



Una Rosa Blanca

How do you misplace a 5-ton, 18-foot tall statue? Residents of New York City may shrug when told it was in the care of the City Parks Department (as if, “what do you expect?”), but the story is a bit more convoluted than simple negligence.

Back in 1945, Mayor Fiorello LaGuardia renamed Sixth Avenue, “Avenue of the Americas,” and adorned the lampposts with the emblems of every country in the Western Hemisphere. At the top of the avenue, at Central Park, statues were erected to the two great liberators of Latin America, Simón Bolívar and José de San Martín. A decade later, believing there was a gap in this pantheon of heroes, the Cuban government donated \$100,000 to erect a statue of its national liberator, José Martí, to be placed between that of Bolívar and San Martín. The renowned sculptor, Anna Hyatt Huntington,¹ received the commission, and completed the work in early 1960. A 16-foot high granite pedestal was placed in the park, awaiting the statue. And that’s when the problems began.

¹ She was one of the first female artists to be elected to the American Academy of Arts and Sciences, and her work is displayed at the Metropolitan Museum of Art, Columbia University, Riverside Park and elsewhere. Her husband, Archer Milton Huntington, was the son of railroad magnate Collis P. Huntington.

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Flipping the calendar is often a time to take stock of what transpired in the previous year, and what to consider for the coming one. That we enter a new decade gives us another impetus to step back further and review some larger trends that characterized the past ten years.

Economic fundamentals ultimately drive the capital markets, and the economic fundamentals this past decade have been consistently positive. The economy has expanded now for 126 consecutive months, the longest such streak in U.S. history. At the same time, the growth rate has been the weakest on rec-

ord. Unemployment has fallen to 50-year lows (Chart 1), but wage growth has been sluggish. Still, the economy continues to chug along, with no major imbalances evident, and a contraction (recession) is unlikely in the near-term.

An important characteristic of this past decade for investors was the unprecedented outperformance of U.S. assets relative to the rest of the world. For the past ten years, U.S. equities saw cumulative gains of 256%, compared to just 71% for non-U.S. markets (Chart 2). There are a few explanations for this.

Chart 1 U.S. Unemployment Rate, 1948-2019

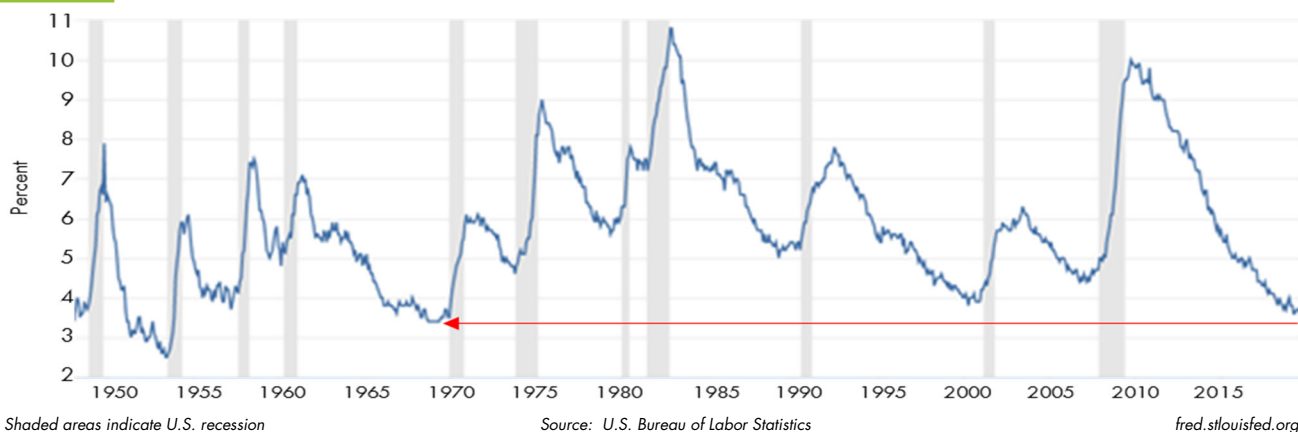
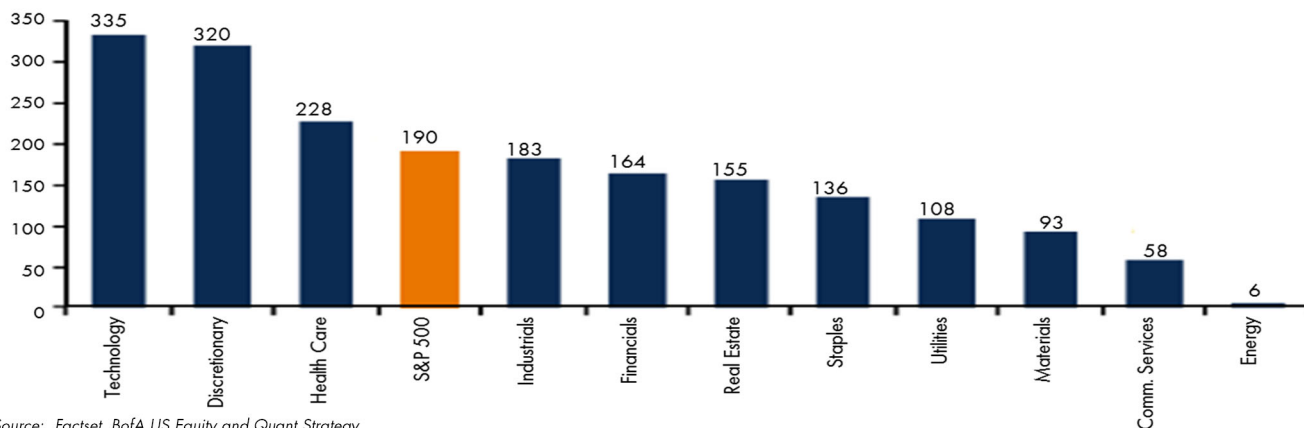


Chart 2 Cumulative Outperformance of US Over Non-US Equities, 2010-2019



Chart 3 Price Performance (%) by S&P 500 Sectors, 2010-2019



Source: Factset, BofA US Equity and Quant Strategy

Chart 4 Top Ten Contributors to the S&P 500 Total Return, 2010-2019



Source: Factset, BofA US Equity and Quant Strategy

As noted, this economic recovery has been sluggish, and growth has been scarce. It is a fundamental principle that scarcity commands a higher price, thus sectors or companies that can grow in this sluggish environment warrant a premium.

Most of the growth this past decade came from the technology sector (Chart 3), and the U.S. economy is much more geared to technology than any other country.² Rewards have accrued not just to the tech-

nology sector, but most especially to the outsized technology “winners,” who created dominant, global platforms. Apple, alone, contributed a full 16 points (more than 6%) to the cumulative gain of the entire U.S. stock market over the past ten years (see Chart 4).

² Technology is 19% of the S&P 500 Index, versus just 9% in Europe and a mere 6% in Japan.

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Still, across all industries, U.S. companies are consistently more profitable than their European and Japanese counterparts (Table 1).

Related to the outperformance of U.S. over non-U.S. markets was the massive underperformance of “value” stocks over “growth” stocks (Chart 5). This

Table 1 Profitability by Sector by Region

Return on Assets						
Country	Consumer Staples	Consumer Discretionary	Technology	Healthcare	Communication Services	Financials
US	5.9	6.1	9.8	5.6	5.6	1.2
Europe	6.3	4.2	5.3	5.5	1.6	0.4
Japan	3.5	3.6	4.3	4.2	4.1	0.3
Return on Equity						
Country	Consumer Staples	Consumer Discretionary	Technology	Healthcare	Communication Services	Financials
US	27.0	30.5	29.6	18.4	14.5	10.4
Europe	16.4	13.2	11.2	19.0	8.7	7.9
Japan	11.7	9.9	9.1	8.7	14.2	6.6

Source: Bloomberg, December 30, 2019

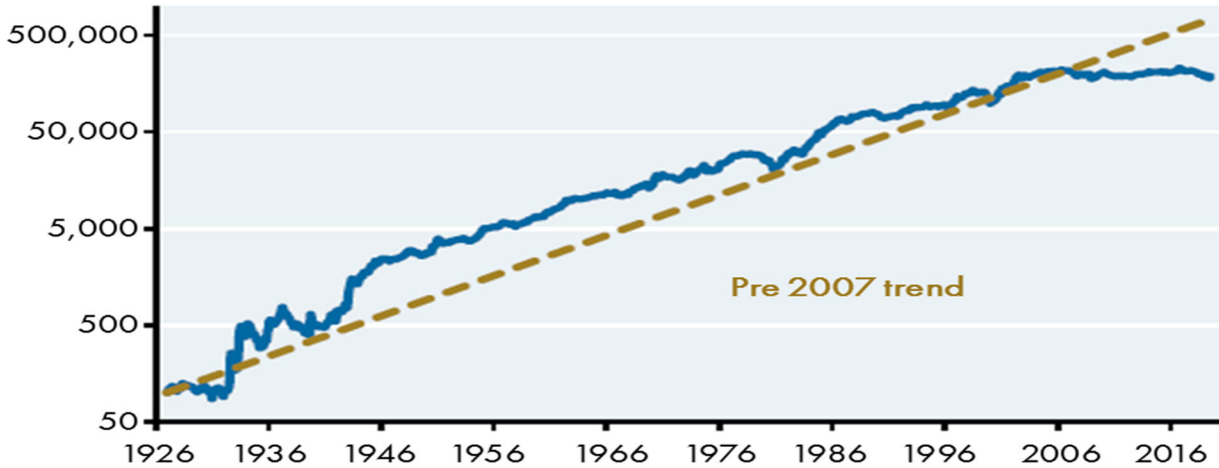
Courtesy: J.P. Morgan Asset Management

Chart 5 Russell 3000 Value Index Versus Russell 3000 Growth Index, 2010-2019



Source: Bloomberg, L.P.

Chart 6 Cumulative Excess Return of Cheapest Versus Most Expensive Stocks January 1926-October 2019



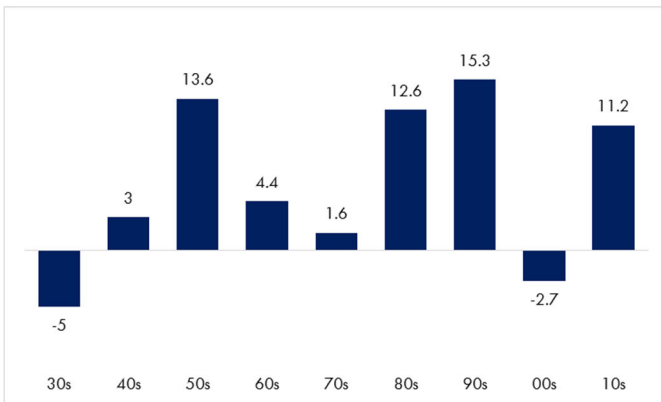
Source: French Data Library, J.P. Morgan Asset Management. Universe=NYSE, AMEX, Nasdaq. October 2019

reverses an 80-year trend of “value” outpacing “growth.” (Chart 6)

The decade-long bull market in U.S. equities was not simply a function of depressed valuations to start, alt-

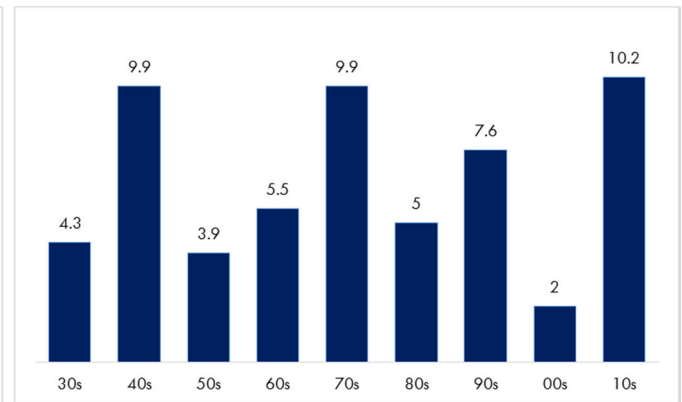
hough that certainly helped. Robust earnings growth fueled this bull market. Earnings growth over the past ten years was the strongest of any previous decade (Charts 7-8).

Chart 7 Price Returns by Decade (%)



Note: Annualized price returns
Source: Standard & Poor’s, FactSet, Credit Suisse

Chart 8 EPS Growth by Decade (%)



Note: Reported EPS prior to 1968, operating EPS thereafter. Current consensus EPS estimate used by 2019.
Source: Standard & Poor’s, Thomson Financial, FactSet, Credit Suisse

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Stepping back further, the past decade was characterized by weak overall growth and strong, persistent deflationary pressures. In the aftermath of the financial crash, banks were bailed out and monetary policy was eased to an unprecedented degree. Asset purchases (quantitative easing) bolstered the owners of capital, sparking a rally in risk assets, but also contributing to the growing gap in wealth inequality. One of the consequences of this widening disparity was the rise of populist politicians: on the right, espousing xenophobic, protectionist policies (Orban, Trump, Bolsonaro, et. al.) and on the left, advocating wealth confiscation and redistributive programs (AMLO, Corbyn, et. al.). And still, the disparities of wealth and income, health and prosperity grow.

The events and trends of the past decade inform our vision of what the future may hold. But before we act, maybe even more important than acting, we must plan. By gathering the facts, considering the many possible outcomes, developing a framework for assessing the data, we can develop a plan that will guide us on how, and when, to act. Which is exactly what José Martí did.

Heroes are not only those who fight in battle, but also those who lay the groundwork, build the support, and inspire the masses toward eventual victory. José Martí was born in 1853 in Havana to immigrant Spanish parents of modest means.³ At the age of 13, a nascent Cuban independence movement revolted against Spain, and

José found his calling. He began writing poems and political tracts in support of independence, and at the age of 16, he was arrested and then deported to Spain in hopes that studying there would change his loyalty. He graduated with a law degree from the University of Zaragoza, but his passion for Cuban independence only grew. Now exiled from both Cuba and Spain, he traveled across the Americas, meeting with exile groups to organize support for Cuban independence.

Martí became well known throughout the hemisphere, through his travels, and through his weekly newspaper column in *La Nación* of Buenos Aires. In 1884, he met with the two military leaders of the 1866 uprising, who were pushing for an immediate invasion of Cuba. Martí convinced them to wait until he could build support (and funding) for the cause.

In 1892, Martí organized a convention in Key West of leading Cuban exiles, and established the Cuban Revolutionary Party, that would lead the coming revolution. Importantly, Martí insisted on having civilian control over the military, both during the insurrection and in the (hopeful) subsequent Cuban government. Martí then met with the two leading generals, waiting for him in the Dominican Republic, to enlist their support for his political party, including civilian dominance over the military, and once their support was secured, to plan the details of the revolution. The uprising began in Havana in February 1895, and the military invasion, including Martí, set sail for Cuba in April. The insurgents faced strong opposition from Spanish troops, and would continue to struggle against Spain until the United States entered the war three years later.⁴

A month after landing in Cuba, the rebel troops were caught in a trap near the town of Dos Rios. The military leaders ordered a withdrawal, but Martí decided to charge ahead alone. He was killed instantly.⁵

³ His father worked as a prison guard.

⁴ The *USS Maine* exploded in Havana harbor 15 February 1898, precipitating the U.S. entry into the war, on the premise that Spain sunk the *Maine* in an act of war. It was subsequently determined that a coal fire caused the sinking. The war ended six months later, with Cuba becoming a U.S. protectorate.

⁵ Poets don't make the best soldiers.

Martí did not live to see his country free or to lead his country in its early years, as he most certainly would have been chosen to do. But his tireless efforts to build a coalition, organize a political movement, enlist military leaders and through countless speeches, articles and poems, inspire multitudes, laid the foundation for eventual Cuban independence.

Sixty years later, another revolutionary movement began in Cuba, to overthrow the corrupt government of General Fulgencio Batista. After years of fighting, in 1959, Fidel Castro led his rebels to victory under the banner of José Martí, tying himself to the first national liberator. The exile community, fleeing to the United States after Castro expropriated their assets, rejected the association of Castro with Martí, and adopted Martí as *their* inspiration.⁶ Martí's birthday, 28 January, is celebrated as a national holiday in Cuba, as well as by the exile community, both groups fiercely protective of their claim to the Martí legacy. It was no surprise that they would also fight over the Central Park statue.

Martí's statue was to be unveiled on his birthday in 1960. But half an hour before it was to be transported to the site, the Parks Department announced that the statue was not finished, notwithstanding that the artist had said publicly that she had finished it. No explanation for this contradiction was given, but years later, the U.S. State Department admitted that it had interceded at the last minute to halt the unveiling for fear that it would be seen as expressing supporting for the Castro regime.

Of course, throngs had gathered at Central Park expecting the unveiling, with police separating the pro-Castro and anti-Castro groups. When the statue failed to arrive, a riot broke out between the two factions, resulting in 12 arrests. And that is where matters stood for the next five years, an empty pedestal resting in a corner of Central Park.

President Kennedy imposed a total trade embargo on Cuba in February 1962, citing "the subversive offensive of Sino-Soviet Communism with which the government of Cuba is publicly aligned."⁷ The embargo has been the policy of the United States for the past 58 years,⁸ intended to bring "a peaceful transition to a representative democracy and market economy in Cuba."⁹ Clearly, this objective has not been met and our policy has failed.

If an embargo ever made sense, it no longer does. Cuba does not pose a military threat,¹⁰ and the embargo only punishes ordinary Cubans and especially, would-be entrepreneurs, who would benefit from increased American tourism.

Over the past few years, some private businesses, mostly catering to tourism, have been permitted by the Cuban government, enabling some Cubans to experience the benefits of private enterprise. One of the most striking visual aspects of Havana is the crumbling masonry. An architect in the state planning department told me that Havana loses 1-2 buildings each day due to decay and collapse. Her job was to secure government funds to rehabilitate all these buildings. It will never happen: imagine 80-90% of the structures in our country were collapsing and the

⁶ As has the U.S. government, which broadcasts anti-Castro news and slogans to Cuba via Radio Martí.

⁷ The week before announcing the embargo, Kennedy, no dummy, directed his aide, Pierre Salinger, to secure 1,000 Petit Upmann cigars. Salinger managed to get 1,200, and the next day, Kennedy announced his embargo.

⁸ President Obama in December 2014 re-opened diplomatic relations and relaxed travel restrictions, which President Trump subsequently reversed.

⁹ From the *Cuban Liberty and Democracy Solidarity Act (Helms-Burton)* of 1996, which extended the embargo to foreign companies doing business with Cuba.

¹⁰ U.S. Defense Intelligence Agency, 1998 report.

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federal government was solely responsible for repairs. We can't adequately maintain our public infrastructure, much less all private buildings. There is no chance the Cuban government can.

I was incredulous at the widespread decay and the so very obvious solution: let people own their homes. The government architect implicitly agreed, noting that this is a current political debate, but nothing is likely to change for some time. There is an entrenched generation who oppose any private ownership on ideological grounds, and a younger cohort that sees the need to allow more private enterprise. The older generation needs to die off, and then, to paraphrase Max Planck, economic progress in Cuba will happen one funeral at a time.¹¹

In contrast, I rode in a 1950 Chevrolet that was immaculate and well-maintained. One could not ask for a more perfect example of how private enterprise works and how socialism does not.¹² Squatters in the buildings have no incentive to maintain their homes, but these 60- and 70-year old cars are the meal tickets for their owners. At \$50 for an hour tour, compared to the \$30 per month average income, these car owners are highly incented to care for their vehicles.



Photo by author.

¹¹ The actual quote: "A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it."

¹² I credit my son for observing the irony that young people in Cuba are pressing for more capitalism while young people in America seem to want more socialism.



Photo by author.

As I wrote last year in a different context (<https://www.angelesinvestments.com/insights/investment-insights/2nd-quarter-2019-sustain>), disengagement is not an effective approach in seeking change. The U.S. embargo on Cuba has failed to achieve our own stated

objectives and has only deprived the people we ostensibly want to help. Engagement, through trade and free travel, not embargo, will do more to help the people of Cuba and accelerate their transition to a more open economic system. *Levante el embargo!*

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In January 1965, the New York City mayor's office announced that the U.S. State Department had reversed its position, and would allow the statue to be erected the following month. Unfortunately, the mayor had not communicated with the Parks Department, and the statue could not be found. Anna Hyatt Huntington, by then 88 years old and in failing health, despaired of ever seeing her sculpture again. Fortunately, a few months later, the statue had indeed been located in a Bronx warehouse, and was unveiled to the public in May 1965, with Anna Hyatt Huntington in attendance. At the end of the ceremony, a white rose was placed by the pedestal.



The gesture was inspired by one of José Martí's most famous poems, *Cultivo Una Rosa Blanca*.¹³ In it, Martí speaks of giving a white rose to his friends and enemies alike, a message of universal compassion that helped to make him such a beloved and respected figure throughout Latin America and across the political spectrum.

José Martí teaches us the power and importance of community; of intense focus and deliberate planning. Despite a fervent passion to liberate his country, he patiently, over decades, built the foundation for eventual freedom. His poems continue to inspire new generations with his message of hope and compassion. Valuable lessons for us all in the years ahead.

CULTIVO UNA ROSA BLANCA

*Cultivo una rosa blanca,
En julio como en enero,
Para el amigo sincero
Que me da su mano franca.
Y para el cruel que me arranca
El corazón con que vivo,
Cardo ni oruga cultivo:
Cultivo la rosa blanca.*

I Have a White Rose to Tend

*I have a white rose to tend
In July as in January,
I give it to the true friend
Who offers his frank hand to me.
And for the cruel one whose blows
Break the heart by which I live,
Thistle nor thorn do I give:
For him, too, I have a white rose.*



Source: Prensa Latina.

¹³ It was adopted into music as *Guantanamera*, became a hit song for The Weavers and Pete Seeger in 1963, and a bigger hit for The Sandpipers in 1966, reaching #9 on the Billboard chart.





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January 2020

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