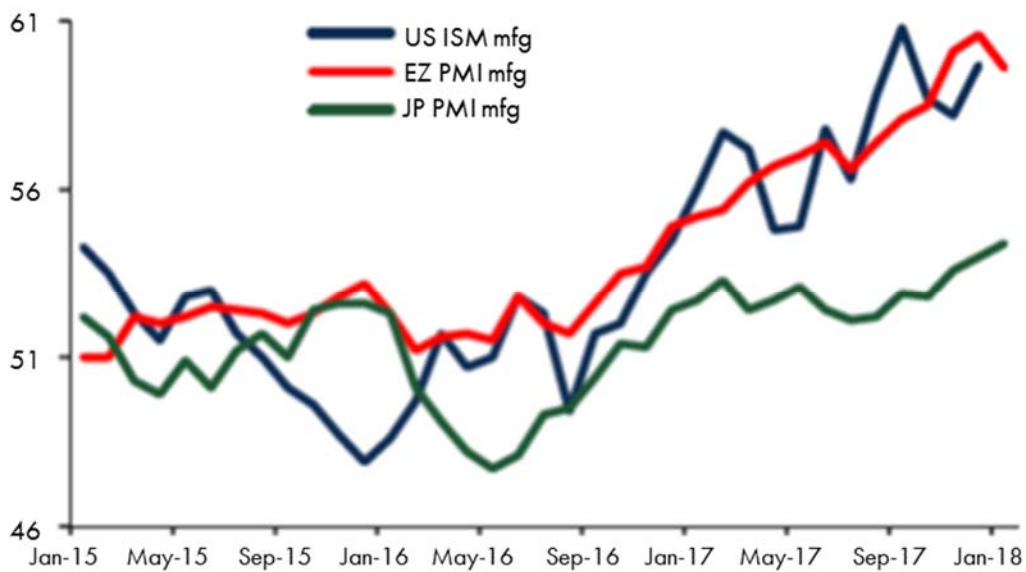
Global manufacturing has been accelerating since mid-2016 (Chart 6), an important statistic that cor-

**Chart 5** US Initial Jobless Claims, 1967-2018 percent qtr/qtr, sa



Source: U.S. Employment and Training Administration  
Shaded areas indicate U.S. recessions

**Chart 6** Manufacturing Diffusion indices in US, Eurozone and Japan, 2015-2017



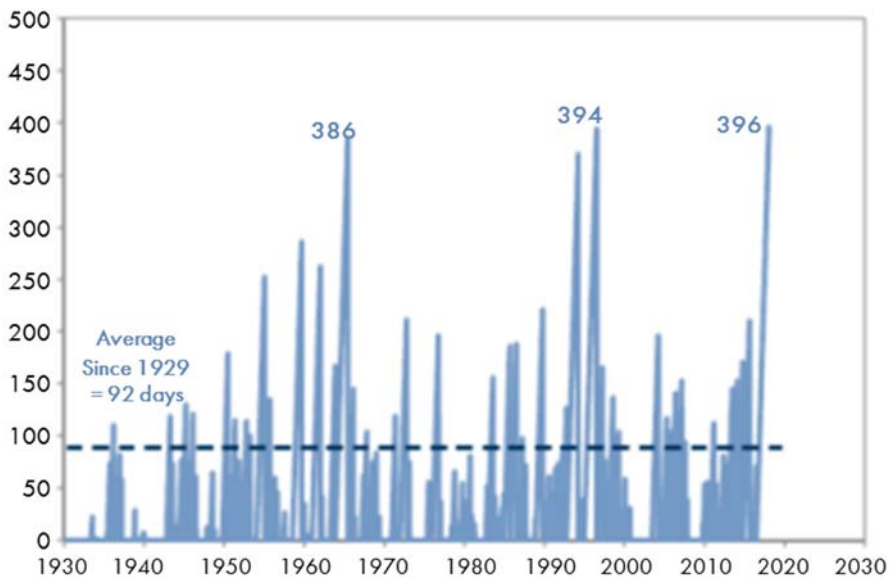
Source: BofAML Global Research, Bloomberg

**Chart 7** ISM Index and S&P 500 Index, 2000–2017



Source: ISM and Goldman Sachs Global Investment Research

**Chart 8** Trading days since 5% S&P 500 drawdown



Source: Compustat and Goldman Sachs Global Investment Research

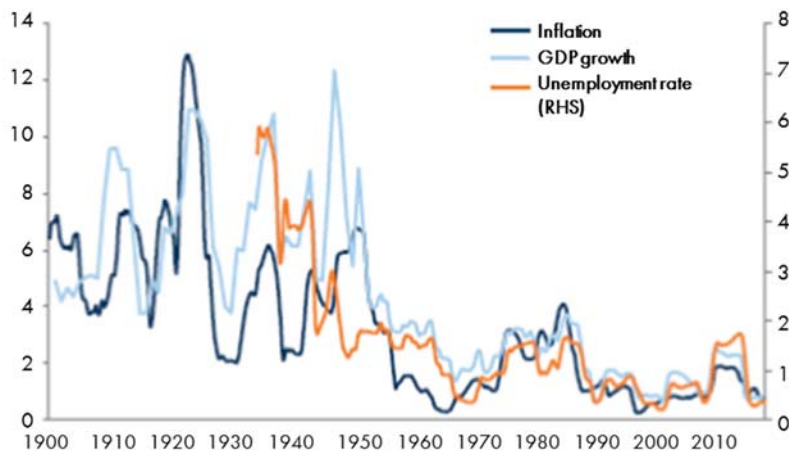
relates strongly with equity returns (Chart 7). The US stock market has not had a 5% correction in over 400 days, the longest stretch in at least a century (Chart 8). This lack of equity volatility continues to surprise many, but it mirrors the long-term decline in the volatility of major economic data (Chart 9, page 7).

*Laissez les bon temps rouler* indeed. Still, it's worth noting that the *temps* have been more *bon* for some than for others. For instance, pretty much anyone who wants work in the United States today can find it. But there are a lot of people out of the labor force entirely for a variety of reasons, including disability and imprisonment. Last year we highlighted the epidemic of rising mortality due to distress factors such as suicide and drug overdose,<sup>7</sup> and the decline in income mobility.<sup>8</sup> Men seem particularly affected, as seen in all the above statistics. We also see men dropping out of work, as the percentage of men in the labor force has fallen from over 87% in the early 1950s, to just 69% today. Women, in contrast, with a 57% participation rate, are close to the pre-crisis peak of 60% (Chart 10, page 7).

<sup>7</sup> <https://angeles-srv.s3.amazonaws.com/content/1494344358./angeles-advisors-commentary-1q217.pdf>.

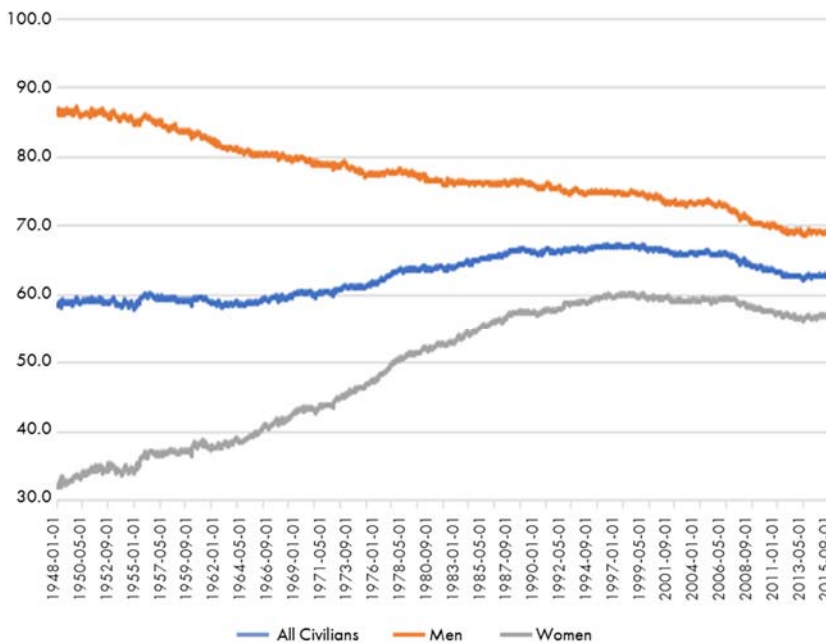
<sup>8</sup> <https://angeles-srv.s3.amazonaws.com/content/1509463701./angeles-commentary-3q.pdf>.

**Chart 9** Volatility of US GDP Growth  
Unemployment and Inflation, 1900–2017  
5-year rolling volatility



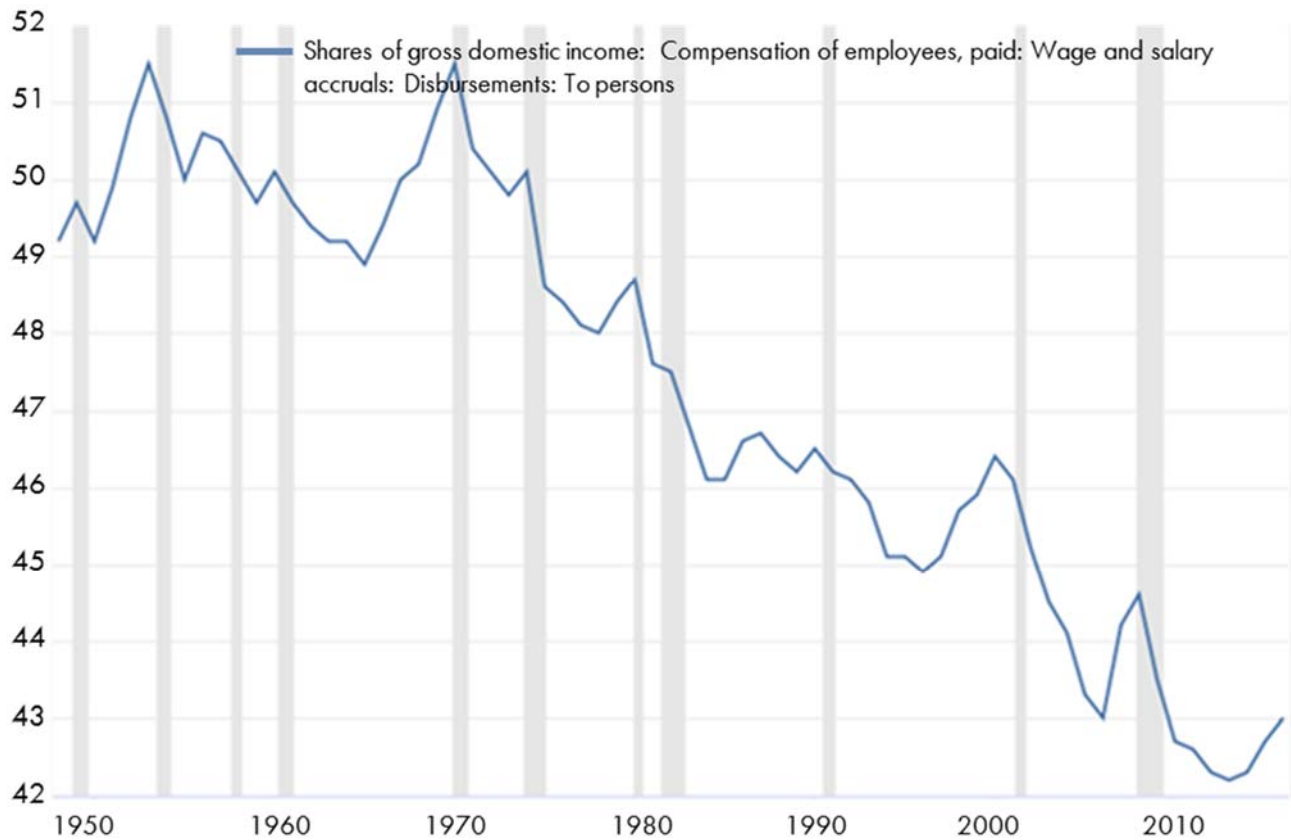
Source: GFD, Goldman Sachs Global Investment Research

**Chart 10** US Civilian Participation Rate, 1948-2017



Source: US Bureau of Labor Statistics

**Chart 11** Employee Compensation as Share of Gross Domestic Income, 1948-2014



Shaded areas indicate US recessions  
Source: U.S. Bureau of Economic Analysis

Likewise, wages for most workers have been stagnant for decades. Since 1980, the pre-tax income of the bottom quintile of earners grew 4% (cumulatively!), whereas the top 1% of incomes soared 194%, according to the Brookings Institution. Overall, compensation of employees as a share of gross domestic income has fallen from over 51% in 1970 to under 43% today (Chart 11).

One final caveat to *les bon temps* to note: the US is slipping in leading the world in innovation. According to Bloomberg’s most recent study, this year the US fell out of the top ten innovative countries for the first time (Table 1, page 9).

It has been a long time since economies and capital markets have been so broadly, and positively, syn-



chronized. At the aggregate level, the data are widely supportive of continued expansion. The global imbalances that derail expansions—surging inflation, rising leverage, extreme valuations—are not present. Still, this prosperity has been largely concentrated at the top. Political risks, from protectionism to military conflict, have risen even as economic risks have abated.

**H**enri moved to Paris at the age of 18 to study law. During his convalescence after a bout of appendicitis, his mother brought him some art supplies to occupy his time. It was a revelation for Henri, and he decided to drop law and study painting, to the grave displeasure of his stern, bourgeois father, a grain merchant.

This was the height of the Impressionists, and Henri absorbed their pointillistic style and subtle pastels. But

after more than a decade of traveling around France, Henri spent the summer of 1904 in Saint-Tropez with his fellow painters Paul Signac and Henri-Edmond Cross, who were experimenting with bolder colors and visible brushstrokes. It was here that Henri discovered his inner vision.

He submitted *La Femme au chapeau* to the jury selecting exhibits for the 1905 *Salon d'Automne*. Liberal and open-minded they were, but this painting went too far, and Henri was advised to withdraw it. He refused, and with the support of a leading jurist, his painting was accepted. It was given one room, along with a few others in the same style, shocking all who entered. The most prominent art critic of his day, Louis Vauxcelles, described being in this room as *parmi les fauves*, “among the beasts.” That name stuck, and their style

## Bloomberg 2018 Innovation Index

2018 rank	2017 rank	YoY rank change	Economy	Total score	R&D intensity	Manufacturing value-added	High-tech Productivity	Tertiary density	Researcher efficiency	Patent concentration	Patent activity
1	1	0	S. Korea	89.28	2	2	21	4	3	4	1
2	2	0	Sweden	84.70	4	11	5	7	18	5	8
3	6	+3	Singapore	83.05	15	5	12	21	1	7	12
4	3	-1	Germany	82.53	9	4	17	3	28	19	7
5	4	-1	Switzerland	82.34	7	7	8	9	11	17	17
6	7	+1	Japan	81.91	3	6	24	8	34	10	3
7	5	-2	Finland	81.46	8	16	10	13	19	6	4
8	8	0	Denmark	81.28	6	15	11	15	26	2	10
9	11	+2	France	80.75	12	35	14	2	10	21	9
10	10	0	Israel	80.64	1	27	9	5	41	1	19
11	9	-2	U.S.	80.42	10	23	6	1	42	20	2
12	12	0	Austria	79.12	5	8	15	26	12	12	5
13	16	+3	Ireland	77.87	22	1	1	18	20	14	33
14	13	-1	Belgium	77.12	11	22	13	10	37	13	21
15	14	-1	Norway	76.76	19	37	19	11	23	8	14
16	15	-1	Netherlands	75.09	17	26	20	6	47	15	18
17	17	0	U.K.	74.54	20	40	23	14	8	18	15
18	18	0	Australia	74.35	14	46	16	17	17	3	20



became known as Fauvism.

Matisse followed the scandal of the 1905 exhibit with an even bolder, more controversial, and ultimately, one of the most influential paintings in history. *Le Bonheur de Vivre* (The Joy of Life, above)<sup>9</sup> shows an idyllic outdoor scene, and one can imagine the warmth of the sun, the passionate embrace of couples, playing and dancing in the fields. But the use of non-natural, vivid colors unsettles. Pairing complementary colors (red-green, purple-yellow) offer stark contrasts, and natural depth and lighting are banished. *Le Bonheur de Vivre* clearly follows in the tradition of Renaissance art (and even Persian miniatures), but is so clearly a modern work.

Matisse shocked the public one more time, at the 1910 *Salon d'Automne* with *La Danse*.<sup>10</sup> Again, there is the vibrant, non-natural, contrasting colors: red dancers against a flat blue sky and green earth. Here, their bodies are distorted, emphasizing the primordial aspect of dance, their exuberance un-

contained by the borders of the canvas.

The Paris of *La Belle Époque* was the most modern, dynamic city in the world. The French writer Charles Peguy said at the time that "the world has changed more in the last 30 years than in all the time since Jesus Christ." The pace of change, the rise of technology, new modes of artistic expression generated excitement and optimism, but also trepidation and anxiety that events were out of control. The new electric lights lining the wide boulevards with dazzling architecture represent the visible Paris, the one we reminisce. But the *bidonvilles*, the slums of cardboard on the outskirts of the city, were just as valid a part of the reality for Parisians.

Henri Matisse changed the way we see the world, showing us that an intuitive, emotional perspective is as valid as an analytical, "realistic" one. He permitted us to interpret our world beyond that which we perceive to that which we feel.

*La Belle Époque* lasted a few more years. The businessmen, bankers and politicians that prospered in this time grew confident that the fast pace of change had only positive effects, ignoring that their prosperity and



<sup>9</sup> Barnes Foundation, Philadelphia.

<sup>10</sup> The Hermitage, St. Petersburg.

optimism were not shared by all in society. These optimists, certain that events were in their control, were the ones who would soon plunge the world into a brutal war that decimated an entire generation.

Henri Matisse and his cohorts were called *fauves* by the established aristocracy, but who really were the wild beasts then, those who expressed raw emotion, or those who closed their eyes to the building social, political and economic pressures afflicting society? Who, among us today, are the wild beasts?



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