Vol.07 Issue 17 | 30 August 2020

Things that make you go hmmm

# A Nice Place To Visit

"People rarely tell the complete truth either about their amorous exploits or their stock portfolios, the latter being especially true for professional investors whose reputations hinge on appearing to be prescient about the market."

– Liaquat Ahamed, *Lords Of Finance*

"Portrait of a man at work, the only work he's ever done, the only work he knows. His name is Henry Francis Valentine, but he calls himself "Rocky", because that's the way his life has been – rocky and perilous and uphill at a dead run all the way.

He's tired now, tired of running or wanting, of waiting for the breaks that come to others but never to him, never to Rocky Valentine. A scared, angry little man. He thinks it's all over now but he's wrong.

For Rocky Valentine, it's just the beginning..."

– Opening Narration, *A Nice Place To Visit, The Twilight Zone, April 15, 1960*

"Looking for a new revolution
This one didn't get very far
I never want to spoil an illusion
Abracadabra."

– Biffy Clyro, *Tiny Indoor Fireworks*

"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"

– Scott McNeely, *CEO, Sun Microsystems, April 2002*

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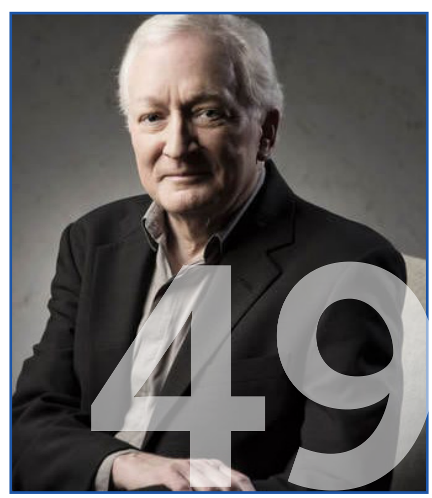



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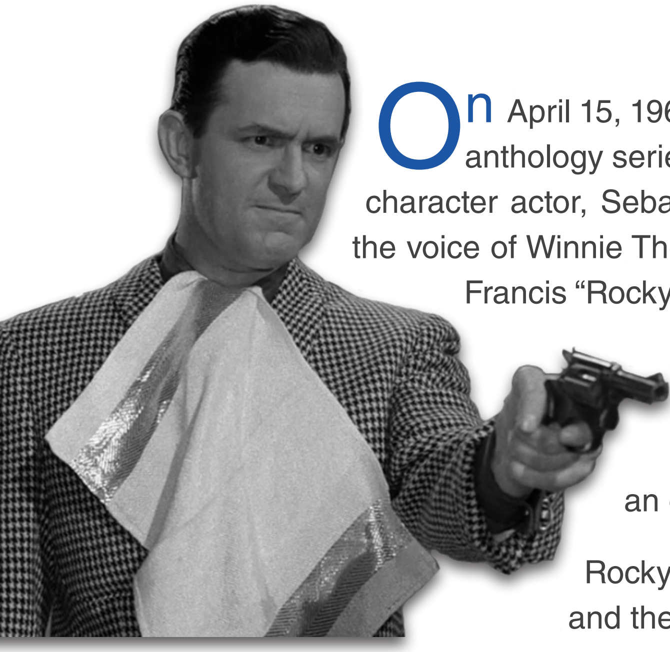
# THINGS THAT MAKE YOU GO HMMM...

## A NICE PLACE TO VISIT



On April 15, 1960, the 28th episode of the first season of Rod Serling's classic anthology series *The Twilight Zone* aired on CBS. It featured the great British character actor, Sebastian Cabot (who would later become familiar to millions as the voice of Winnie The Pooh) as the enigmatic Mr. Pip, and Larry Blyden as Henry Francis "Rocky" Valentine, a two-bit hustler, gambler and thief. That's him, on the left, pointing a gun at you.

The episode begins with Rocky in the process of robbing a pawn shop, *The Southside Loan Company*, while the body of an elderly man lays motionless on the floor beside him.

Rocky is interrupted by the inconvenient sound of a police car's siren and the inevitable arrival of its inhabitants.

While attempting to flee the chasing cops, Rocky drops the paper bag into which he'd stuffed the 'loot' from the pawn shop and runs into a classic movie lot alley – complete with trash cans behind which he can hide, and a wooden fence, conveniently stacked next to which are a set of wooden crates which will enable him to scale it quickly and easily.

As he reaches the top of the fence, shots ring out and, with a cry of '*not this time, screw*', Rocky fires back over his shoulder before returning both hands to the fence and attempting to clamber over the last foot or two which leads, presumably, to freedom.

With the top of the fence and that freedom within his reach, more shots ring out and Rocky slumps from the fence to the floor – yet another tragic victim of senseless police violence.

As Rocky lays motionless, a pair of white shoes, above which sit a perfectly-tailored and immaculately-pressed pair of white pants appears in the shot. Rocky looks up at the portly man dressed all in white and asks him his name. "*Mr. Pip*", comes the reply.

"*Are you a cop?*" asks Rocky. "*No. I'm your guide... as it were*", Pip replies.

Instinctively, Rocky tries to shake down Mr. Pip, demanding he hand over whatever money he has and he's beyond surprised when Pip forks over $700 in cold, hard cash. "*You got more?*", asks the ungrateful thug. "*Why yes! As much as you want*", answers Pip, jovially.

It's hard not to think of Jay Powell when looking at and listening to Cabot's Pip.



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The elegant comportment, the greying hair and the air of a man not only comfortable with his position, but also clearly delighted to be in a position to offer Rocky Valentine as much free money as he wants.

Of course, Valentine is eager to take advantage of Pip's extraordinary largesse and wastes no time in grabbing the $700 and stuffing it into his pocket – which, if you add ten zeros to the number, is precisely what investors have done since 2008.

The correlation between the Powell Fed's handouts (as well as those of the Bernanke and Yellen Feds in days of relative yore) is clear to see (Fig. 1).

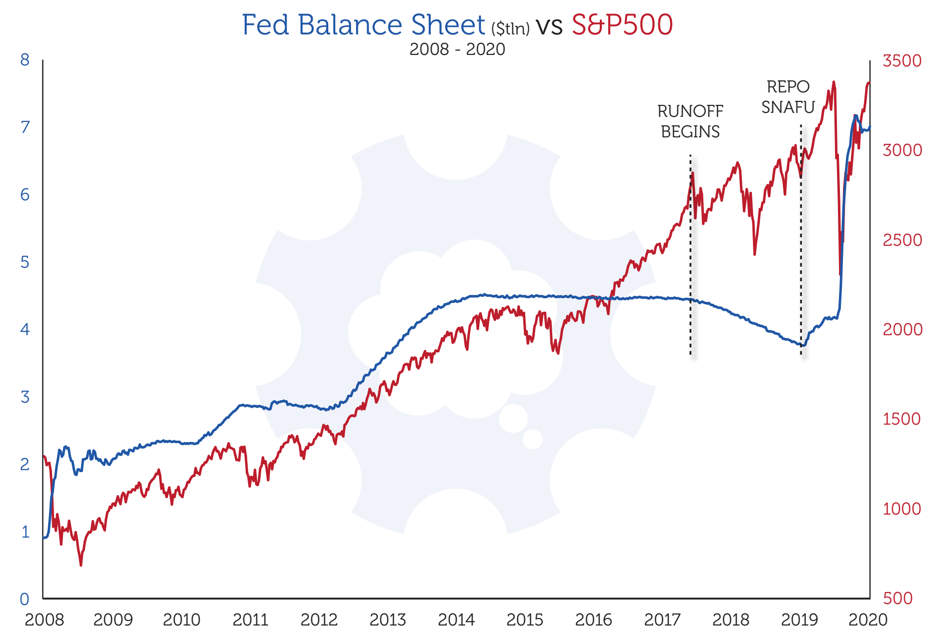
What's troubling is the sheer *scale* of the handout required to 'rescue' the ~~economy~~ stockmarket in the wake of the Covid pandemic.

However, the market quickly decided the economic performance of companies no longer mattered. This was now *all* about the stock price – *not* the company – and that meant the deluge of liquidity gushing forth from the Marriner S. Eccles Building was a wave to be ridden all the way to the shore.

The amount of money the market has been stuffing into its pocket has truly been remarkable.

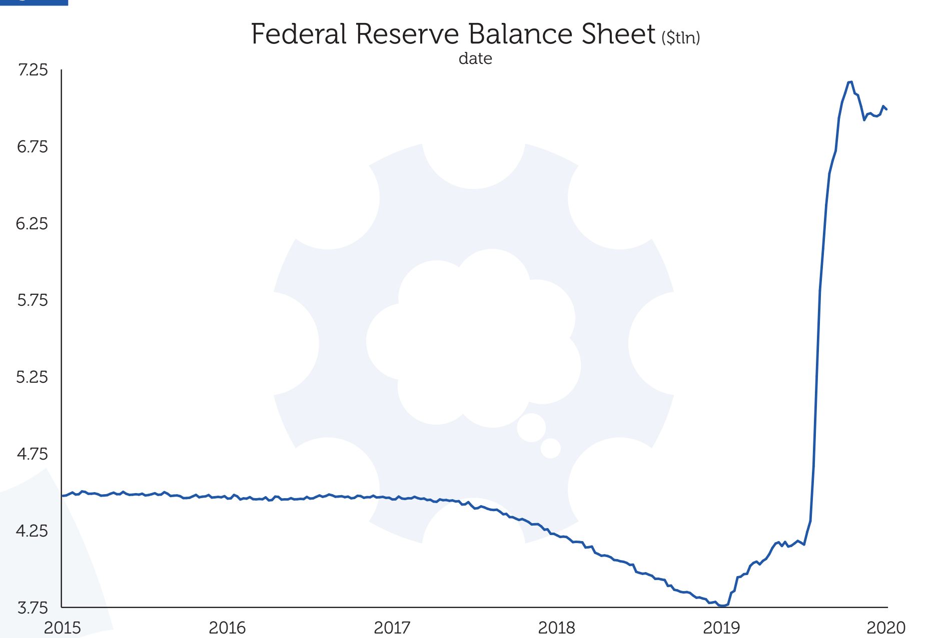
Obviously, exhibit one has been the size of not just the Federal Reserve's balance sheet (Fig. 2), but also that of the ECB and the SNB (Fig. 3) – both of which have now abandoned all pretense of probity.

Fig. 1




Source: Bloomberg

Fig. 2




Source: Bloomberg



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When viewed as a percentage of GDP, the BoJ and the SNB are way out in front, with balance sheets that represent 132% and 152% of GDP respectively (Fig. 4), but really, what that means, in the age of *competitive* printing, is that the Fed, the Bank of England and the ECB have an awful lot of 'room' with which to play before they get to those kinds of astronomical levels.

Sigh.

Elsewhere, finally, the keepers of the fiscal purse strings have also joined the fray, with the payments being distributed by the U.S. government causing the country's budget deficit to balloon to previously unthinkable levels.

None of that is a surprise (and has been covered frequently in these pages over recent months), but this week saw a new twist to this particular strand of the story when France, too, decided enough was enough:

> ***(Bloomberg):*** ***The French government is casting aside austerity as a recipe for controlling debt and will attempt to spend its way out of the current crisis.***

Fig. 3

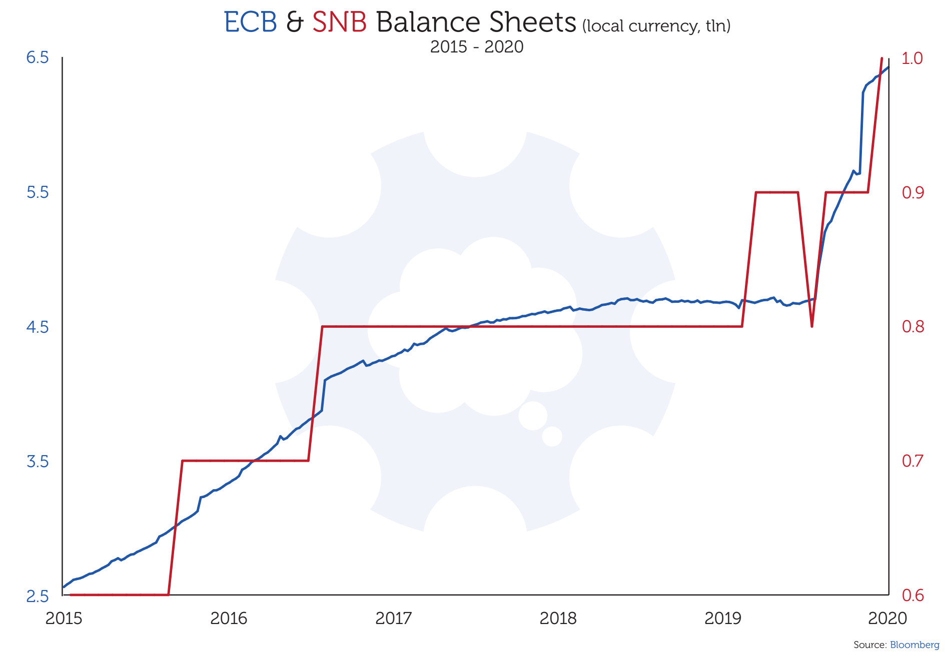
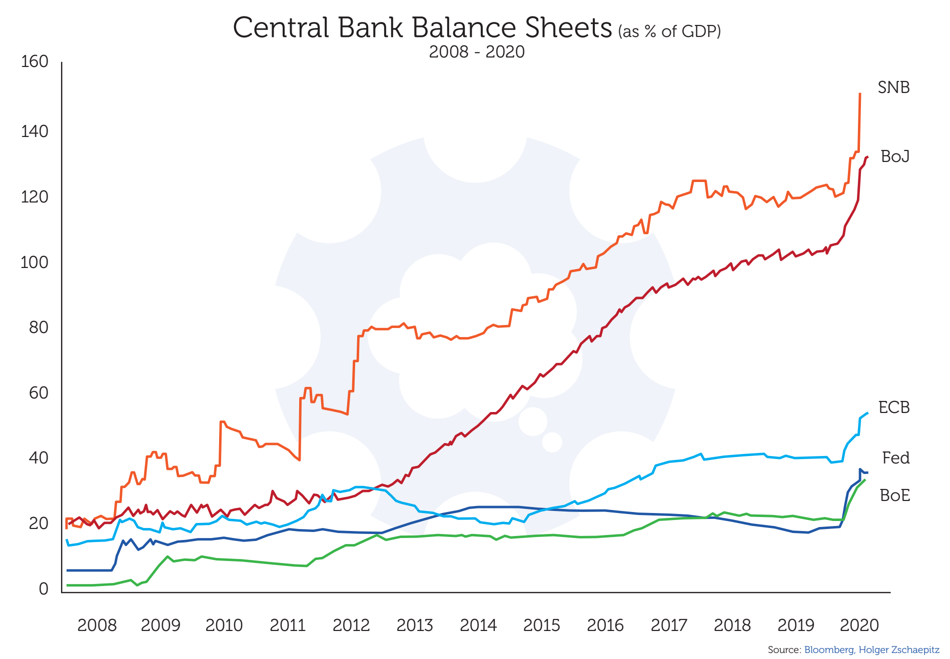



Fig. 4




Not only is France planning to spend its way out of yet another crisis, but PM ~~Asterix~~ Castex was positively chipper about the idea: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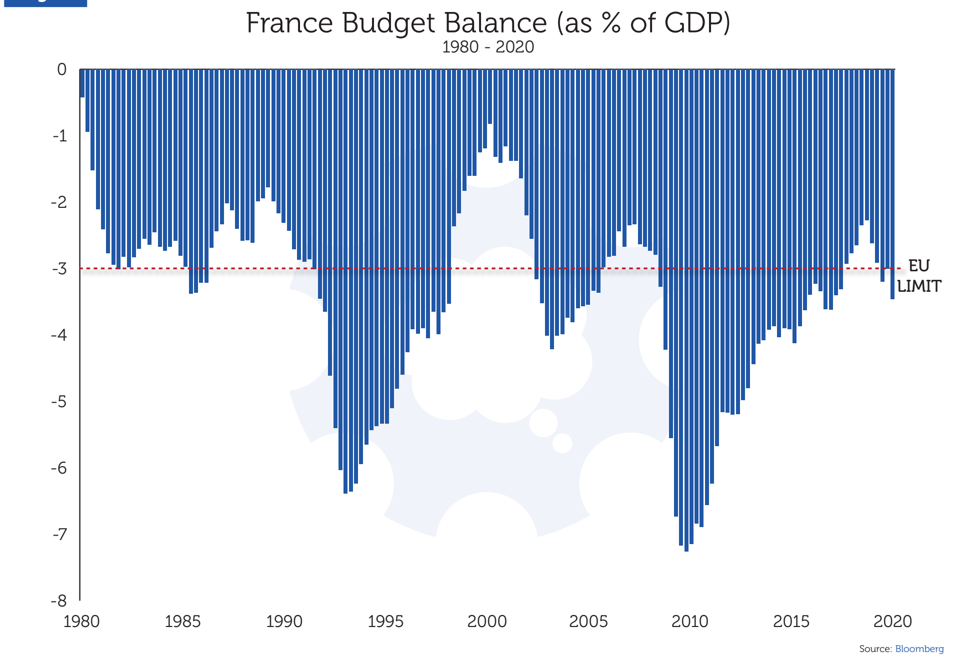
***Speaking to business leaders in Paris Wednesday, Prime Minister Jean Castex boasted about the size of the stimulus package he plans to unveil in detail next week. At 100 billion euros ($118 billion), it will be four times bigger than the 2008 recovery plan, the equivalent of a third of the state's budget, and the largest in Europe compared to the size of the economy, he said.***

Fig. 5



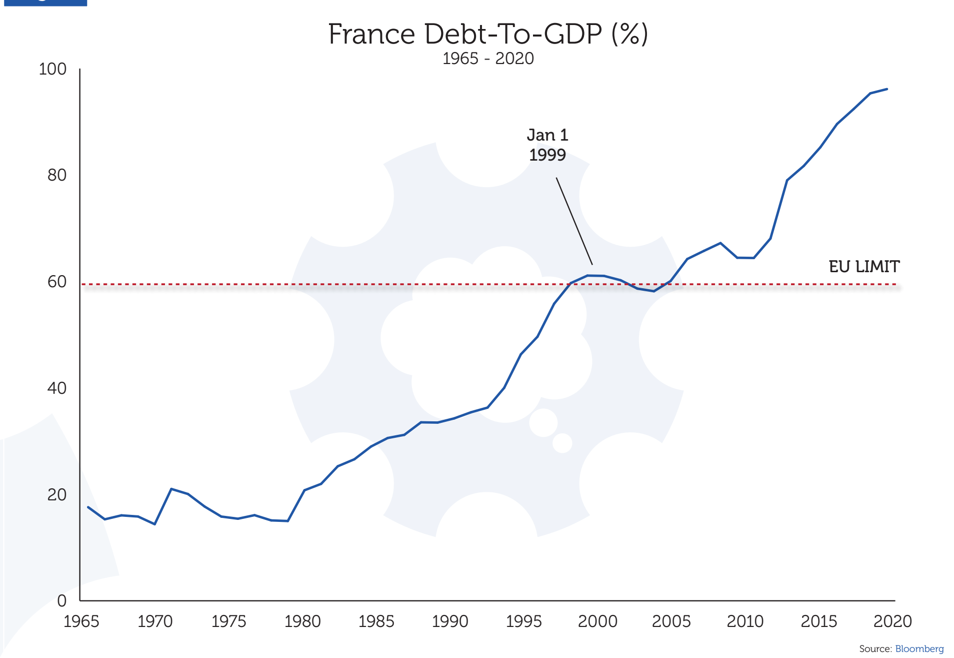

France's budget deficit, at 3.46% is already over the limit imposed by the EU's Stability and Growth pact but, as you can see (Fig. 5), that hasn't really ever mattered before, so why would it now?

France's debt-to-GDP is also set to explode under the new measures but, again, they left the EU limit behind a long time ago (Fig. 6).

Having said that, it's a little unfair, perhaps, to single France out. After all, a quick look at a heat map of European compliance with the Stability and Growth pact really does prove the old adage that a picture tells a thousand words (Fig. 7).

However, while not *wanting* to single out the French, the move by the Castex government represents an important change of approach in that it brings out into the open Europe's dirtiest little secret: compliance with the pact is both optional and unnecessary:

Fig. 6



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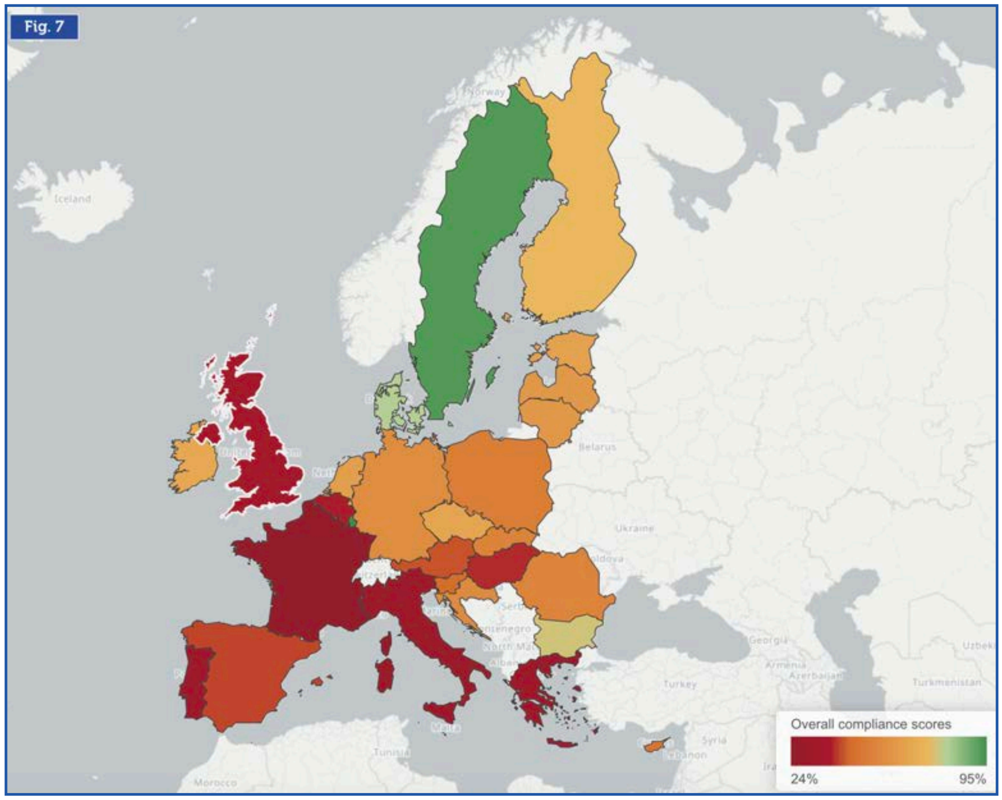
> ***Paris' approach underscores a shift in Europe's thinking from the response to the sovereign debt crisis a decade ago, when governments generally deployed fiscal discipline to repair their finances. At the time, France raised taxes sharply to plug holes in its budget.***
>
> ***In this crisis, the government is betting cutting taxes on business and spending vast sums will deliver such a jolt to the economy that extra debt will quickly become relatively insignificant.***




Absolutely unbelievable. I mean.... Really? I honestly don't know what's worse; the fact that these people feel they can spout this kind of nonsense, or the fact that it simply gets reported without the slightest hint of any pushback, let alone the ridicule it deserves.

And yet, somehow, Castex actually managed to raise (or, perhaps lower) the bar on ludicrous statements with the very next words to leave his lips:

> ***"The effect of our stimulus plan on our debt ratio will be almost erased as soon as 2025," Castex said.***

Are you getting the hang of where this is all going yet? Unlimited money is the future – just as it was for Rocky Valentine once Mr. Pip showed up.

So, let's return to our favourite thug, who we left with his pockets newly stuffed full of cash courtesy of Pip, and see how the story unfolds from there.

Still suspicious, despite Pip promising him "*as much as you want*" when Valentine asks if there's any more money where the $700 came from, Rocky leads the white-suited man away. The scene cuts to the interior of a lavishly-furnished apartment, the door of which opens, and in walks Pip, followed, behind the barrel of his gun, by our hero: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**Pip: "You like it?"**

**Rocky: "Yeah... some pad alright. Who's it belong to? Some phony politician?"**

**Pip (chuckling): "Why it belongs to you, Mr. Valentine. Errr...that is, if you approve?"**

**Rocky: "Yeah, I approve."**

After informing him that all the furniture, paintings and even the 'hi-fi' are included '*in the deal*', Pip hands Rocky the key to his new home...

Sixty years after *A Nice Place To Visit* aired on CBS, and Rocky Valentine found himself the proud owner of a fancy new home, the housing market in the U.S. has been, somewhat counterintuitively perhaps, on fire in recent months:

> ***(Yahoo Finance): Sales of new homes in July surged to a more than 13-year high, according to data released on Tuesday by The Commerce Department. New home sales rose 13.9% to a seasonally adjusted 901,000 in the month (Fig. 8). The data comes on the heels of the National Association of Realtors saying last Friday existing home sales popped 24.7% in July (Fig. 9).***

Fig. 8

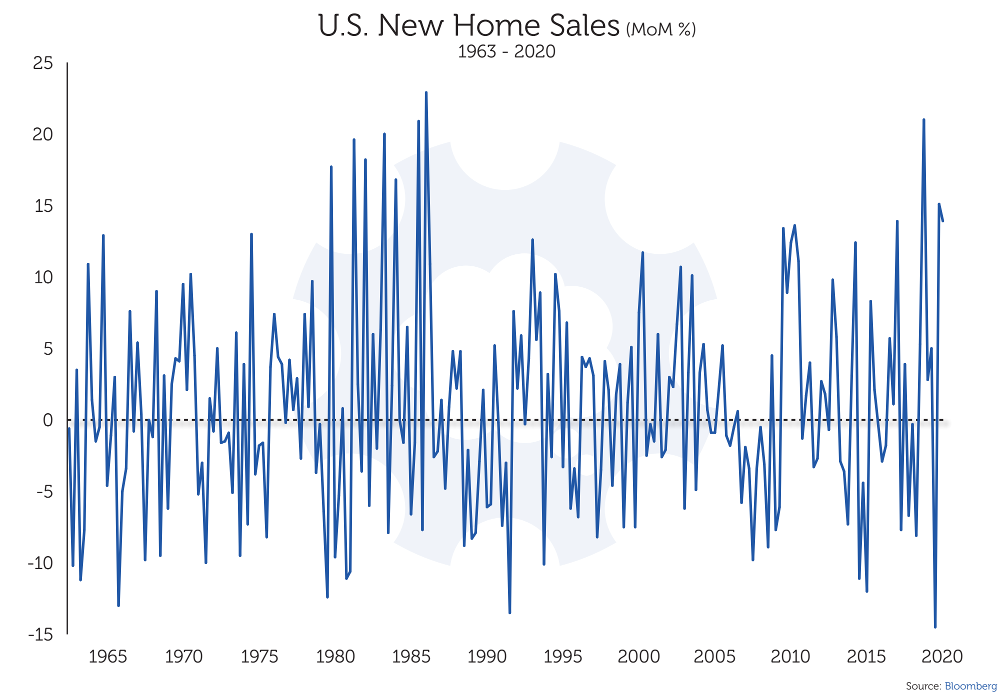
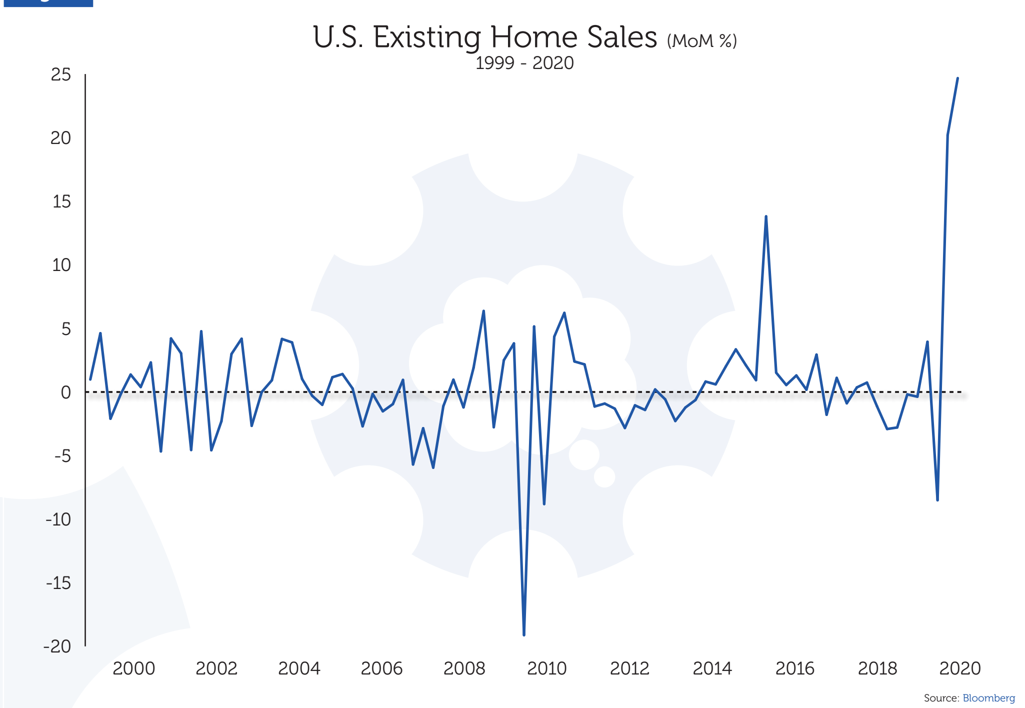



Fig. 9



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***And earlier last week, the Commerce Department reported housing starts surged 22.6% in July (Fig. 10). It marked the best showing since October 2016. Building permits — long viewed as a leading indicator of housing demand — spiked 18.8% (Fig. 11).***

Unsurprisingly, the reaction to the rebound in all things housing has been reflected by the performance of the stock prices of America's homebuilders.

XHB, the homebuilder ETF has soared past its pre-pandemic level to a new all-time high – easily surpassing the level it posted during the mid-noughties housing bubble prior to the 2008 meltdown (Fig. 12).

It's amazing how rosy everything looks, isn't it?

Housing, one of the main drivers of the economy, is firing on all cylinders and, in addition to the datapoints reflected in the charts so far, pending home sales have also bounced spectacularly as the ramifications of Covid stimulus continue to ripple through the sector (Fig. 13).

Working from home has made both employer and employee realise that living within striking distance of a big city is no longer as important as it once was, and so a massive realignment is under way with people pouring out of cities and into suburbs once thought too distant but which now offer both value for money and the space longed for by young families previously priced out of inner city housing markets:

Fig. 10

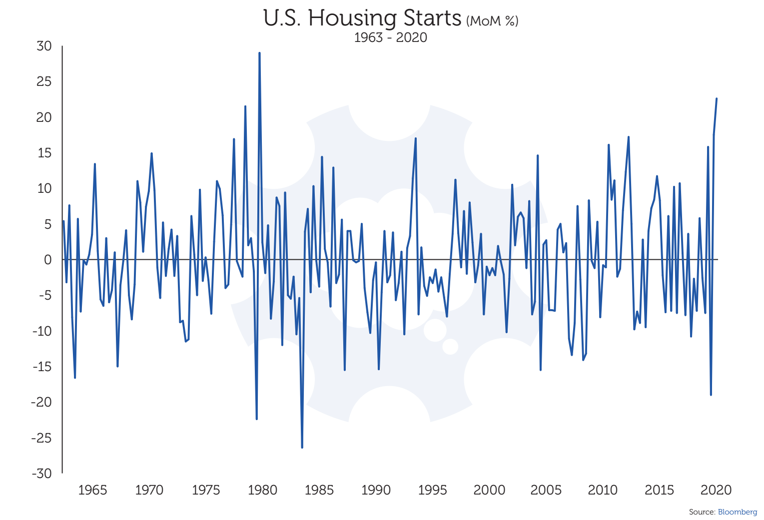



Fig.11

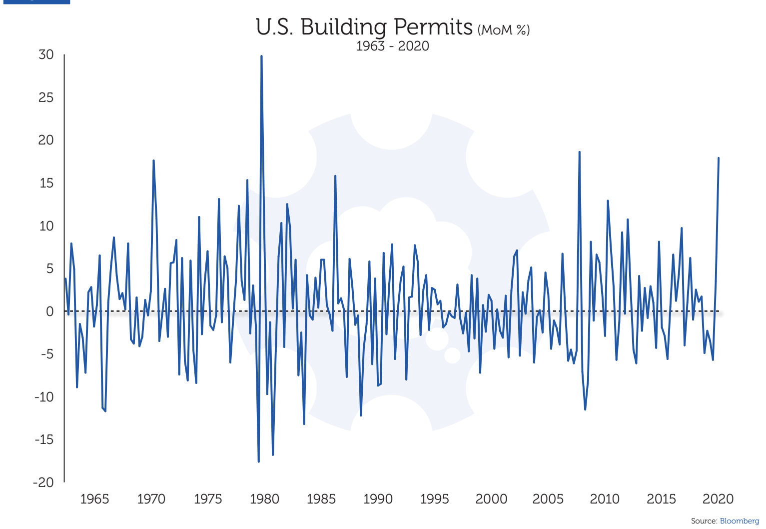
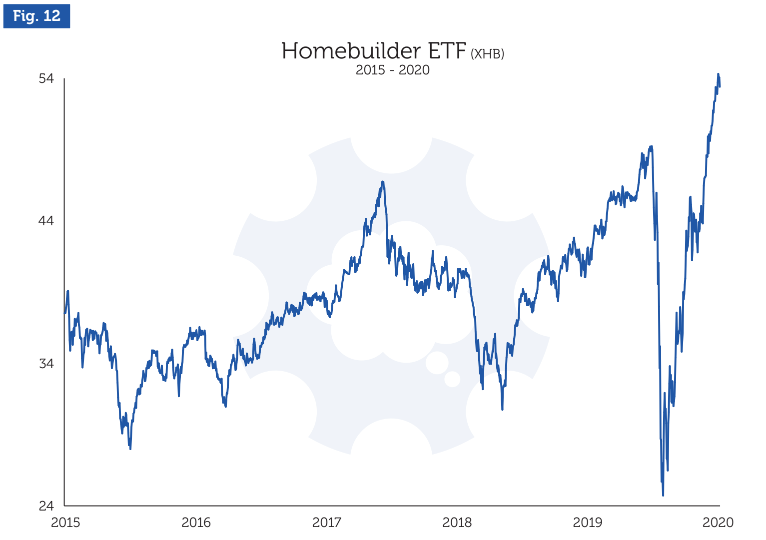



Fig. 12



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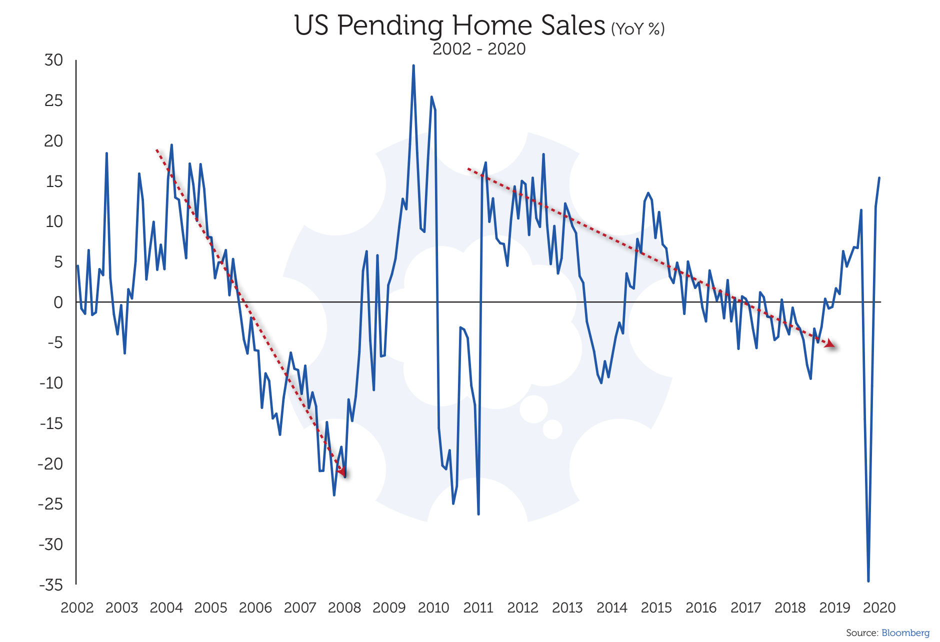
*(WSJ): Millennials, long viewed as perennial home renters who were reluctant or unable to buy, are now emerging as a driving force in the U.S. housing market's recent recovery.*

*Demand from millennials, who today range from their mid-20s to late 30s, has been increasingly important to the housing market since at least the middle of the last decade. But more recently, these new homeowners have been pushing aside older generations to become an even bigger influence.*

Fig. 13

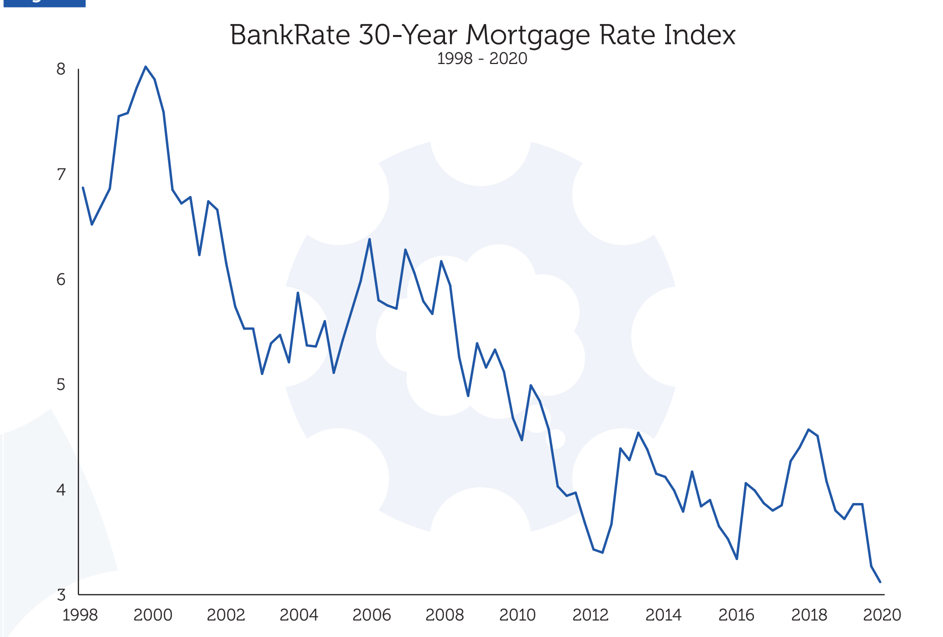



*Millennials reached a housing milestone early last year when the group first accounted for more than half of all new home loans, and they consistently held above that level in the first months of this year, the most recent period for which data are available, according to Realtor.com. The generation made up 38% of home buyers in the year that ended July 2019, up from 32% in 2015, according to the National Association of Realtors.*

It's no surprise, really, given the fact the BankRate 30-Year Mortgage Rate Index (Fig. 14) hit a new all-time low this month, encouraging those who are in a position to borrow to do just that.

The result has been a new record in mortgage originations (Fig. 15) – one which dwarfs the level seen in 2005, just as things started to turn sour last time around – and things are poised to get even better:

Fig. 14



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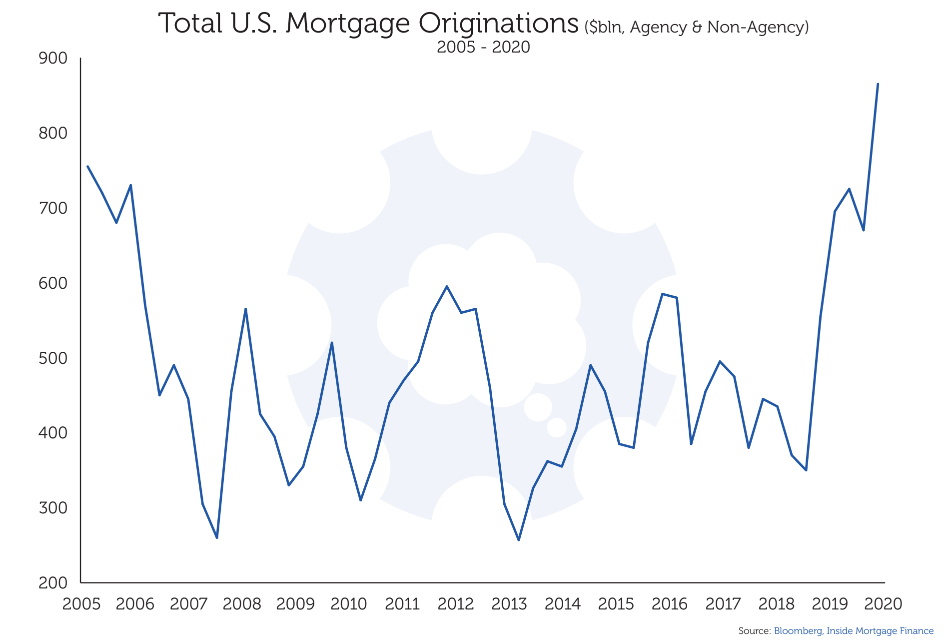
*(Housingwire): The longterm trend is for financing costs to head even lower, Fannie Mae said in its latest forecast. The average U.S. annual rate for a 30-year fixed mortgage probably will fall to 2.7% next year from 3.1% in 2020, the forecast said. Both would be record lows.*

*That projection is based on an expectation that so-called primary mortgage spread – meaning the difference between the 10-year Treasury yield and the 30-year fixed rate – will narrow, Fannie Mae said...*

Fig. 15




Meanwhile, back in 1960, after being shown around his luxurious new 'pad', Rocky, allows himself to get comfortable with his new, idyllic existence but, almost immediately, his face changes and he confronts Pip:

> **Rocky: "Alright, first of all, what's the pitch? C'mon... the pitch, the catch, the gimmick. What do I gotta do for all this?"**
>
> **Pip: "Well nothing. I can't tell you any more than I already have. Honestly."**
>
> **Rocky: "Oh, I get it. You're just a goon. You work for somebody else, right?**
>
> **Pip: "Well, in a way, yes."**
>
> **Rocky: "Well? When do I get to meet him?"**
>
> **Pip: "I-I honestly couldn't say"**
>
> **Rocky: "Ohhhh...well I can wait."**

At this point, the clues are all adding up – both for Rocky, and the audience. The white suit, the elegant bearing, the gentleness. Pip clearly works for '*the man upstairs*' and you can see the penny finally begin to drop in Rocky's eye as he settles back into a comfortable chair – *his* comfortable chair.

That comfort level grows as Rocky is swamped by a tidal wave of perfectly-tailored, expensive and gaudy clothing, champagne, cigars, exquisite food and '*dames*' (his word, 2020, not mine).



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Hell, Rocky is so relaxed at this point that he even puts away his gun (although he hesitates when Pip serves him a nice juicy steak – a moment which offers both Rocky and the audience another clue):

**Rocky: "Nah, nah nah. You eat it first."**

**Pip: "I couldn't. I mean, I haven't eaten in oh... two or three centuries."**

When Pip stubbornly refuses to eat the steak, Rocky's insecurity gets the better of him once again. Convinced he's being poisoned, Valentine pulls out his gun and proceeds to shoot Pip twice in the chest at close range.

Nothing happens.

**Rocky: "Ohhhh bulletproof vest, huh? Let's see how your head holds up..."**

**Pip: "Mr Valentine, please..."**

Rocky then fires three shots at Pip's head from a distance of about two feet.

Nothing.

**Rocky: "I couldn't have missed. Not at this range."**

It seems as though our boy Rocky wasn't as smart as he led us to believe a few moments ago.

But now we get to witness, first hand, a mind adapting to a new set of circumstances as Rocky realises he's dead and Pip must be an angel because, given everything around him (and to use Rocky's words):

"***Dis must be heaven***."

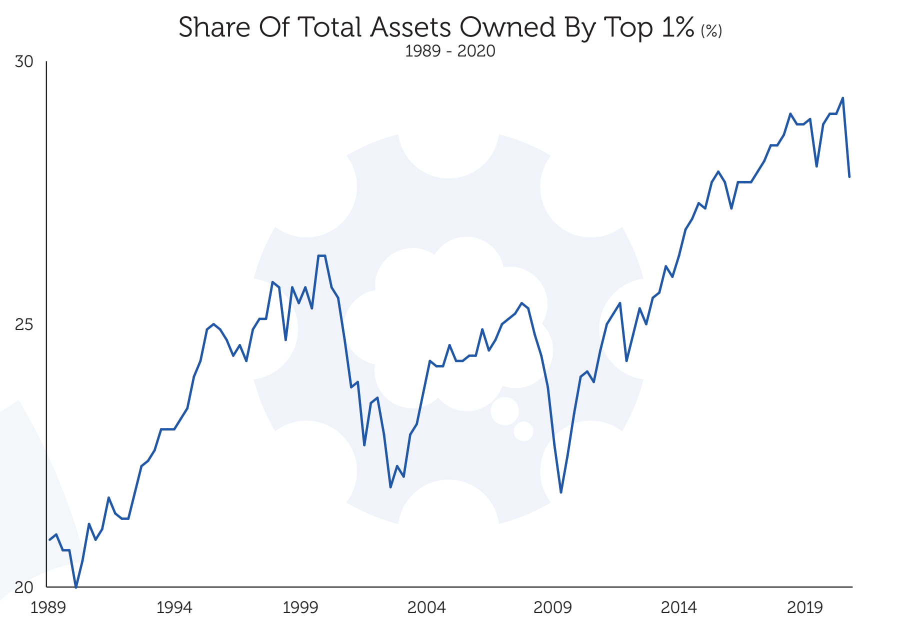
Of course, this being heaven, what's the first thing Rocky asks for?

"***A million bucks in cash... In 5g notes!***"...

Oh, and "***a chick that just won't quit***". Again, 2020, those are Rocky Valentine's words, not mine.

The lure of free money is primal. Is it any wonder the response to the Fed doling out, not a million bucks, but $7 trillion of them, has been so base?

Fig. 16



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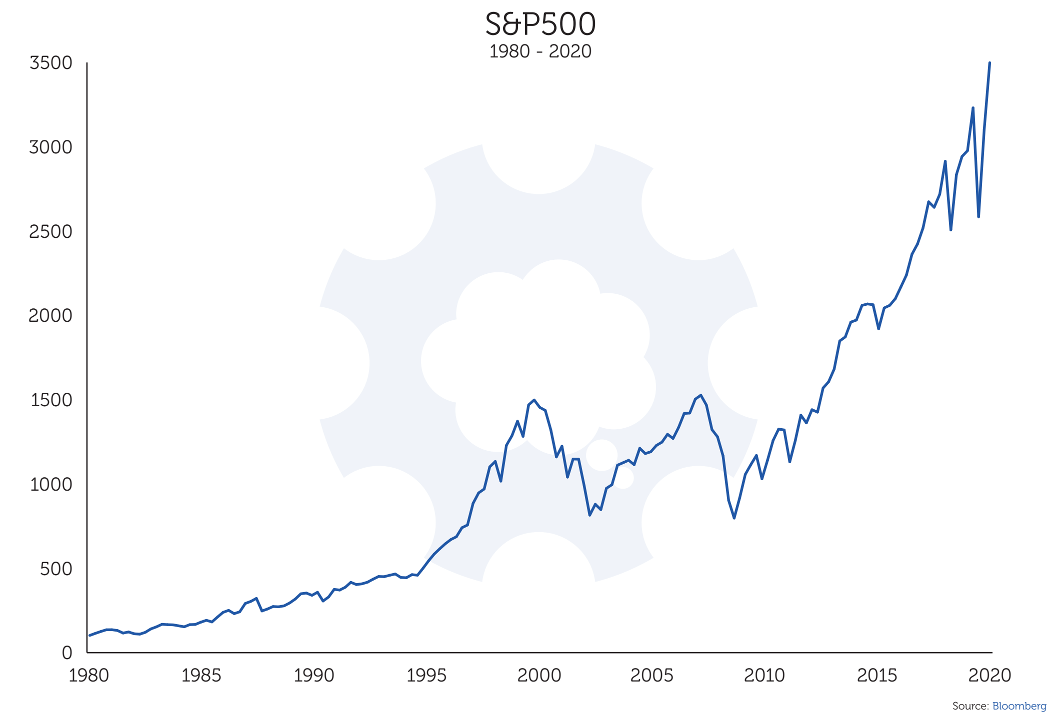
Of course it's not. Asset prices have soared, understandably, and the owners of those assets (we all know who they are, and they're not the Rocky Valentines of this world) have gotten far richer (Fig. 16).

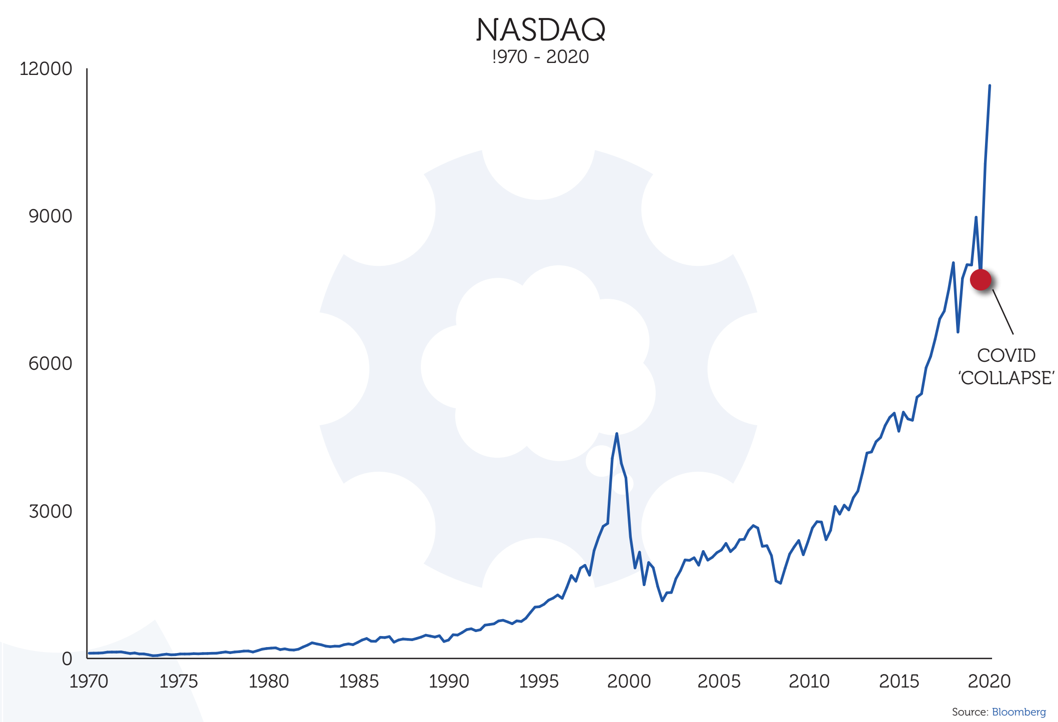
Equity markets have, of course, soared as those with wealth and access to the unlimited cash available courtesy of ~~Mr. Pip~~ Jay Powell took that cash and ploughed it into risk assets.

Fig. 17




As incredible as the rise in both the housing market *and* the S&P500 has been, it's the NASDAQ which has really come to symbolize this particular bout of madness (Fig. 18).

Fig. 18




In recent weeks and months, the crazy valuations we see in the tech sector recall the now-infamous words of Sun Microsystems CEO, Scott McNeely from a 2002 interview.

As you'll have seen, those words grace the cover of this edition, but there's a less-quoted, though equally important passage from that particular conversation that bears repeating:



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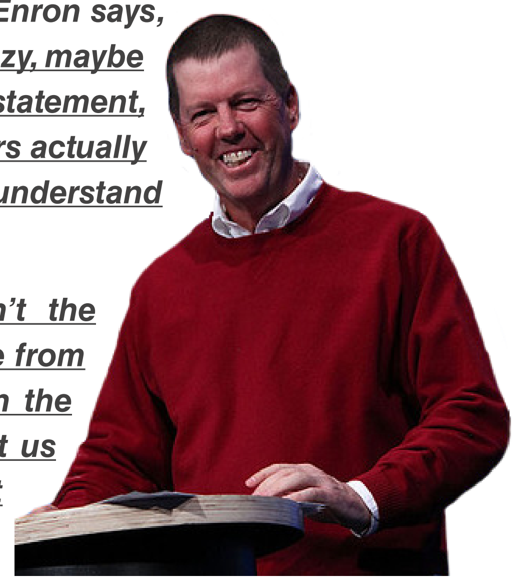
***(Scott McNeely): So how many new rules do you need? I think Enron says, "Hey, if you're going to invest in a company that's going like crazy, maybe it's too good to be true. Maybe you ought to read the income statement, the balance sheet, and the footnotes." How many Enron investors actually read the footnotes? If they had, they wouldn't have been able to understand them. Why invest in something you can't understand?***



***Ultimately, we've got to take personal responsibility. It isn't the government's responsibility in a market economy to protect me from wins and losses in the market. Every time there is a failure in the market economy, the government wants to step in and protect us from failure, to get votes. But if you don't have failures, you don't have winners. If you don't have winners, you don't have a market economy.***

Amen, Scott.

So, how did things pan out for Rocky Valentine?

Well, take a look at the picture, right, and take a guess. Ol' Rock got everything he wanted.

Not only did he get that '***million bucks in 5g notes***' and the '***chick who just won't quit***', but he got two more just like her and took them all to the casino where he quickly turned that million bucks into thousands more.

It will come as no surprise to any of you that, when the casino is rigged in your favour, it becomes ridiculously easy to make money, and Rocky Valentine was winning on every spin of a wheel, every roll of a dice, every pull of a lever and every turn of a card.

He really *was* in heaven.

What he couldn't figure out, however, was how he got here.

After a commercial break, we return to find Rocky, sat at the roulette table once again, dressed in an expensive smoking jacket, surrounded by a different bevy of beautiful women and drowning in casino chips. As the camera zooms in, Rocky wins again, only this time, the excitement of those around him is completely at odds with the look on Rocky's face.



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It seems that winning constantly has quickly become a problem for Rocky. His concentration has waned, his enjoyment dissipated and what was so much fun in the beginning has become something altogether different.

**Rocky: "All I ever do in this joint is win, win, win!"**

After throwing everybody out of his room, Rocky paces his luxurious apartment before happening upon a pool table which, seemingly, appears out of nowhere. Momentarily energized, Rocky slams the cue ball into the rack, only to watch every ball disappear into a pocket.

Infuriated, Rocky snaps the cue over his knee, picks up the telephone and calls for Pip, who instantly appears behind him.

**Pip: "Is anything wrong, Mr. Valentine?"**

**Rocky: "No, no. Nothing's wrong. Everything's just peachy! Look, I've been in this dump for a month and I can't stand it anymore!"**

**Pip: "But I don't understand?"**

**Rocky: "Alright, Fats, I'll spell it our for ya. I'm bored, bored! I mean there's no excitement around here - no kicks!"**

**Pip: "But...but the gambling? I though you enjoyed that?"**

**Rocky: "I do! But when you win every time, that ain't gambling. That's charity!"**

**Pip: "Well, I could arrange for you to lose occasionally if you'd like. Would that help?"**

**Rocky:" It might... no, no, it ain't the same. I would know."**

At this point, Pip asks Rocky if he's missing his old vocation and wonders whether he'd like to rob a bank. Rocky jumps at the chance until Pip asks him if he'd like to be caught or not.

That's the final straw for Rocky Valentine.

**Rocky: "Siddown, Fats. Look, I wouldn't expect an angel to understand this, see, but... everything is great here, it's just the way I imagined it, except that... look, just between you and me, Fats, I don't think I belong here. I don't think I fit in."**

Let's leave Rocky there for a moment, sat on the step, pleading with Pip that he doesn't fit in, and head back to the remarkably strong asset markets we find around ourselves currently – you know, the asset markets which keep going up. Every day.

It's almost as if we're in a casino and none of us can lose.


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If we look at the performance of the NASDAQ and the S&P500 versus corporate profits, we can see just how far detached from financial and economic reality equity markets have become.

Since 2011, corporate profits are unchanged while the S&P500 has risen 280% and the NASDAQ has soared 450%.

But who cares about profits? They don't matter anymore – not when we have our very own Mr. Pip sitting in the big chair at the Federal Reserve.

However, Albert Edwards this week posted the chart below (Fig. 20), which shows whole-economy profits breaking a 70-year log trend channel – a break which suggests even weaker corporate profitability may lie ahead.

Will it matter? Well, probably not... but what if it *did*?

What if the fact that the market cap of Apple is now within 5% of the market cap of the entire Russell 2000 (Fig. 21) mattered?

Would it change things? Probably.

But what would need to happen for these things to matter?

We'll get to that shortly. First, let's look at the bond market because that, as we all know, is the kind of rosy it hasn't been in 5,000 years.

Fig. 19

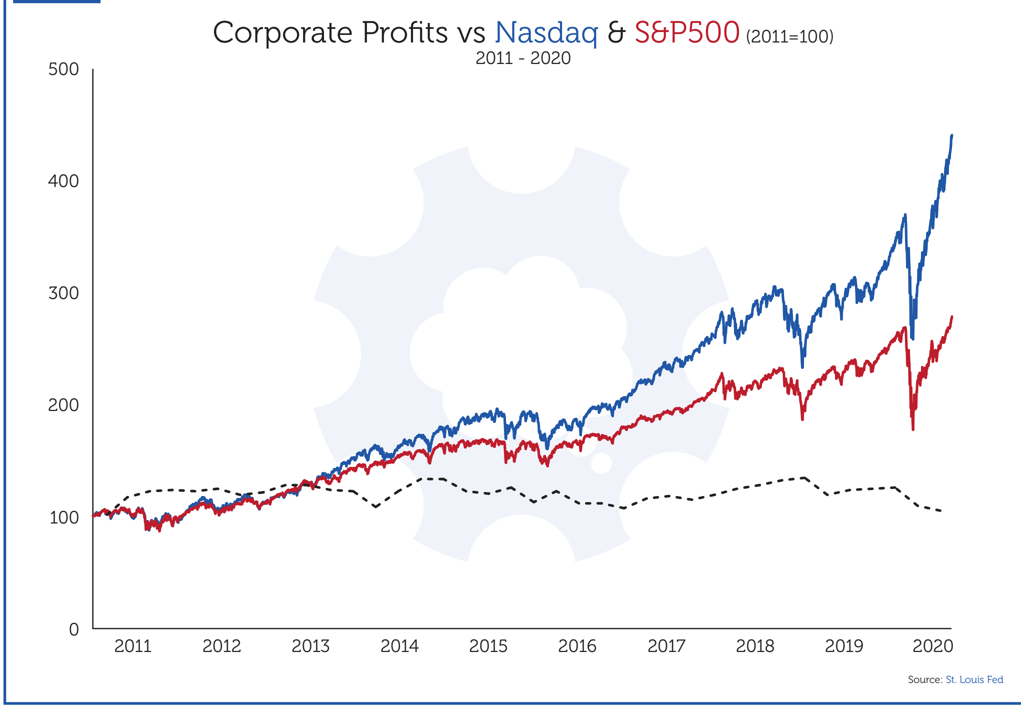
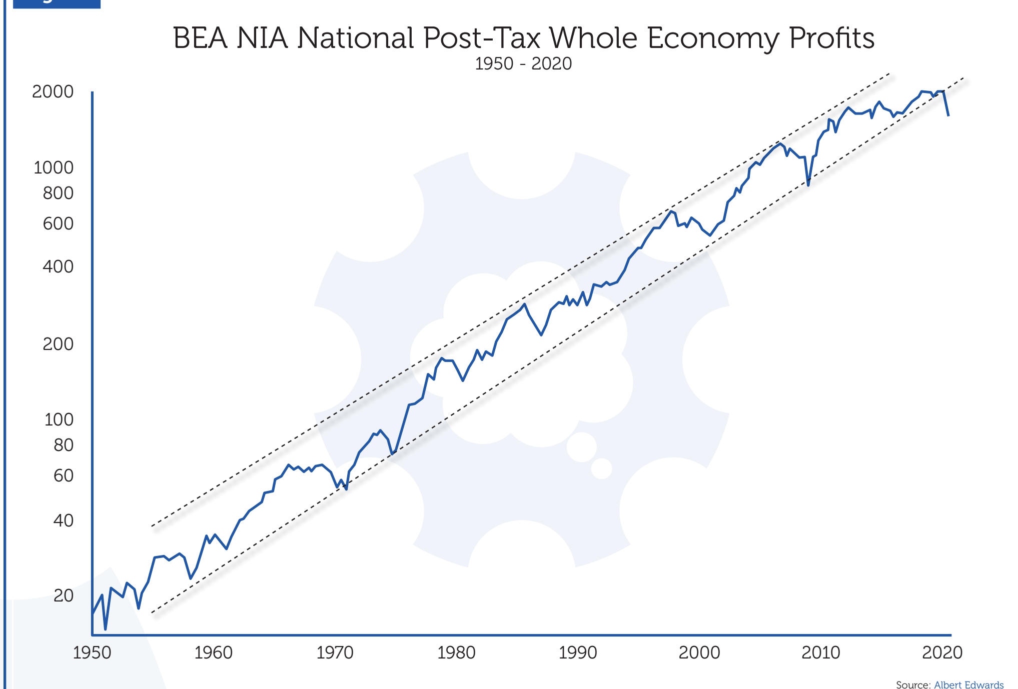



Fig. 20





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The Fed's balance sheet, as we've seen already this week, is not only stuffed to the gills with bonds, but is expanding rapidly.

Fig. 22 shows how dramatically the MBS component of their holdings has increased in the latest monetary blitz and although, at first glance, with the housing market as strong as we've seen in the preceding pages, that seems to almost look like a good investment, beneath the surface, there are signs that the bond market is heading for trouble.

Fig. 21

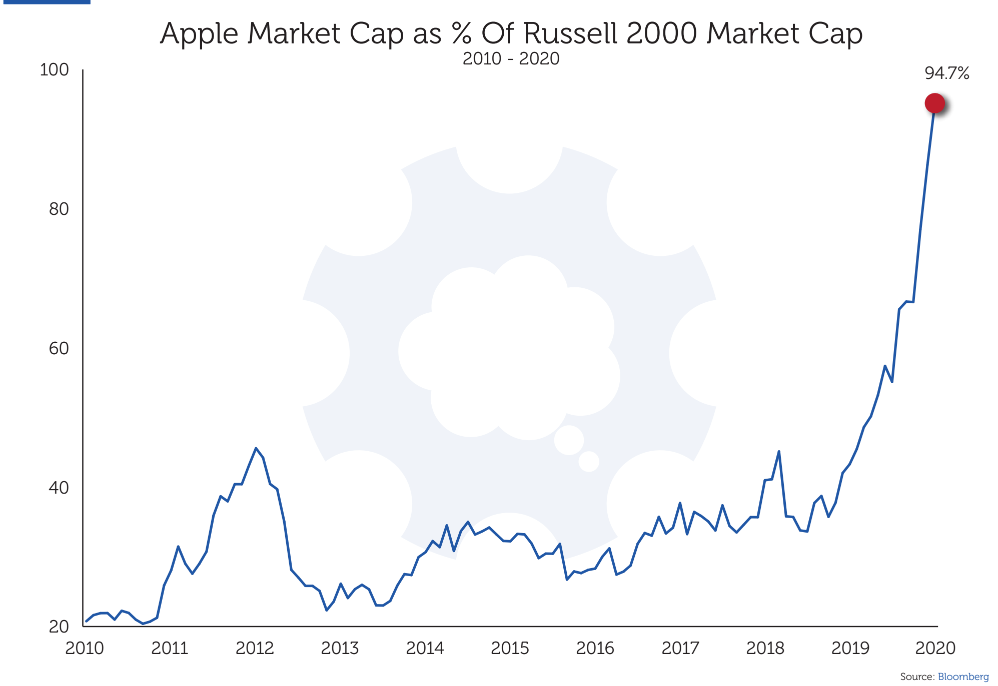
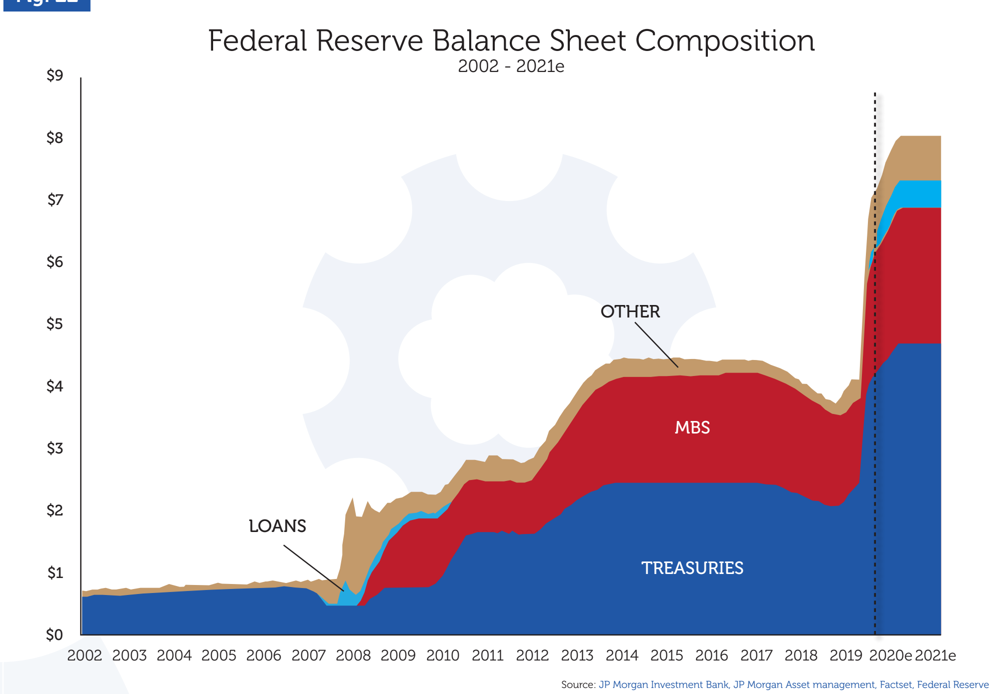



Fig. 22




Firstly, let's take another look at housing. As 13d pointed out recently, things are far more precarious than you'd think from simply looking at the data coming through:

> ***(13d): "The United States may be facing the most severe housing crisis in its history."***
>
> ***The above quote comes from an Aspen Institute report released recently by a coalition of housing researchers from institutions including Princeton, Wake Forest, MIT, and the University of Arizona. Their headline conclusion is heartbreaking: 30 to 40 million Americans are at risk of eviction this year, or roughly 29% to 43% of all renter households. And the pain will be widespread across the country:***



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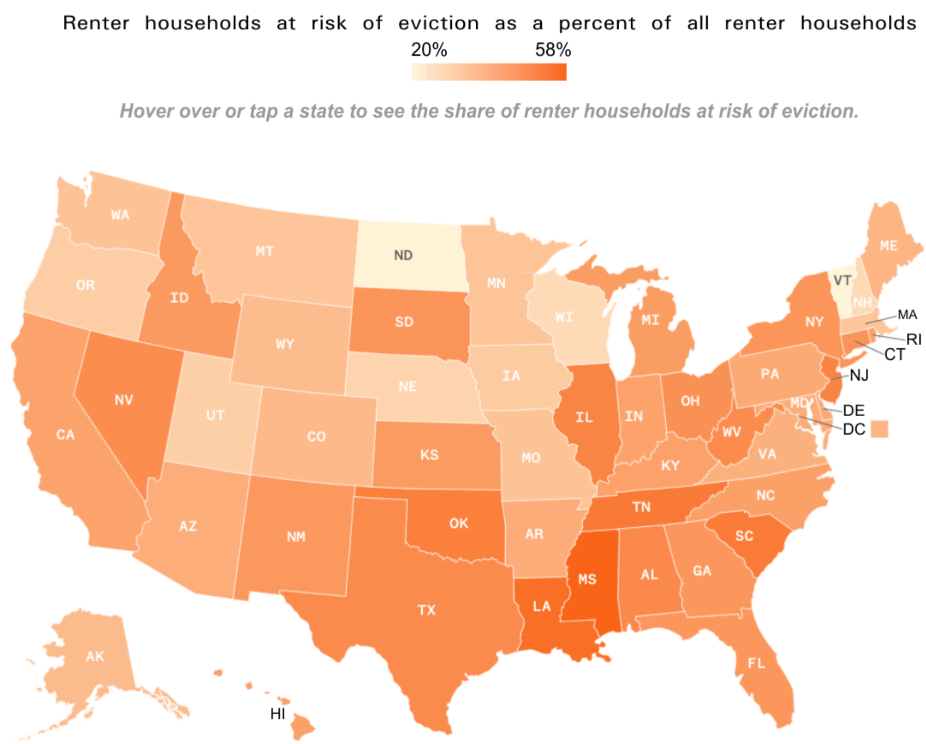
***President Trump's recent executive action was more political statement than meaningful measure, failing to give "tenants worried about losing their homes amid one of the worst public health crises in history any additional security," according to CNBC interviews with experts. It also won't protect the "mom and pop landlords" that own almost half of all rental units in the housing market and require rent payments to make their mortgage payments.***

**Renter eviction risk across the country**

In 29 states, 40 percent or more of renter households are at risk of eviction.




***Roughly 30% of renter households nationwide report having used government aid or assistance to help pay rent since the pandemic began.***

***As we explored in WILTW May 21, 2020, renters nationwide were already walking a financial tightrope before COVID-19. Roughly 50% of renter households in the U.S. were "cost burdened" or "severely cost-burdened", meaning they paid anywhere from 30% to greater than 50% of their income on housing.***

This stress is already feeding into the mortgage market – a fact obscured by the high level of forbearance which has been offered in the early months of Covid. However, unless that forbearance changes to forgiveness, something's got to give.

As you'll see in Fig. 23, the number of mortgages 60-89 days past due is the highest it's been since 1999 and that little lot is about to tip over the fence:

***(13d): As Politico reported this week, 1.7 million rental households in Texas have now failed to pay rent and are at risk of eviction. In Florida, that number is at 1.1 million. And in Mississippi, West Virginia, Louisiana, and South Carolina, between 48% and 58% of renter households are at risk.***



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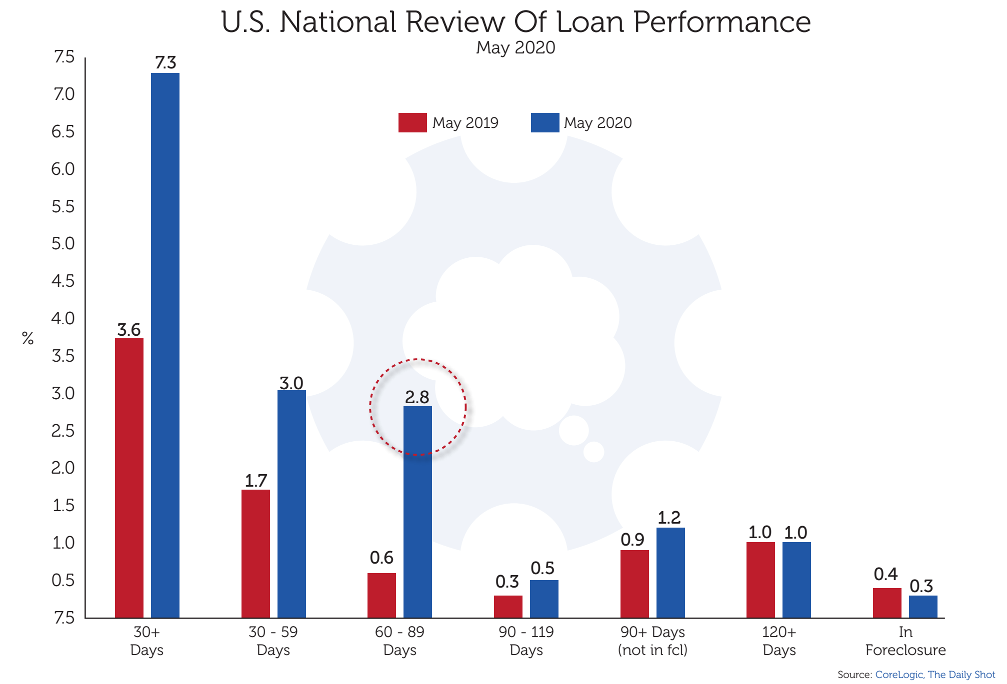
***If the federal government fails to bail out renters, will voters in the south hold Trump responsible in November and flip states he can ill-afford to lose?***

***Talking to CNN last week, Wake Forest law professor Emily Benfer, a co-author of the Aspen Institute report, summed up what's at stake:***

> *"The data demonstrates the gravity of this situation cannot be overstressed. Unless the federal government invests in eviction prevention, we are not only risking widespread eviction and homelessness, we are guaranteeing negative health outcomes, greater unemployment, educational decline, and long-term harm for renters, property owners and communities"*.

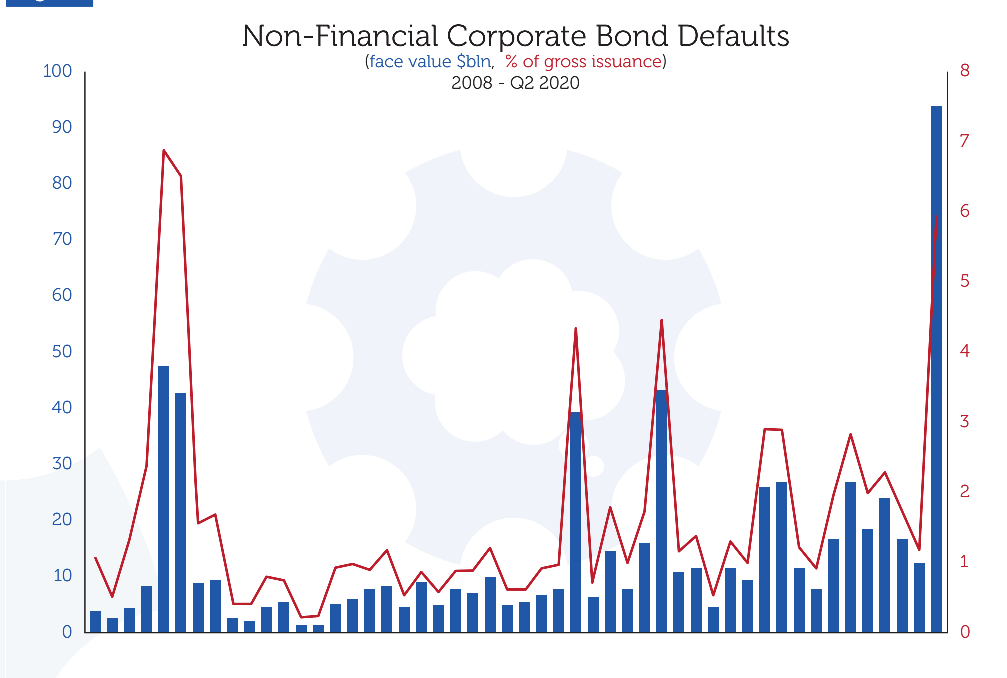
Fig. 23




Meanwhile, in the corporate bond market, the optical strength created by the ~~Pip~~ Powell Fed once again hides a potentially catastrophic situation – one that the Fed has little control over: namely, a major solvency problem:

> ***(Reuters): I suspect the next big correction will likely be one triggered by corporate defaults and other capital impairment events that central banks cannot shield against," [Mohamed El-Erian] said.***

Fig. 24



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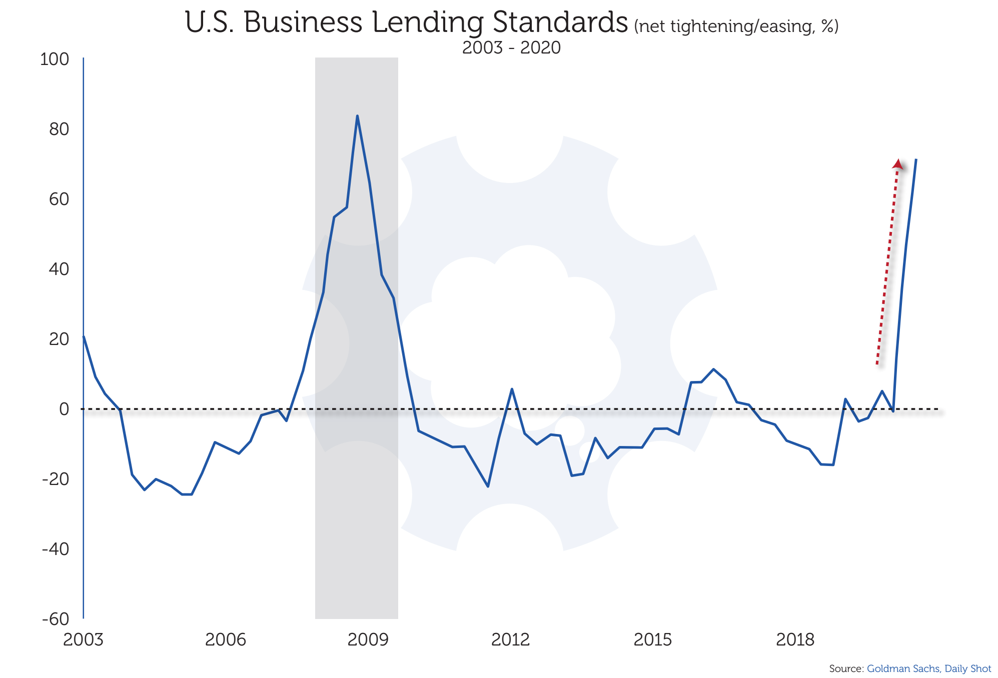
***El-Erian said he expected the lowest tiers of the capital structure to be most at risk, including "CCC-rated high yield corporate bonds and the like, as well as their equities, also some emerging markets."***

He's right, and, what's more, the dramatic tightening of lending conditions in the United States is hardly ameliorating the situation – quite the contrary, in fact.

Fig. 25




That tightening, as the FT points out, doesn't stop at the U.S. border:

***(FT): While the Fed has engineered a lavish party for America's biggest companies, its smaller businesses are increasingly forced to scramble for scraps falling off the table, as access to credit becomes a case of feast or famine.***

***To ease the economic impact of the Covid-19 pandemic, the US central bank has since March unveiled a series of monetary measures unprecedented in size, speed and extent. The most eye-catching move was to start buying corporate bonds. Although its actual purchases have been modest, the mere fact the Fed is doing this has nurtured a borrowing frenzy. US companies have now sold nearly $2tn of bonds this year, already smashing past last year's total. ...***

***However, in the humbler reaches of corporate America, where companies are far too small to issue bonds, access to credit has become a more Darwinian struggle. Rising corporate debt inequality is a longstanding trend but the coronavirus crisis has exacerbated it and thrown it into painfully sharp relief. Size, far more than creditworthiness, now dictates access to credit.***

***Despite the bond boom, the Fed's latest survey of bank loan officers revealed that a net 70 per cent of bank loan officers were tightening conditions on bread-and-butter corporate loans — making this the deepest credit crunch since the depths of the financial crisis.***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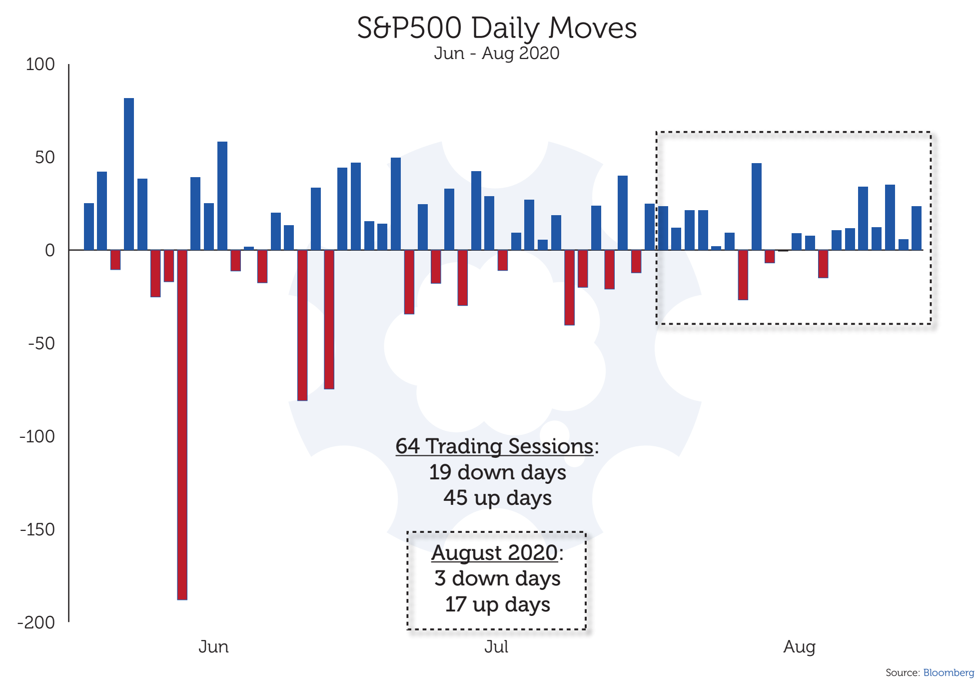
***The diverging access to credit is now so extreme that political and regulatory action is arguably warranted...***

***This is a global phenomenon. <u>The Bank for International Settlements estimates that companies with revenues of $1bn or more account for 70 per cent of all borrowers in the corporate bond and syndicated loan markets in the year to May, close to the highest in a decade</u>. But it is particularly acute in the US, where bonds do more of the heavy lifting than in Europe and in Asia, where smaller companies generally have access to more vibrant local banking systems...***

It's easy to be seduced by rising asset prices. High-flying housing, soaring stocks, and ballistic bonds are fun things to ride for a while, but their continual ascent bears no relation to the reality of underlying economic performance.

And, though the idea of winning every time you visit the casino is an appealing one, things can become a little... strange (Fig.26) and, when it finally hits you, the reality becomes far more shocking.

Fig. 26




Let's go back to Rocky and Pip, sat on the step in Rocky's luxurious penthouse apartment...:

**Rocky: "Siddown, Fats. Look, I wouldn't expect an angel to understand this, see, but... everything is great here, it's just the way I imagined it, except that... look, just between you and me, Fats, I don't think I belong here. I don't think I fit in."**

**Pip: "Oh, nonsense. Of <u>course</u> you do!"**

**Rocky: No, no. I mean it. Somebody must have goofed. If I gotta stay here another day I'm gonna go NUTS! Look, look, I don't belong in heaven, see? I wanna go to the other place."**

At this point, Pip stands up, ramrod straight, and his demeanour completely changes as he looks at Rocky with a cold, dispassionate stare:

**Pip: "Heaven? (chuckles) Whatever gave you the idea you were in *heaven*, Mr. Valentine? This IS the other place"**



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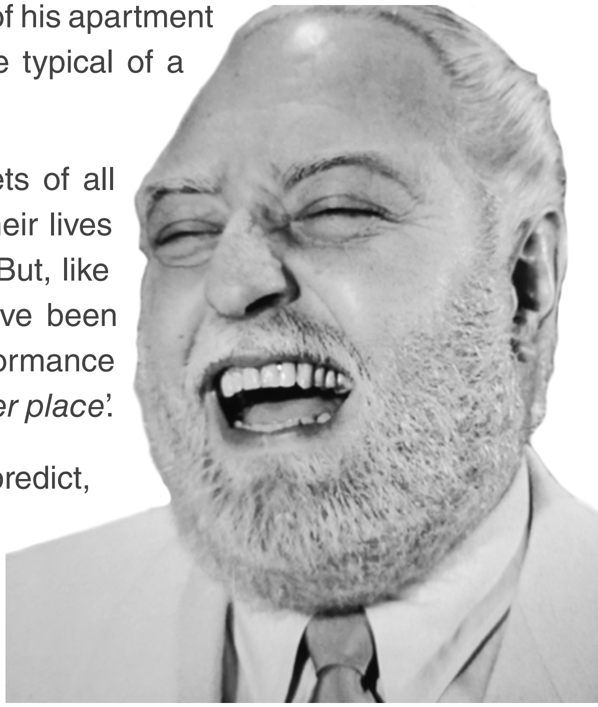

At that, Rocky's face falls and he desperately tries to open the door of his apartment and escape, only to find it locked tight. Pip bursts into the cackle typical of a 1960s TV villain as the screen fades to black.

Just like Rocky Valentine's experience in '*the other place*', markets of all kinds are incredibly confusing right now for those who've spent their lives immersed in them, and exhilarating for those newer to the arena. But, like all other episodes of similar ilk throughout history (and there have been plenty), realization will dawn on everybody that, while asset performance has been heavenly these last few months, we are, in fact, in '*the other place*'.

What tips the scales back towards reality? Well, it's impossible to predict, but we *do* know, from past episodes of a similar nature, that a couple of things hold true.

Firstly, the changes tend to *seemingly* come out of thin air and, secondly, these changes seem to have a tendency towards the post-Labor Day period in September and October.

Here, to close, is the brilliant Liaquat Ahamed, writing about the 1929-1930 Wall Street Crash in *The Lords Of Finance*. This passage shows just how fragile things can be, and how quickly disaster can strike once complacency becomes entrenched:

> ***(Liaquat Ahamed):"As reports of outstanding corporate earnings poured in, the Dow kept going up. In June it rose 34 points and another 16 in July.***
>
> ***The character of the market had by now become completely speculative. As trading turned feverish, action increasingly concentrated in an ever narrower roster of companies and was no longer led by those that were making sustained large profits – the General Motors corporations of the world. Instead, it was frantically pursuing glamour stocks – Montgomery Ward, General Electric, and the most dazzling of them all, Radio Corporation of America. Thus, while the market averages continued to race up, reaching their peak in September, most individual stocks had hit their highs in late 1928 or, at best, in early 1929. Indeed, on September 3, 1929, the day the Dow topped out, only 19 of the 826 stocks on the New York Exchange attained all-time highs. Almost a third had fallen at least 20 percent from their highest points.***
>
> ***Over the next three weeks, the Dow went up another 30 points. Among investors there reigned, as one commentator described it, the sort of "panic which keeps people at roulette tables, the insidious propaganda against quitting a winner, the fear of being taunted by those who held on."***



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*“[Montagu Norman] was now convinced that some sort of stock market crash in the United states was inevitable. No one could be sure what might set it off or how bad it would be. The longer the bubble continued, the more unavoidable would be the breakdown.”*

*“As Wall Street returned to work after Labor Day on Tuesday, September 3, few people thought that this might be the end of the bull market... As bankers assessed the market after the summer, they were assisted by a fresh new voice to add to the blithe new-era optimism of the Wall Street Journal and the dark mutterings about ‘portents’ and ‘misgivings’ from Alexander Dana Noyes, financial columnist of the New York Times. That week, the premiere issue of BusinessWeek hit the newsstands. It sought to being the successful Time magazine formula of snappy and vivid writing to the corporate world. From the very first issue, the editors expressed their skepticism about the bull market. “For five years at least,” they wrote, American business has been in the grips of an apocalyptic, holy-rolling exaltation over the unparalleled prosperity of the ‘new era’ upon which we, or it, or somebody has entered.” It had carried the country “into a cloud land of fantasy.”*

*“As the fall begins,” they warned, “there is a tenseness in Wall Street... a general feeling that something is going to happen during the present season... stock prices are generally out of line with safe earnings expectations, and the market is now almost wholly ‘psychological.’”*

If all that doesn’t sound eerily familiar to you, then I’m afraid I can’t help you.

We’ve reached the point now where the insanity of what’s going on around us is impossible to ignore. More and more seasoned commentators are becoming increasingly vocal about how perilous this situation has become for investors blinded to the risks of where we find ourselves. Hell, one pension fund just allocated 5% to gold. If *that* doesn’t scream ‘*change is in the air*’ then nothing will.

Remember, markets are nothing more than a representation of the collective emotions of their participants and we humans are prone to regular bouts of madness – as Charles Mackay so beautifully observed in his book, *Extraordinary Popular Delusions And The Madness Of Crowds*:

***“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one.”***

The more euphoric markets become, the more dramatic the return to reality will necessarily be once the scales fall from enough investors’ eyes and the corruption of risk asset valuations – not just those caused by the pandemic response, but also by decades of easy money lunacy – is purged from the system.



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The pages of *Things That Make You Go Hmmm...* over these last few months have attempted to chronicle the increasing disconnect between markets and economic reality post-Covid and, all the while, in the background, the markets have continued relentlessly higher.

Like Rocky Valentine, we don't belong here and that realization, once it dawns, will lead to a mass attempt to escape from what will be, in effect, a locked room.

This sure has been a nice place to visit...

Well, Ladies and Gentlemen, that little trip back in time has set us up nicely for a look at the present and, as always, there's *plenty* for us to dig into, beginning with a decision by JP Morgan and Linklaters which has the potential to affect every single aspect of the traditional work mosaic – from transportation to commercial rents, to wages to house prices.

We follow the extraordinary trail of breadcrumbs left by the management of Wirecard, hear how the Fed is suffering from a little Mission Creep, investigate what a wealth tax might look like and drop in on the New Zealand Stock Exchange after a malicious hack shut them down.

Lawmakers are trying to loosen Big Tech's grip, the China-U.S. rivalry reaches a critical point, America's heavy-handed use of sanctions may be coming back to bite and we take a look at the potential unraveling of a country that was, for so long, seen as '*A City On A Hill*'.

Finally, we look at a set of charts featuring consumer confidence, the devastating rise in income inequality (which has *nothing* to do with the Fed, of course) and a ratio of old and new economy stocks that will make your head spin, before closing the week out with the thoughts of Michael Oliver, The Artist Formerly Known As Koos Jansen and yours truly.

That's it from me for another week.

**In housekeeping news, I'll be taking my second break of the year in a couple of weeks so I'll see you all back here in late September.**

Pip pip.

*UNTIL NEXT TIME...*



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# JPMORGAN AND LINKLATERS SIGNAL END OF THE DAILY COMMUTE FOR CITY WORKERS: *UK DAILY TELEGRAPH*

TWO of the City's most powerful firms have called an end to the daily commute by allowing staff to permanently split their time between home and the office after the Covid crisis.

The world's biggest investment bank JP Morgan has told staff in London that they will be continuing to work remotely on a part-time basis.

Meanwhile Linklaters, one of London's elite Magic Circle law firms, said employees will be free to work from home for up to half of the week.

The pair's decision to abandon the traditional nine-to-five shift will send a chill through the Square Mile, and is likely to spark a response from a raft of rivals keen not to be outdone. A raft of companies such as Britain's largest fund manager Schroders have already rewritten the rules on office use following the huge success of home working during lockdown.

Fears are growing that many workers will never return to their offices full time - putting the prosperity of central London and Canary Wharf at risk after decades as a global hub and massive investment in millions of square feet of world-class office space.

London-based Daniel Pinto, head of JP Morgan's investment banking arm, told CNBC that staff will in future cycle between office-based shifts and home working.

The changes will be introduced both on Wall Street and in London, where many of JP Morgan's 16,000 UK staff work in a 33-storey Canary Wharf skyscraper.

JP Morgan - which bought the Queen's broker Cazenove in 2009 - could also close its backup office in Basingstoke because this is no longer needed.

Mr Pinto said: "We are going to start implementing the model that I believe will be more or less permanent, which is this rotational model.

"Depending on the type of business, you may be working one week a month from home, or two days a week from home, or two weeks a month.

"We have all these empty buildings that are recovery sites. You don't really need the bulk of those, because if people can work from home very effectively, you don't need to have recovery sites."

Mr Pinto suggested that the days of having one desk for every worker may also be coming to an end, with the company instead switching to a flexible seating arrangement.



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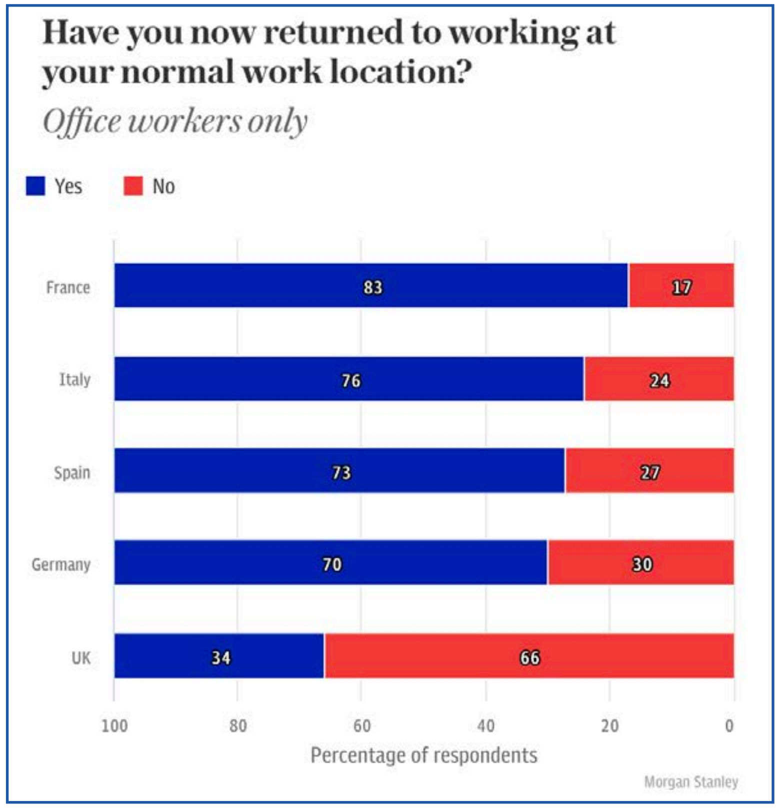
Meanwhile Linklaters has told employees worldwide that they will be allowed to spend between 20pc and 50pc of their time working remotely once all Covid-19 restrictions have been lifted, as long as they tell their bosses in advance and are able to get the job done.




Employees who come to the office may also get more control over their hours. The firm is considering the introduction of more flexible start and finish times.

Staff at Linklaters, where lawyers often work punishing hours into the night and over weekends, may also be able to adapt their schedules to allow for commitments outside of work.

The changes will apply to Linklaters' offices worldwide, including its Silk Street headquarters in central London.

Andrea Arosio, a member of Linklaters' global people committee, said: "The Covid-19 pandemic and our enforced remote working experiment has given us an opportunity to take stock and revisit how we approach agile and remote working."

It is the latest blow to the long-term prospects of pubs, restaurants and other businesses which rely on passing trade from office workers.

In total 522,000 people work in the City of London, 70pc of them in high-skilled jobs, and along with Canary Wharf it is home to the vast majority of Britain's powerhouse financial services industry - a source of £75.5bn in tax last year. Firms have spent years and billions of pounds building up the capital with hundreds of square miles of world-class office space.

Linklaters' main rivals are yet to outline their long term plans for remote working but some have hinted that they are likely to allow staff to work from home more often.

A spokesman for Allen & Overy said: "Over recent weeks and months we have proven the ability for the whole firm to work successfully from home and we are keen for our employees to retain that flexibility on an ongoing basis."

Freshfields, which is about to begin a move from Fleet Street to a new office in Bishopsgate, is also reviewing its working policy due to the pandemic.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Many of London's major law practices already allowed staff to work from home part of the time before coronavirus hit, but the popularity of working from home among some employees means it is likely to become more common.

Clifford Chance and Slaughter and May - the other two Magic Circle firms - plan to bring more staff back to the office next month but so far have not changed their long-term policies on working from home...

## THE UNRAVELING OF AMERICA*: ROLLING STONE*

Never in our lives have we experienced such a global phenomenon. For the first time in the history of the world, all of humanity, informed by the unprecedented reach of digital technology, has come together, focused on the same existential threat, consumed by the same fears and uncertainties, eagerly anticipating the same, as yet unrealized, promises of medical science.

In a single season, civilization has been brought low by a microscopic parasite 10,000 times smaller than a grain of salt. COVID-19 attacks our physical bodies, but also the cultural foundations of our lives, the toolbox of community and connectivity that is for the human what claws and teeth represent to the tiger.

Our interventions to date have largely focused on mitigating the rate of spread, flattening the curve of morbidity. There is no treatment at hand, and no certainty of a vaccine on the near horizon. The fastest vaccine ever developed was for mumps. It took four years. COVID-19 killed 100,000 Americans in four months. There is some evidence that natural infection may not imply immunity, leaving some to question how effective a vaccine will be, even assuming one can be found. And it must be safe. If the global population is to be immunized, lethal complications in just one person in a thousand would imply the death of millions.

Disney reopened the Magic Kingdom and Disney's Animal Kingdom with social distancing measures, extensive cleaning protocols, and face mask requirements for staff and guests in response to the Coronavirus pandemic. Many restaurants, gift shops, and guest experiences remain closed throughout the Disney parks as guests return. Attendance has remained sparse as Disney adjusts to the new normal with characters and staff social distancing from guests.

Pandemics and plagues have a way of shifting the course of history, and not always in a manner immediately evident to the survivors. In the 14th Century, the Black Death killed close to half of Europe's population. A scarcity of labor led to increased wages. Rising expectations culminated in the Peasants Revolt of 1381, an inflection point that marked the beginning of the end of the feudal order that had dominated medieval Europe for a thousand years.



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The COVID pandemic will be remembered as such a moment in history, a seminal event whose significance will unfold only in the wake of the crisis. It will mark this era much as the 1914 assassination of Archduke Ferdinand, the stock market crash of 1929, and the 1933 ascent of Adolf Hitler became fundamental benchmarks of the last century, all harbingers of greater and more consequential outcomes.

COVID's historic significance lies not in what it implies for our daily lives. Change, after all, is the one constant when it comes to culture. All peoples in all places at all times are always dancing with new possibilities for life. As companies eliminate or downsize central offices, employees work from home, restaurants close, shopping malls shutter, streaming brings entertainment and sporting events into the home, and airline travel becomes ever more problematic and miserable, people will adapt, as we've always done. Fluidity of memory and a capacity to forget is perhaps the most haunting trait of our species. As history confirms, it allows us to come to terms with any degree of social, moral, or environmental degradation.

To be sure, financial uncertainty will cast a long shadow. Hovering over the global economy for some time will be the sober realization that all the money in the hands of all the nations on Earth will never be enough to offset the losses sustained when an entire world ceases to function, with workers and businesses everywhere facing a choice between economic and biological survival.

Unsettling as these transitions and circumstances will be, short of a complete economic collapse, none stands out as a turning point in history. But what surely does is the absolutely devastating impact that the pandemic has had on the reputation and international standing of the United States of America.

In a dark season of pestilence, COVID has reduced to tatters the illusion of American exceptionalism. At the height of the crisis, with more than 2,000 dying each day, Americans found themselves members of a failed state, ruled by a dysfunctional and incompetent government largely responsible for death rates that added a tragic coda to America's claim to supremacy in the world.

For the first time, the international community felt compelled to send disaster relief to Washington. For more than two centuries, reported the Irish Times, "the United States has stirred a very wide range of feelings in the rest of the world: love and hatred, fear and hope, envy and contempt, awe and anger. But there is one emotion that has never been directed towards the U.S. until now: pity." As American doctors and nurses eagerly awaited emergency airlifts of basic supplies from China, the hinge of history opened to the Asian century.

No empire long endures, even if few anticipate their demise. Every kingdom is born to die. The 15th century belonged to the Portuguese, the 16th to Spain, 17th to the Dutch. France dominated the 18th and Britain the 19th. Bled white and left bankrupt by the Great War, the British maintained a pretense of domination as late as 1935, when the empire reached its greatest geographical extent. By then, of course, the torch had long passed into the hands of America.



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In 1940, with Europe already ablaze, the United States had a smaller army than either Portugal or Bulgaria. Within four years, 18 million men and women would serve in uniform, with millions more working double shifts in mines and factories that made America, as President Roosevelt promised, the arsenal of democracy.

When the Japanese within six weeks of Pearl Harbor took control of 90 percent of the world's rubber supply, the U.S. dropped the speed limit to 35 mph to protect tires, and then, in three years, invented from scratch a synthetic-rubber industry that allowed Allied armies to roll over the Nazis. At its peak, Henry Ford's Willow Run Plant produced a B-24 Liberator every two hours, around the clock. Shipyards in Long Beach and Sausalito spat out Liberty ships at a rate of two a day for four years; the record was a ship built in four days, 15 hours and 29 minutes. A single American factory, Chrysler's Detroit Arsenal, built more tanks than the whole of the Third Reich.

In the wake of the war, with Europe and Japan in ashes, the United States with but 6 percent of the world's population accounted for half of the global economy, including the production of 93 percent of all automobiles. Such economic dominance birthed a vibrant middle class, a trade union movement that allowed a single breadwinner with limited education to own a home and a car, support a family, and send his kids to good schools. It was not by any means a perfect world but affluence allowed for a truce between capital and labor, a reciprocity of opportunity in a time of rapid growth and declining income inequality, marked by high tax rates for the wealthy, who were by no means the only beneficiaries of a golden age of American capitalism.

But freedom and affluence came with a price. The United States, virtually a demilitarized nation on the eve of the Second World War, never stood down in the wake of victory. To this day, American troops are deployed in 150 countries. Since the 1970s, China has not once gone to war; the U.S. has not spent a day at peace. President Jimmy Carter recently noted that in its 242-year history, America has enjoyed only 16 years of peace, making it, as he wrote, "the most warlike nation in the history of the world." Since 2001, the U.S. has spent over $6 trillion on military operations and war, money that might have been invested in the infrastructure of home. China, meanwhile, built its nation, pouring more cement every three years than America did in the entire 20th century...

## WHY THE CHINA-U.S. RIVALRY IS AT A CRUCIAL TURNING POINT—AND WHAT IT MEANS FOR BUSINESS: *FORTUNE*

Rarely do relations between great powers degenerate as quickly as they did when the U.S. and China skirmished in late July. When the U.S. ordered China to close its consulate in Houston within 72 hours, it looked like punishment for alleged theft of COVID-19 research and other valuable information by Chinese hackers; the Justice Department had announced charges that same day.



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Or perhaps it was a further response to Beijing's crackdown on Hong Kong, for which the U.S. had already revoked the city's special status in trade relations.

But the State Department said the real reason was what it asserted were years of "massive illegal spying and influence operations." So why close the consulate at that moment? Virtually all analysts say the timing reflects the presidential election, as President Trump and former Vice President Joe Biden vie to appear the tougher man on China. Certainly this was not routine diplomacy theater. It was unprecedented. In the 41 years of formal relations between the two countries, the U.S. had never ordered the closure of a Chinese diplomatic facility.

Both sides replaced boilerplate umbrage with vituperation. The U.S. "will not tolerate the PRC's violations of our sovereignty and intimidation of our people," declared a State Department spokeswoman. A Chinese foreign ministry spokesperson shot back that the shutdown was "an outrageous and unjustified move which will sabotage relations between the two countries." A day later, Secretary of State Mike Pompeo said the U.S.-China relationship should be based on a principle of "distrust and verify" and dismissed "the old paradigm of blind engagement with China." The day after that, China ordered the U.S. to close its consulate in Chengdu, a major business hub in southwest China, another unprecedented move.

And to think that just last December, when the U.S. and China signed a phase 1 deal to start unwinding the trade war, President Trump said the U.S.-China relationship "might be the best it's been in a long, long time."

The consulate confrontation marks a particularly clear and dramatic advance in a trend the whole world will feel: the intensifying competition between the world's two largest economies. It adds heavily to a broader uncertainty, a combination of highly consequential unknowns that together will redirect our future. They're distilled in two big questions, both of which arose in the late-July collapse of relations: Where will the U.S.-China rivalry take us? Which country will emerge from the COVID-19 pandemic with the least long-term economic and social damage? Both questions, moreover, are intertwined with a third: Which of two starkly different presidential candidates will America choose? Together, their answers will mark a turning point in the world's progress.

New data, presented in Fortune's 2020 Global 500 ranking of the world's biggest corporations, reveals a landmark change in the U.S.-China rivalry. For the first time, there are more Global 500 companies based in mainland China, including Hong Kong, than in the U.S.—124 vs. 121. If you include Taiwan, the total for Greater China is 133.

The reversal of leadership reflects long-running trends. The number of U.S. companies in the ranking has been declining every year since 2002, when it was 197. The number of Chinese companies has been increasing every year since 2003, when mainland China placed 11 on the list.



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Of the three questions in the triple turning point, the future of the U.S.-China relationship arguably holds the greatest world-historical significance. Harvard China expert Graham Allison frames the relationship as “an inherent, deep, structural rivalry,” a rising power threatening a solidly dominant power. The U.S.-China rivalry is dangerous, Allison tells Fortune, in large part because it’s deeply emotional, particularly for those Americans who feel that the nation’s rightful and only place is to be “No. 1” in the world order. Allison has famously called it “Thucydides’s trap” after the ancient Greek historian’s recounting of how Sparta’s response to the threat of Athens’s rise led to a 30-year war.

While the U.S. and China are a long way from that, the current situation is bad and deteriorating fast. “Every topic that matters is getting worse,” says Ian Bremmer, founder and president of the Eurasia Group consulting firm. “Huawei, Hong Kong, the South China Sea, Taiwan, the U.S. withdrawal from the WHO over China, you name it.”

Most experts agree that over the past year the relationship has fallen into a self-reinforcing downward spiral. “I’m sitting in Washington, and it feels as if we’re in the center of this hurricane and there’s only one direction we’re heading in,” says Scott Kennedy, an expert on Chinese business and economics at the Center for Strategic and International Studies. As Beijing aggressively pushes territorial claims on the Indian border, over Taiwanese airspace, and in the South China Sea—actions intended as messages to the U.S., diplomats say—the U.S. has pressured allies to ban telecom equipment from Huawei (No. 49 on the Global 500) and has even pondered banning U.S. travel by members of the Chinese Communist Party and their families, an estimated 270 million people, including the CEOs of nearly every important Chinese company.

The shift in the Global 500 is significant because this rivalry is founded on economic might. Analysts can quibble over which country’s economy is biggest. The U.S. remains well ahead when the comparison is based on currency exchange rates, with 2019 U.S. GDP of $21.4 trillion vs. China’s $14.3 trillion. But based on purchasing power parity, a measure that adjusts for the countries’ differing price levels, China is slightly ahead of the U.S.—$21.4 trillion vs. $20.5 trillion as of 2018, the most recent year for which the World Bank has data. The gap is probably wider now and continuing to widen. That’s the measure that counts, says Allison, because it shows “who can build the most drones” or fund the most research.

It also makes China the world’s largest market for increasing numbers of products and services. It “will be the first market where new products are launched,” says Kennedy, “so Chinese consumers will have a greater say in the direction of industries. The American market may not be large enough to be where products are scaled up.”

For that and other reasons, U.S. companies will be highly unlikely to leave China. A billion prospering consumers cannot be forsaken by any business that hopes to remain globally competitive. In addition, few companies will want to remove China from their supply chains entirely.



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While trade tensions and the pandemic have shown many companies worldwide that they were too reliant on Chinese suppliers, Chinese companies often have manufacturing expertise that can't be found elsewhere. Besides, foreign companies that ditch China—in favor of India and Vietnam, for example—may find that China becomes less welcoming when those companies want to sell to the Chinese market...

## HOW WOULD A WEALTH TAX WORK AND WHAT WOULD IT LOOK LIKE?: *UK DAILY TELEGRAPH*

British homes could be the new source of billions of pounds in much needed revenue for the Government in the form of a wealth tax, following the economic devastation of the coronavirus pandemic.

Prime Minister Boris Johnson and his Chancellor Rishi Sunak have attempted to stamp out any notion of a so-called wealth tax, saying they want "job, jobs, jobs, not tax, tax, tax."

Thus far – even in the face of the worst recession for 100 years – they have only cut taxes with a stamp duty holiday to reinvigorate a stalling property market. There has also been a huge cut in VAT from 20pc to just 5pc for hospitality and tourism businesses.

But these are short-term measures. Experts say tax rises in some form or another, whether they are labelled as a tax on wealth or not, are inevitable.

The national deficit is now bigger than the economy and will soar to close to £400bn in 2021, according to the Office for Budget Responsibility forecast, as the Government spends £1trillion for the first time in history. Unemployment is expected to hit more than 13pc.

As the economy shrinks, tax receipts will fall. One solution proffered by think tanks is a tax on the exponential rise in property wealth.

So what would a wealth tax look like and how would it work?

**Tax on property gains**

A reform of capital gains tax or inheritance tax, or both, is the most likely route to some form of new duty on property wealth.

The Social Market Foundation, a think tank, has called for new taxes to be levied on increases in the value of homes.

This is so older generations – who have benefited most from house price growth – share a larger proportion of the burden of paying for coronavirus.



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The young – most likely to be affected by future tax rises – should not have to unfairly shoulder the cost of recovering from the crisis, the foundation argued.

It said the 100pc primary residence relief on homes should be scrapped and a new 10pc CGT rate introduced due on the sale of homes even when selling the home of a deceased relative (although IHT would not apply).

SMF also proposed scrapping stamp duty on the main home, but not on second homes. These changes would raise £421bn over the next 25 years. A further £375bn could be raised by removing higher rate tax relief on pension contributions, and scrapping the 25pc tax-free lump sum withdrawal available to savers at the age of 55.

CGT generates less than £10bn a year and even when combined with IHT, which raises less than £6bn, they make up less than 1pc of overall tax revenue.

Rishi Sunak last month called for a review of gains levies, including asking for the Office for Tax Simplification to assess current rates and reliefs, including primary residence relief.

However, he has played down suggestions the review could lead to policy change.

**A new inheritance tax**

Others have said IHT could be tweaked after receipts from the death duty fell for the first time in years due to new tax breaks that protect the family home.

Receipts for the 40pc levy in 2019-20 fell to £5.2bn from £5.4bn the previous year. Taxpayers shielded £3bn in property wealth from the taxman in 2017-18 – as the year the new “family home allowance” let married couples pass on extra property equity worth up to £350,000 tax-free.

But a series of complex reliefs, including 100pc reliefs of agricultural land and property, means the richest who can put money into assets outside the tax net end up paying a lower effective rate versus the average taxpayer.

The All-Party Parliamentary Group on Inheritance and Intergenerational Fairness has said the IHT system should be abolished. All reliefs should be scrapped to stamp out avoidance from the wealthiest and a new 10pc rate for modest estates, with 20pc levied on estates worth more than £2m.

It said this would broaden the tax base and help to raise revenue but protect average families from hefty taxation, However, it did how much revenue this would generate.

Tom Elliott of advice firm Crowe UK said a higher rate for richer estates could be a significant money maker.



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“So few estates pay the tax that it would hardly be a vote-loser if the rate was increased. If anything, such a proposal would be a politically positive step.

“If the Treasury is seriously considering an annual wealth tax, this would provide the perfect opportunity to not just reform IHT but do away with it completely. Politically, the Government would be seen to be continuing to tax wealthy estates,” he said...

## MISSION CREEP AT THE FED: *WSJ*

In a much-anticipated speech this week, Federal Reserve Chairman Jerome Powell is expected to lay out a new framework for meeting its often-elusive goal of 2% inflation.

When he’s done, he should keep his jacket on, because a proliferation of other missions await. Full employment and low inflation are no longer enough. In recent years the Fed has been asked to prevent financial crises, shrink the trade deficit, tackle climate change and, now, eliminate racial economic disparities.

Mission creep poses real risks. The Fed is being asked to meet goals for which its tools are poorly suited and often in conflict.

The killing of George Floyd, a Black man, in police custody earlier this year precipitated an intense examination of economic racial disparities. Last month Joe Biden, now the Democratic presidential nominee, called for amendments to the Federal Reserve Act requiring it to “aggressively target persistent racial gaps in job, wages, and wealth.” Congressional Democrats then unveiled a bill charging the Fed with eliminating “racial disparities in employment, wages, wealth, and access to affordable credit.” The bill won’t go anywhere while Republicans control the Senate, but that could change if Democrats take both chambers of Congress and the White House in November.

The Fed already influences racial disparities indirectly. Since the 1940s unemployment has always been higher for Black people than white people but the gap widens in recessions and narrows during expansions. This was especially apparent in recent years, before the coronavirus pandemic. As labor markets became historically tight, employers began hiring people they may have previously overlooked because of criminal records, lack of experience, disability, or discrimination.

Last year, as overall unemployment hit a 50-year low of 3.5%, the gap between Black and white joblessness dropped below 3 percentage points for the first time since records began in the 1970s.



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Had the pandemic not intruded, the gap could have narrowed even further as the Fed let unemployment drift lower in an effort to push inflation back to or above 2%. This means the more successful the Fed is at achieving full employment, the more racial gaps will narrow—without any explicit mandate to eliminate them.

The problem arises if prolonged low unemployment or some other shock threatens to send inflation too high. The Fed would then have to choose between targeting the racial unemployment gap or targeting inflation. Inflation looks like a remote risk today, but it hasn't always. History also shows that high inflation usually ends with recessions, which we now know do lasting damage to disadvantaged and minority workers.

Targeting the wealth gap is even more problematic. The Fed has slashed interest rates to near zero, bought bonds and, with the authorization of Treasury and Congress, offered credit to corporate and municipal borrowers to combat the Covid-19 recession. That naturally buoys stock and bond markets, aggravating the yawning gap in wealth between Black and white households. But if the Fed were to reverse those actions, it would compromise the pursuit of full employment—and a narrower racial unemployment gap.

Racial equality is only one of several new missions the Fed is being asked to assume. Since the global financial crisis, central banks have been tasked with spotting and tamping down dangerous financial imbalances. But a reliable contributor to such imbalances is low interest rates, and the Fed plans to keep rates near zero for years to come to meet its inflation and employment goals. Both President Trump and former Democratic presidential candidate Elizabeth Warren have called for a weaker dollar to boost exports and manufacturing, but central banks can't target both the exchange rate and the domestic economy.

Meanwhile, Mr. Powell is being prodded to join other foreign central banks in formally incorporating into policy-making the risks a warming planet poses to the economy and the financial system. The Fed should be "requiring firms to incorporate climate change into their core risk management; conducting climate stress tests; and analyzing how climate risks will affect its financial stability and monetary policy goals," a report by Senate Democrats said Tuesday.

This is, arguably, redundant: climate is implicitly part of the Fed's ongoing evaluation of risks to the economy and the financial system. An explicit climate mandate could require that it favor some industries and penalize others in how it regulates bank lending, the collateral it accepts for loans, or the bonds it buys.



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“Central banks keep being given more and more things to do,” Reserve Bank of New Zealand governor Adrian Orr told my colleague Nick Timiraos last year: “And those tools are less and less effective and less understood and less explained. Basically we have been given more opportunities to fail.”

To be sure, the Fed still has tools at its disposal. It can purchase almost any financial asset if Congress and Treasury ask it to, as they did this year. Cooperation between the Fed, Congress and the administration is vital in an emergency. But the more entangled they become, the more advocates of mission creep are emboldened—and the more responsibility shifts from the elected leaders and institutions that actually have the means to tackle complex problems like climate change and systemic racism.

During an exchange on Twitter about how racial disparities could be overcome if interest rates rise whenever inflation threatens, Raphael Bostic, president of the Federal Reserve Bank of Atlanta, said: “That involves changes in policies and practices by many, many institutions, people and businesses. This goes way beyond the Fed.”.

## NEW ZEALAND STOCK EXCHANGE HALTED BY CYBER-ATTACK: *BBC*

The New Zealand stock exchange was knocked offline two days in a row due to a cyber-attack.

NZX said it had first been hit by a distributed denial of service (DDoS) attack from abroad, on Tuesday.

The exchange said the attack had “impacted NZX network connectivity” and it had decided to halt trading in cash markets just before 16:00 local time.

Trading halted briefly for a second time, on Wednesday, but was back up and running before the end of the day.

A DDoS attack is a relatively simple type of cyber-attack, in which a large array of computers all try to connect to an online service at once, overwhelming its capacity.

They often use devices compromised by malware the owners do not know are part of the attack.

Genuine traders may have had problems carrying out their business.

But it does not mean any financial or personal information was accessed.

NZX said the attack had come “from offshore via its network service provider”.

The second attack had halted trading for a large chunk of the working day - from 11:24 to 15:00 local time, the exchange said.



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But despite the interruption, the exchange was up at the close of business, near its all-time high.

New Zealand cyber-security organisation CertNZ issued an alert in November that emails were being sent to financial firms threatening DDoS attacks unless a ransom was paid.

The emails claimed to be from well known Russian hacking group Fancy Bear.

But CertNZ said at the time the threat had never been carried out, beyond a 30-minute attack as a scare tactic...

## WIRECARD; THE FRANTIC FINAL MONTHS OF A FRAUDULENT OPERATION: *FT*

The codename was "Project Panther". Markus Braun, the chief executive of German payments group Wirecard, had hired McKinsey & Co to help prepare his most audacious idea yet, a plan to take over Deutsche Bank.

In a 40-page presentation last November, the consultants insisted the new entity, to be dubbed "Wirebank", would be "thinking and acting like a fintech, at the scale of a global bank". By 2025, it could generate €6bn in additional profit, McKinsey claimed.

While Germany's largest bank sat on €1.4tn in assets, it was worth a mere €14bn on the stock market, roughly the same as Wirecard. The McKinsey report promised that the combined stock market valuation would double to close to €50bn.

A deal to acquire Deutsche Bank would have been the crowning achievement for a company which within a few years had become one of the most valuable in the country, winning the label of "Germany's PayPal". An upstart financial technology company would be running Germany's most illustrious bank.

A tie-up with Deutsche Bank had another potential attraction: a deal offered the prospect of a miraculous exit from the massive fraud Wirecard had been operating. Around €1.9bn in cash was missing from its accounts and large parts of its Asian operations were actually an elaborate sham. By blending Wirecard's business into Deutsche's vast balance sheet, it might be possible to somehow hide the missing cash and explain it away later in post-merger impairment charges.

There was one catch. To even start preparing such a deal in earnest, the company needed to get a clean bill of health from KPMG, which was conducting a special audit of Wirecard's books.

The approval from KPMG never came.

Six months later the curtain fell on Wirecard. On June 25, the group collapsed into insolvency after it was exposed as one of Germany's biggest postwar accounting frauds.



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Prosecutors in Munich suspect that €3.2bn in debt raised since 2015 has been "lost". Around €1bn was handed out in unsecured loans to opaque business partners in Asia.

Mr Braun, who denies allegations of fraud and embezzlement, and three other former top managers are in custody. Jan Marsalek, Wirecard's former second-in command, is on the run and the boss of a key Wirecard business partner in the Philippines has been registered dead.

The Financial Times talked to more than a dozen people involved and reviewed hundreds of pages of internal documents to reconstruct the final months before Wirecard's collapse. They reveal a desperate effort stretching from Munich to Manila to cover up the fraud and to hoodwink the company's auditors that continued right up to the very end.

"The brazenness of Marsalek (and others), who constantly lied straight through their teeth, is just mind blowing," says one person who was working closely with them in a senior position at Wirecard's Aschheim headquarters near Munich.

The crisis in the company began with an FT story published on October 15 2019 — the latest in a string of investigations into the company's accounts — that explained how Wirecard appeared to fraudulently inflate sales and profits. Wirecard shares plunged but a relaxed Mr Braun brushed away the accusations. Three days later the company announced a €200m share buyback.

Behind closed doors at Wirecard, however, a heated debate broke out. Thomas Eichelmann, Deutsche Börse's former finance director who had joined the board in June 2019, pushed for an independent audit into the allegations, according to two people familiar with the discussions. The proposal was supported by SoftBank, which had invested €900m into Wirecard a few months earlier.

The company's longstanding chairman Wulf Matthias was deeply sceptical. Just days before KPMG was hired, he told the FT that the allegations were "an annoyance" and argued a special audit was unnecessary as Wirecard's accountant EY was "evaluating the matters sufficiently".

Mr Braun, whose 7 per cent stake in Wirecard was worth more than €1bn at the time, also opposed the audit idea. But a joint effort by SoftBank and the supervisory board swayed him. "We told him that he needed the audit to protect himself and his money," says a person who was involved in the discussions.

In November, 40 forensic accountants from KPMG started to dig through Wirecard's books. They were promised access to any data they needed, and Wirecard had publicly committed to publish the result.

Within a few days, KPMG realised that Wirecard's core payments processing operations in Europe were not making any money — a fact that Wirecard had never disclosed to investors.

All of the profit was generated by the operations overseen by Mr Marsalek: Wirecard's Asia business, where the processing of transactions was outsourced to third-party business partners.



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By January, Wirecard had a new chairman, with Mr Eichelmann succeeding the 75-year-old Mr Matthias, who had been in charge of the board for more than a decade.

Mr Eichelmann was scathing about Wirecard's haphazard internal structures. "Even if I were running a chippy I would do it differently," he told a confidant.

However, the new chairman did not believe that Wirecard was involved in fraud, in part because of the group's strong cash generation. According to a person familiar with his views, he was convinced that it was "extremely hard if not impossible to fake cash flows".

With the KPMG investigation in full flow, the Wirecard executives allegedly behind the fraud saw Project Panther and a deal with Deutsche, which was first reported by Bloomberg, as one possible way to fend off discovery, says an adviser to the payments group who was involved in the discussions. But they also worked on a separate plan: a vast cover-up operation in Asia.

They had to fix the weakest link — and quickly. For years, Wirecard had told EY that large sums of company cash were deposited in escrow accounts held by a trustee at Singapore's second-largest bank, OCBC.

The accounts, it turns out, were fantasy. Yet EY, for years, had been content with balance confirmations issued in the name of the trustee, a company named Citadelle whose director R Shanmugaratnam was charged this month over falsification of accounts in Singapore.

Sven-Olaf Leitz and Alexander Geschonneck, the two veteran KPMG partners running the special audit, told Mr Braun and other senior Wirecard executives that the documents on the escrow accounts were not good enough. They insisted on seeing original documents, ideally directly obtained from OCBC.

It took almost two months before Mr Marsalek presented an apparent solution. Wirecard's second-in-command informed the auditors that the company had moved the bank accounts to a new trustee based in the Philippines. Citadelle, said Mr Marsalek, had abruptly terminated the business relationship in late 2019 and was not responding to inquiries from Wirecard any more...

## KEY LAWMAKER VOWS TO LOOSEN BIG TECH'S 'DEEPLY DISTURBING' GRIP: *BLOOMBERG*

Representative David Cicilline, the Democrat leading a high-profile investigation into technology giants including Facebook Inc. and Amazon.com Inc. is poised to deliver recommendations as soon as next month that will take aim at the power of digital behemoths and could lead to the overhaul of antitrust laws.



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Cicilline said in an interview Wednesday that his inquiry has confirmed that Alphabet Inc.'s Google, Apple Inc., Amazon and Facebook are abusing their market power to crush competitors and that Congress must act urgently to rein them in to protect consumers.

"All of these companies engage in behavior which is deeply disturbing and requires Congress to take action," said Cicilline, the chairman of the House antitrust panel. "The kind of common theme is the abuse of their market power to maintain their market dominance, to crush competitors, to exclude folks from their platform and to earn monopoly rents."

Cicilline's comments are the most extensive yet on where his committee is focused as it nears the end of its year-long investigation. While he declined to go into detail about the panel's recommendations, Cicilline said he is working to find common ground with Republicans on the "biggest, boldest ideas I can."

One possibility is what he described as a Glass-Steagall law for technology platforms. That Depression-era law separated commercial and investment banking until it was repealed during the Clinton administration. For tech companies, it would mean prohibiting them from running a platform and competing on it at the same time.

That's a common complaint about Amazon in particular because it both runs a marketplace and competes with third-party sellers with its own line of products.

Cicilline declined to specifically endorse the idea of separating functions of platform companies, but said in a separate Bloomberg TV interview that it's a "really interesting idea" that's worth careful consideration.

"That's a big idea," he said about separating the two functions. "It would be one way to try to separate out what is a relationship fraught with conflicts that I think is promoting tremendous market dominance and bullying behavior by Amazon, as an example."

Representatives for Amazon, Facebook, Google and Apple didn't respond to requests for comment. The companies have defended their conduct as good for consumers and say they face fierce competition across their businesses.

Cicilline said the House antitrust panel intends to issue its report as soon as September, which would allow him to offer legislative proposals in this session of Congress.

The committee, which collected more than 1 million documents in its investigation, concluded its hearings in July with testimony from the chief executive officers of the four tech companies. Cicilline said he was struck by the "casual way" Facebook CEO Mark Zuckerberg acknowledged that he acquired messaging service WhatsApp in 2014 because it was a growing competitor. Cicilline said he was also surprised that Amazon's CEO Jeff Bezos wasn't able to answer whether the company had used the data of rivals that sell goods on Amazon's platform to inform its own product development.



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“They sort of acknowledged a set of business practices that were anti-competitive, deeply disturbing, and either kind of evaded the answer completely, or didn’t really have an explanation for their conduct,” he said.

The committee’s report will address four broad areas, Cicilline said: changes to existing antitrust laws passed more than a century ago; reforms aimed specifically at the tech sector; strengthening private antitrust litigation by plaintiffs; and ensuring antitrust watchdogs at the Justice Department and the Federal Trade Commission have the resources to do their jobs and are staffed by aggressive enforcers.

Cicilline is highly critical of the Justice Department’s and FTC’s track record on antitrust enforcement. Officials in Republican and Democratic administrations haven’t done enough to curb the power of dominant companies, he said. The FTC, in particular, shouldn’t have approved Facebook’s acquisition of WhatsApp, he said.

But even with tougher enforcement by the FTC and the Justice Department, Cicilline said his “gut” is that Congress still needs to update antitrust laws to address court decisions that have made it tougher to win cases and have led to dominant companies that are thwarting competition.

“It’s actually up to Congress to decide what the appropriate antitrust policy is for the country, not the courts,” he said. “And to the extent the courts have interpreted things that we think are inconsistent with good competition policy, that’s the exact function of the investigation and of policymaking that Congress is responsible to do. So that’s exactly what we need to look at.”.

## AMERICA’S EXCESSIVE RELIANCE ON SANCTIONS WILL COME BACK TO HAUNT IT: *FAREED ZAKARIA*

Under the Trump administration, the United States has withdrawn from so many international agreements, broken with so many precedents and angered so many allies that it can be difficult to cut through all the noise. But one particular approach could irreparably damage America’s superpower status: its promiscuous use and abuse of sanctions.

Currently, the United States has more than 8,000 sanctions in place against individuals, companies and countries. While the United States has used sanctions for decades, they have proliferated dramatically in recent years, especially under President Trump. He has instituted more than twice as many sanctions per year as his two predecessors, including 700 on a single day in 2018 (on Iran). Sanctions against countries such as Iran and Venezuela are so broad that they prompted U.N. High Commissioner for Human Rights Michelle Bachelet to warn that they are putting health-care systems at risk of collapse and endangering the lives of millions of ordinary people.



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But it is not just against America's foes that Trump wields sanctions. He has brandished them against partners such as Iraq and Turkey — threatening to destroy both those countries' economies if they didn't do what he asked. Earlier this month, three Trump allies in the Senate sent a letter to a Baltic Sea port operator in Germany threatening "crushing legal and economic sanctions" if it proceeds with the Nord Stream 2 project, a gas pipeline between Russia and Germany. The threats have been badly received in Germany, where senior politicians are accusing the United States of "blackmail" and "neo-imperialism."

Why is the United States gravitating toward sanctions as a preferred tool of foreign policy? Because they are a seemingly cost-free way of forcing countries to change course. They require neither the commitment of U.S. troops nor the appropriation of large sums of foreign aid. They allow Washington to register disapproval and show it is doing something without having to make hard choices and sacrifices. As scholar Eliot Cohen once said of air power, sanctions are seductive because, like modern courtship, they offer gratification without commitment.

In fact, they do have costs. As with tariffs, the average American consumer pays for these policies, but the costs are spread thinly across the citizenry. And though sanctions can cause real pain to the target, they have rarely been effective at what is often the underlying goal: regime change. The governments of Cuba, Venezuela, Iran and North Korea are all still standing after decades of sanctions.

Nevertheless, the United States has increasingly turned to sanctions under Trump, taking advantage of the enhanced power of the U.S. financial system. The growing interconnectedness of the global economy has bolstered the need for a single dominant currency, and the dollar has filled that role. As a result, when the United States issues "secondary sanctions" against anyone doing business with a sanctioned entity, it can cripple the target's access to international transactions. Thus, when the United States unilaterally withdrew from the Iran deal and reimposed sanctions, Iran was largely cut off from the international economy.

This is an extraordinary power, and Washington should not use it lightly. The United States' leverage causes intense discomfort even among its allies. The more Washington abuses its power, the greater the efforts to find some alternative to the hegemony of the dollar. The Russians and Chinese have long been trying to find ways to skirt dollar control. Infuriated by the Iran sanctions, the Europeans are now doing the same. So far they have refrained from the most extreme options, such as nationalizing the SWIFT system, which processes international bank transfers and happens to be based in Belgium. They have set up an alternative mechanism, INSTEX, but have been reluctant to back it fully and openly.

But the more Trump resorts to sanctions as unilateral cudgels, and the more he wields them to look tough rather than to execute an overarching strategy, the more other countries will resent the United States and push back. This is the real cost of sanctions.



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The power of the dollar remains one of America's greatest strengths. In facing the challenge of covid-19, Washington has a major advantage: It can issue debt in its own currency, which is the world's reserve currency, without the fear of hyperinflation or depreciation. But if one day that privilege evaporates, it will be a permanent blow, and we will look back on the misuse of this precious asset and wish we had handled it with greater care...

## U.S. NAVY BRINGS BACK NAVIGATION BY THE STARS FOR OFFICERS: *NPR*

"Raise your hand if you have ever determined your location on the planet using the stars," Lt. Daniel Stayton tells his class at the U.S. Naval Academy.

A young officer halfheartedly puts up her hand. Another wavers. The rest of the class of 20 midshipmen sits stone-faced.

This is the challenge facing the U.S. Navy as it tries to bring back celestial navigation. The Navy stopped training its service members to navigate by the stars about a decade ago, focusing instead on electronic navigational systems. But fears about the security of the Global Positioning System and a desire to return to the basics of naval training are pushing the fleet back toward this ancient method of finding a course across open water.

Navigation by the stars dates back millennia. The ancient Polynesians used stars and constellations to help guide their outrigger canoes across thousands of miles of the Pacific Ocean. And right up until the mid-20th century, navigation on the sea was usually done by looking at the heavens.

That changed in the late 1970s, when the military began launching GPS satellites. The satellite system provided a far more accurate fix than the stars could. In 2000, the U.S. Navy began phasing out sextants and charts in favor of computers.

Rear Adm. Michael White, who heads the Navy's training, says the change in curriculum was driven by the need to bring young officers up to speed on the Navy's equivalent of Googlemaps, called the Voyage Management System. It uses GPS, radar and other tools to precisely track a ship's position and course across the ocean. The system is complex and, "we don't have infinite training time available," White says.

So, why return now to the old ways? The Navy and other branches of the U.S. military are becoming increasingly concerned, in part, that they may be overly reliant on GPS. "We use it to synchronize all military operations, we use it to navigate everywhere — it's just something the U.S. military can't live without," says Brian Weeden, a former Air Force officer now with the Secure World Foundation, a nonprofit that studies security issues in outer space. In a big war, the GPS satellites could be shot down. Or, more likely, their signal could be jammed or hacked.



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Already, jamming has become more common, Weeden says. “You can buy a lot of GPS jammers off the Internet,” he says. “A lot of those are made by Russia.”

He thinks the Russians probably have systems to jam the special signals the military uses as well. And China may be developing similar capabilities.

White, who heads the Navy’s training, says there is also a desire to get back to basics. Over the past decade, electronic navigation systems on ships have become easier to use, so less training is required. He says the Navy is bringing back celestial navigation to make sure its officers understand the fundamentals.

“You know, I would equate it to blindly following the navigation system in your car: If you don’t have an understanding of north/south/east/west, or perhaps where you’re going, it takes you to places you didn’t intend to go,” he says.

In fact, there has been at least one incident in the past decade when a Navy ship ran aground partly because of problems with the electronic navigation system, investigators say.

Back in the classroom at the Naval Academy, the midshipmen finishing up their first course seem a little bewildered. Until now, says 20-year-old Audrey Channell, celestial navigation wasn’t on her radar.

“I mean, obviously I heard about using stars to navigate in the old days,” she says, “but I never thought I’d be using it.”

Like many of the others in the class, she uses GPS to navigate her daily life.

Her instructor, Daniel Stayton, says that’s OK. Nobody expects these young officers to become Magellans overnight...


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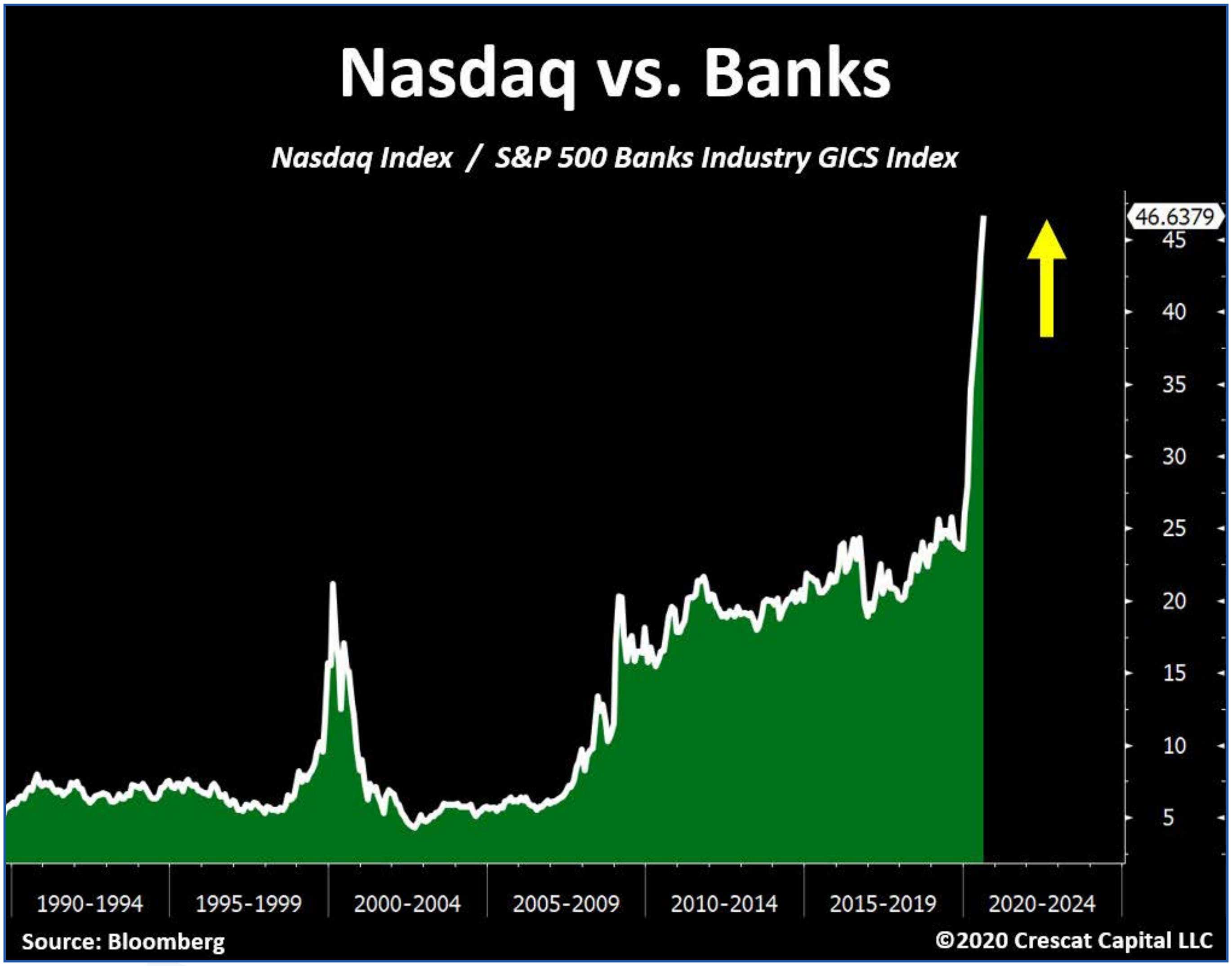
Things that make you go hmmm

# CHARTS THAT MAKE YOU GO HMMM...




Above you'll find an extraordinary chart which shows the ratio of the NASDAQ index to U.S. banks. As you can see, the dotcom bubble in 1999/2000 has nothing on the tech-fueled madness of today.

Think this can go on forever? Think again...



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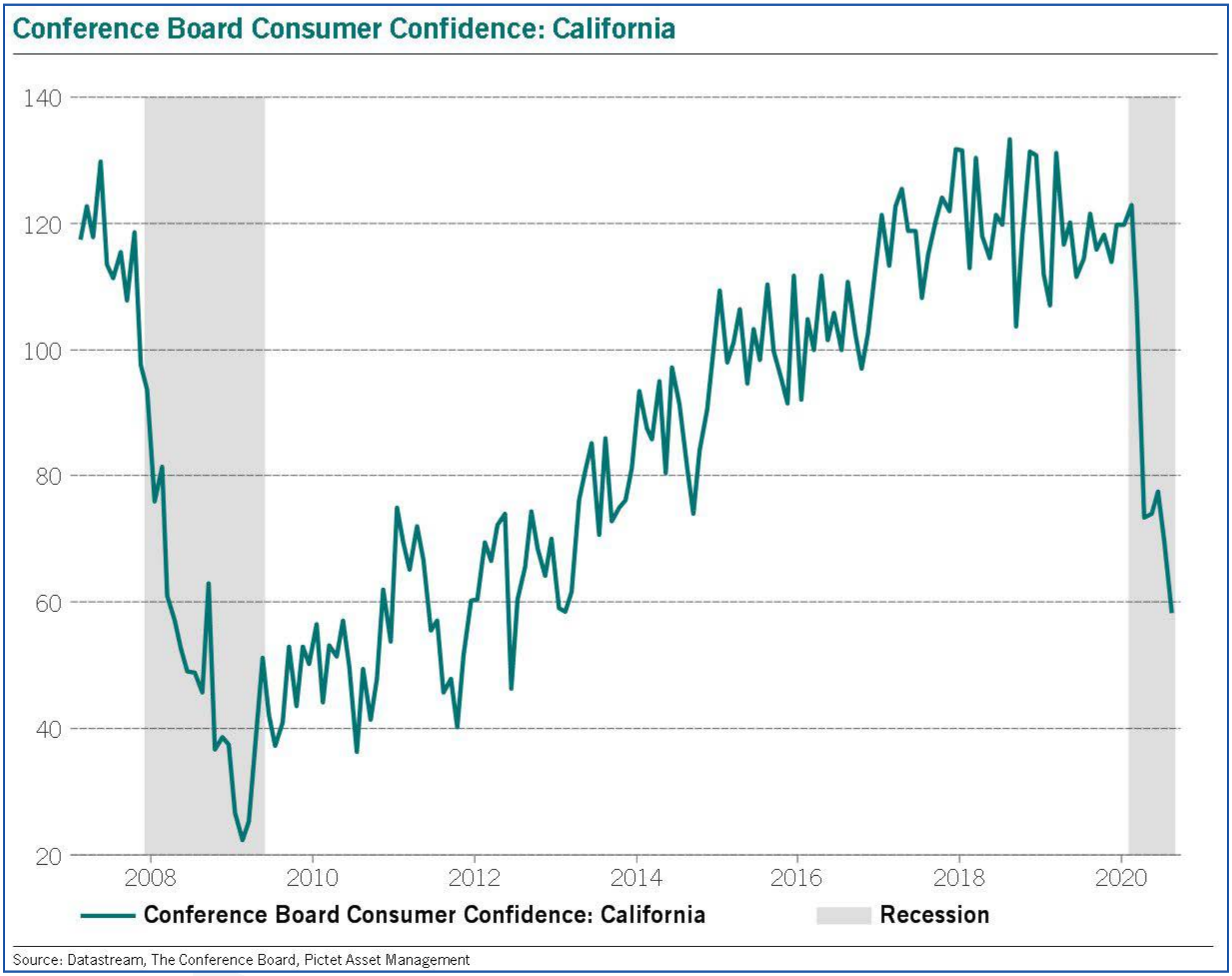


Put this one firmly in the '*keep a wary eye on this, folks*' file, from Julien Bittel:

***"Consumers in California are clearly not on board w/ a V-shape recovery. Looking at the details of yesterday's Conference Board Consumer Confidence report, the index just fell to the lowest lvls since April '08. Down to 58.3 from 69.6 in July..."***

LINK



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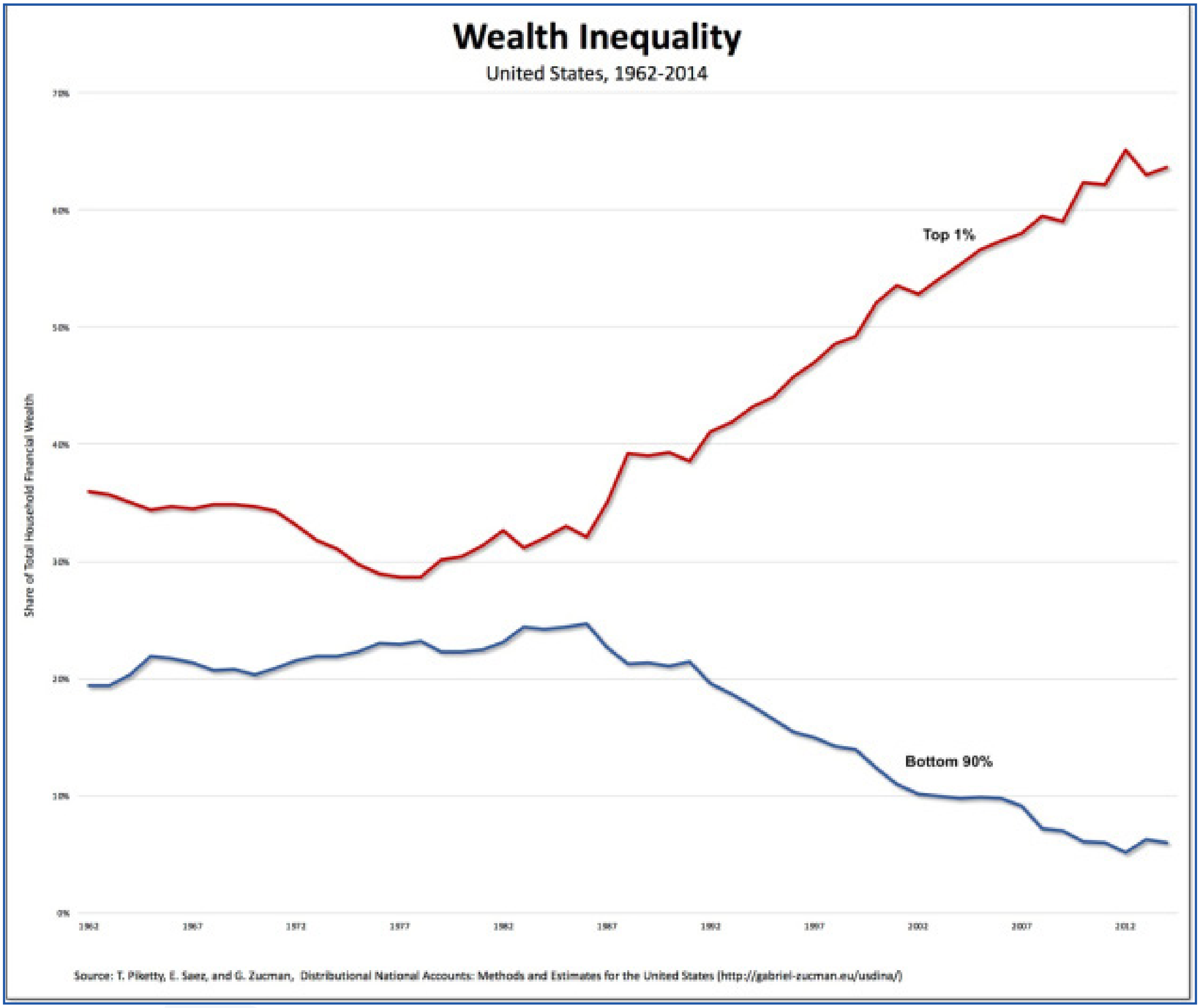


One of my biggest concerns is represented in the chart above from Thomas Piketty's Capital In The 21st Century.

The chart only goes as far as 2014 but, in the six years since, this divergence has undoubtedly been turbocharged and that, most likely, is one of the key reasons at the root of much of the social unrest the world (and the United States in particular) has been witnessing in recent months.

What's interesting is the fact that this divergence began in earnest around 1987 – the date many (including my co-host of The End Game, Bill Fleckenstein) peg as the beginning of the Fed Put.

These things tend to happen at the absolute extremes of the pendulum's arc and that is troubling indeed...



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Things that make you go hmmm

# WORDS THAT MAKE YOU GO HMMM...

Michael Oliver's work at Momentum Structural Analysis is absolutely tremendous and truly unlike anything else out there.

In this excellent interview, Michael offers his thoughts on gold, silver and the commodities complex.

It's a compelling listen...

CLICK TO WATCH

For many years, 'Koos Jansen' offered a series of great insights into the gold and silver markets.

These days, 'Koos' has reverted to his real name, Jan Nieuwenhuijs, but he's still providing some of the sharpest commentary on precious metals.

Here, Jan talks (among other things) about the potential for a gold standard in Europe - something he contends has been in the works for many decades.

Fascinating stuff...

CLICK TO WATCH

I recently joined George Gammon for a conversation about all kinds of light and frothy subjects such as global social unrest, the great societal divide, MMT, the Fourth Turning and much, much more.

Importantly, we spent a decent amount of time talking about the things every investor has to take responsibility for - a subject near and dear to my heart - which makes this one well worth a listen...

CLICK TO LISTEN



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# AND FINALLY...

and finally

CLICK TO WATCH

Yup, that's a real photo. No adjustments made whatsoever. It's swimsuit model/marine biologist Ocean Ramsey posing for a selfie with Deep Blue, a 20-foot Great White Shark off the coast of Oahu (as you'll see if you watch this mind-boggling video)...



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# About The Author

Much to his chagrin, Grant Williams has reached 30 years in finance.

Over that period, he has held senior positions at a number of investment banks and brokers including Robert Fleming, UBS, Banc of America and Credit Suisse in locations as diverse as London, Tokyo, New York, Hong Kong, Sydney and Singapore.

From humble beginnings in 2009, *Things That Make You Go Hmmm...* has grown to become one of the most popular and widely-read financial publications in the world.

Grant is a senior advisor to Vulpes Investment Management in Singapore, an advisor to Matterhorn Asset Management in Switzerland and also one of the founders of *Real Vision Television*—an online, on-demand TV channel featuring in-depth interviews with the brightest minds in finance.

A regular speaker at investment conferences across the globe, Grant blends history and humour with keen financial insight to produce unique presentations which have been enthusiastically received by audiences wherever he has traveled.

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