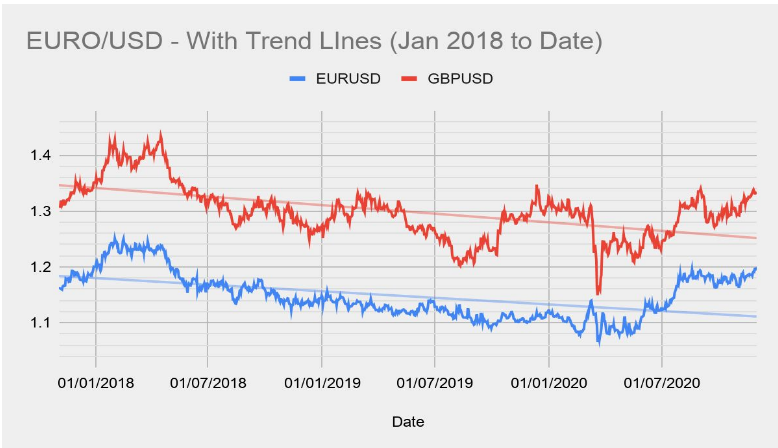
RTEGA The Market Wrap November 2020

Introduction - Welcome to our fourth issue of our monthly summary of the market. We shall give you the price action across asset classes and offer our insights and opinions. We hope these will aid your understanding of markets and the complex system that is the global economy. We shall generally use ETFs in our market appraisals as these are easily accessible and liquid entities that are now in very common use and reflect most facets of the markets. We hope you enjoy and if you have any questions please visit our website: www.toiip.com or contact us at: info@toiip.com - Thank You and enjoy !

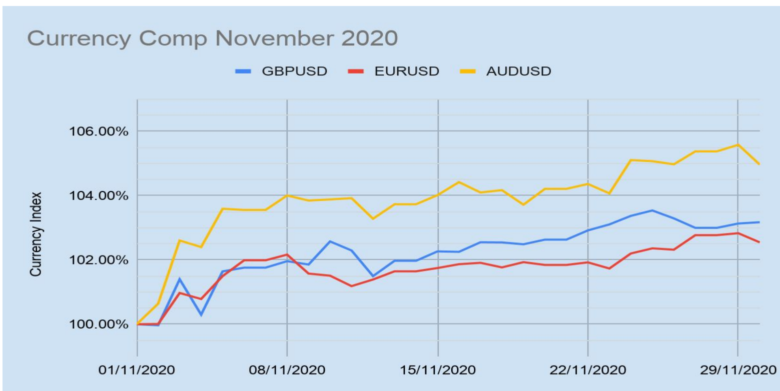
Currency

During November the DXY remained in the 92 to 94 range until later in the month when it tested and finally broke the lower bond of this range. Still the consensus trade is for the USD to drift lower which would signify a global reflation and recovering economies. From where we were, economies will recover , but to what extent matters. China is now funding their USD requirement through Japanese banks with US bank lending to the Japanese banks rising this month. The Euro retested the 1.200 level at the end of the month, with the state of the european economy the ECB wants a weaker yen and will need to see real rates fall in the euro area to attain this. At present there is deflation in the Euro area so the ECB will need to act.

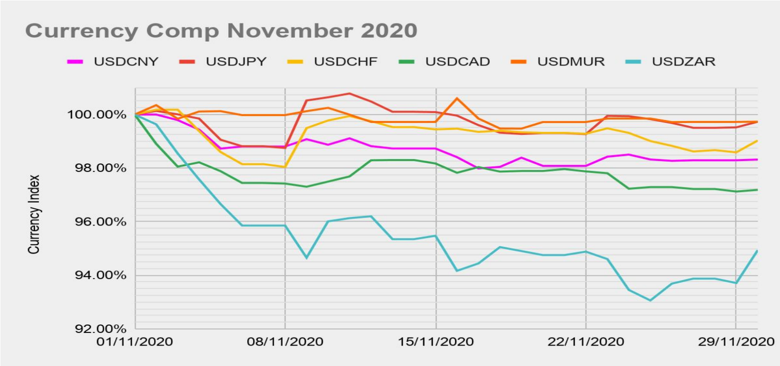


Since the pandemic crash in March the USD has slowly depreciated against both the GBP and EURO. Our interpretation of this is that the US front loaded their stimulus reacting quickly and strongly and also the global demand for USD has dropped markedly in this period as global trade has dropped off and is now only recovering slowly. As this demand recovers and other countries roll out more stimulus in comparative terms the USD will bottom out and appreciate. We still do not see a global reflation.

This month saw the USD slip in value throughout the course of the month as the reflation/recovery narrative took hold and held sway. The AUD led the way in this group as commodities rose throughout the month again hinting at inflation and recovery. There is still no Brexit deal in place although it is likely one will get done. Lockdowns in Europe and the UK will hinder the recoveries and may cause scarring to the economies.

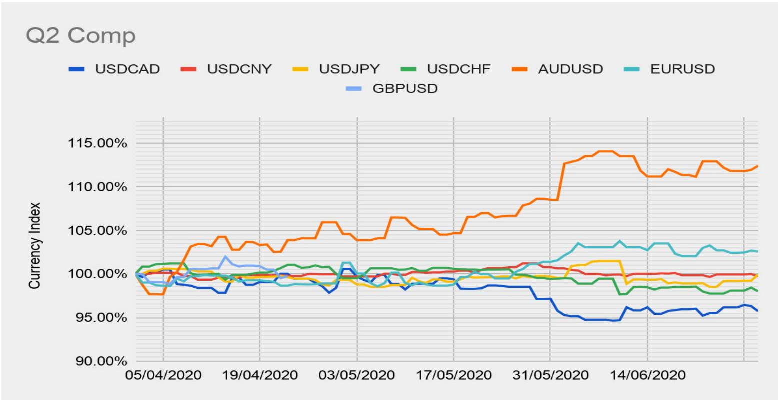


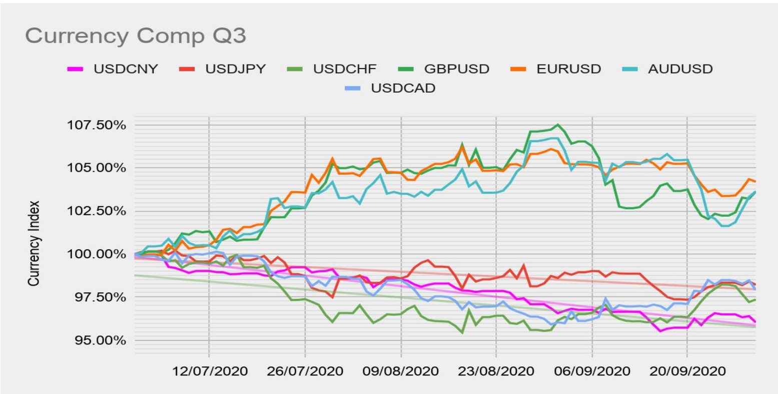
Biden will be the next president of the US although questions still remain about who shall hold sway in the senate. This will be pivotal to the ease of policy implementation.



Generally weak USD this month across the board with the South African Rand staging a bit of a recovery.This may be short lived as the country faces a very difficult road ahead. As we come to the end of the year in the northern hemisphere the virus has surged again whereas in the southern hemisphere it seems to be more under control, vaccine news has helped the recovery narrative and time will tell if this hope is well founded.

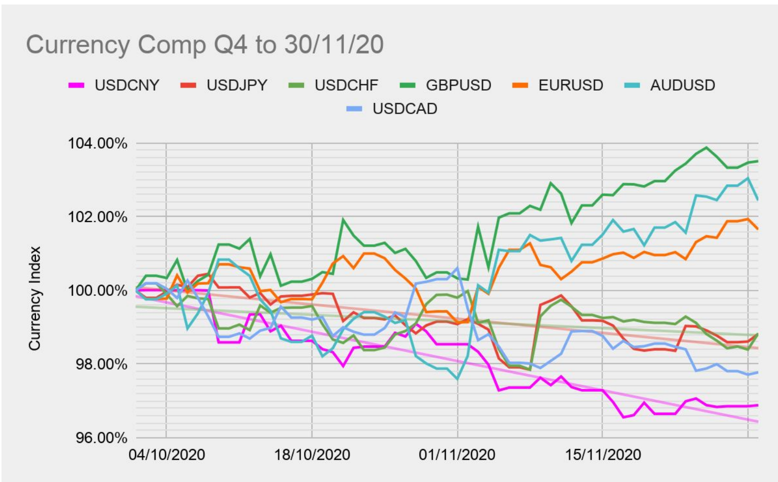
Q2 saw the initial reaction to the crisis with the AUD being the outstanding performer in this quarter. This was after a large fall in the pandemic crisis. As every government's response has been similar ie. to "print" money this is very much a relevant game and no government will want to have a strong currency as this will hinder their recovery. So a race to the bottom is on. The US initially responded with a very large fiscal package that has almost run out now.





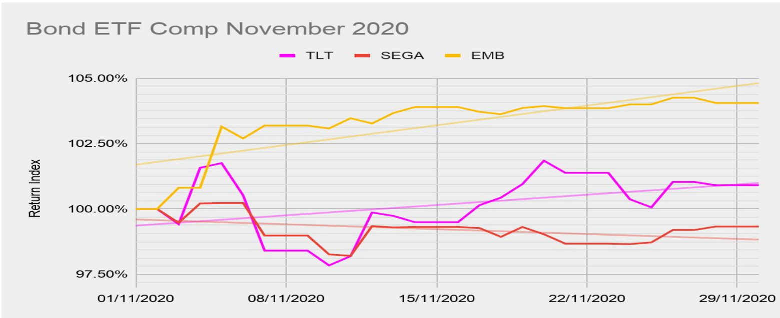
Q3 saw the slow and steady depreciation of the USD against most currencies, a strong reason for this was that the USD had moved quickly and decisively to provide USD liquidity to the globe and had done a huge amount. A lower USD is good for the global economy and would help other countries stabilise. However in the longer run other countries want to weaken their currencies against the USD to garner growth in their domestic economies.

Q4 witnessed so far the continuation of the same story of slow depreciation of the USD. The central banks want this story to continue as they believe it will aid the global reflation they seek to achieve. However countries want to basically devalue their currencies against the USD to get local growth so how long this USD devaluation can continue is debatable. Also as global trade picks up again the demand for USD to facilitate that trade will also increase. We think this devaluation can continue for a while but it will become harder as trade recoveries.



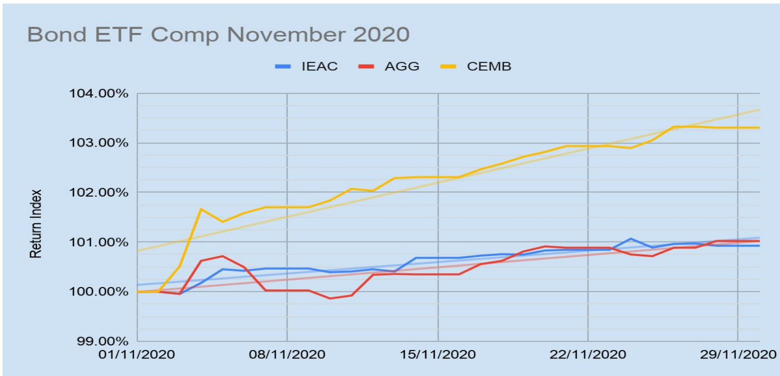
Fixed Income / Bonds

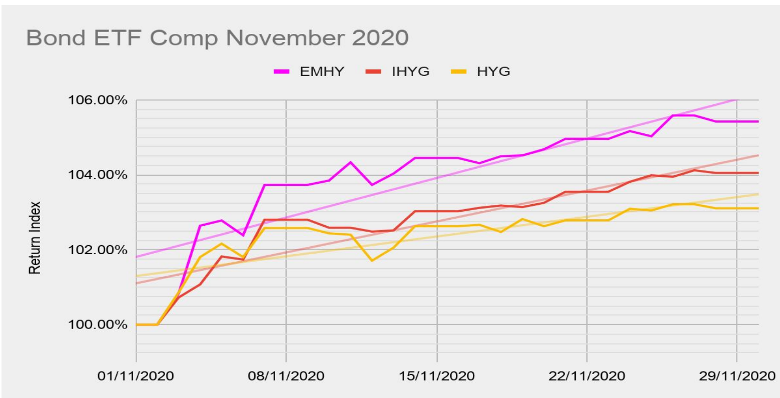
US 10 Y yield rose as high as 0.97 this month on thoughts of recovery and more debt issuance, we would still have the thought that more debt issuance actually leads to lower rates but the market is definitely hooked on this curve steepening trade. Credit spreads still remain tight, and the virus is surging again. There is still a big balance sheet and cashflow problem in the SME sector which could lead to a big solvency issue but this is not front and foremost in most people's thinking at present.



Europe and the US were quite flat this month with the Emerging markets reflecting the market rotation trade as investors stay to search for yield and look to a global reflation trade. If the USD continues to slide as it has done lately we should see more inflows into the emerging markets. Market still looking for curve steepening in the US, Europe still has structural issues.

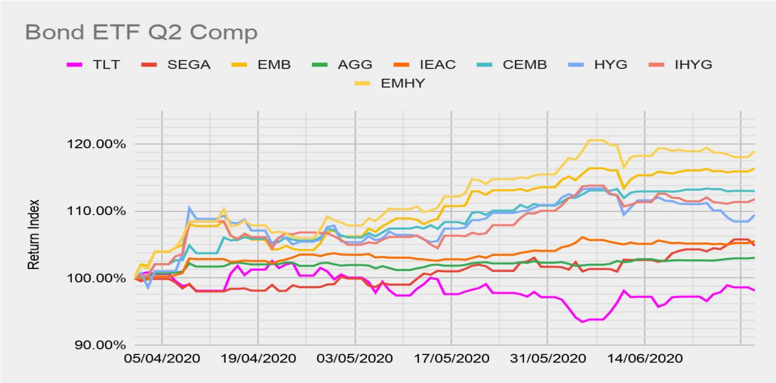
The same story is reflected here with the emerging markets forging ahead and while the USD continues to slide this trend will prevail. Europe will need further assistance from the ECB in December and a large fiscal impulse with many reforms before we can see any kind of recovery in this region. The virus still remains a big issue especially in the northern hemisphere even though vaccines are coming.





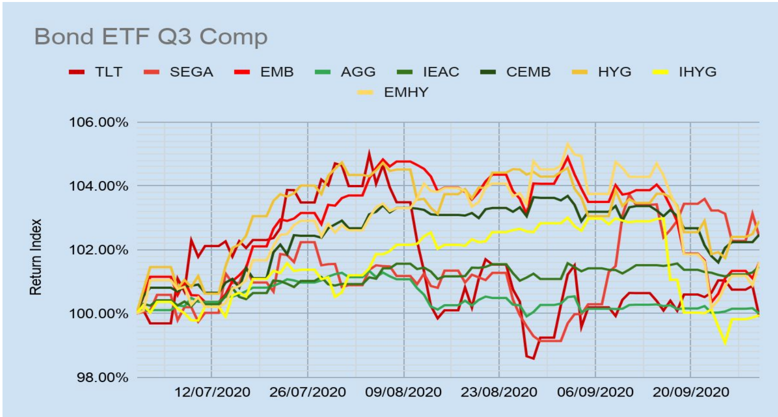
US high yield lags this month although spreads are still tight. We would much favour the Emerging markets at this stage if you need to have high yield exposure as you are getting paid for the risks you are taking. Fiscal stimulus is badly needed in both the US and Europe, and if this is not delivered in a timely fashion there may be solvency issues that will arise and can bring turbulence to the markets, certainly something to watch carefully.

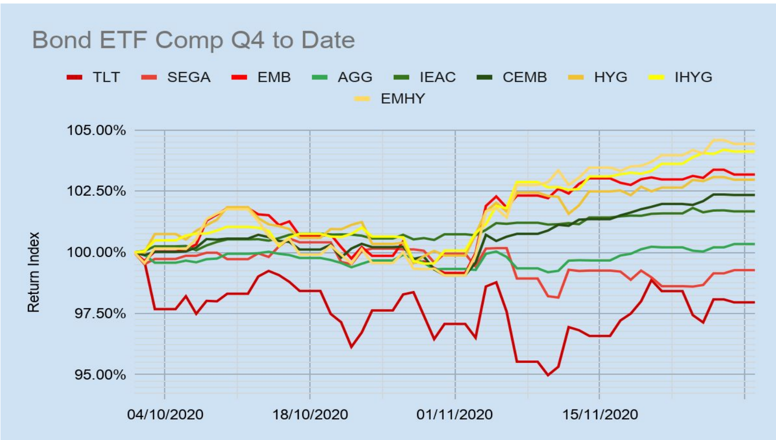
Q4 is going to be a struggle with lockdowns in Europe and the virus surging in the US with local lockdowns measures being put into force. There could be scarring to the general economy.



In Q2 we can see the under performance of TLT US Govt. long bonds as the markets priced in higher rates from the March lows. Emerging markets were the best performing bonds during this quarter and really offered a good return over this period. There was a large amount of issuance everywhere but especially in the US as companies rushed to capital markets to take advantage of the low rates across all credit areas. There are a lot of zombies out there.

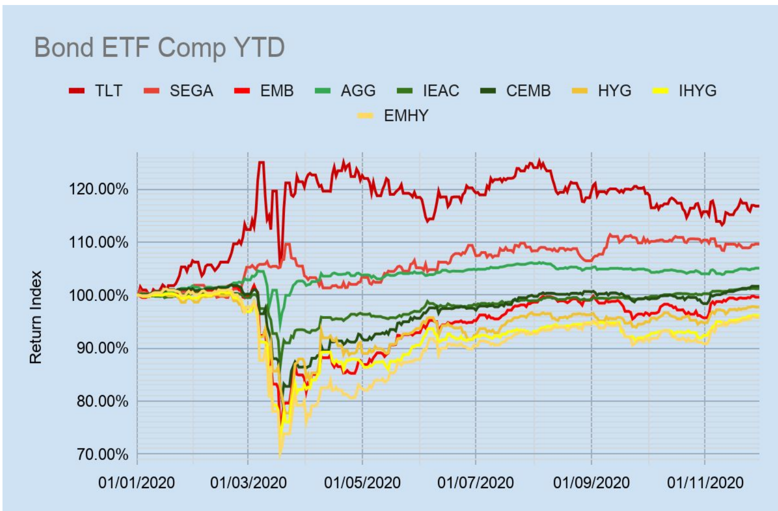
Q3 was a fairly choppy quarter in the bond markets with a general small appreciation over the period. This was the quarter where the recovery continued both economically and in the equity markets. The virus appeared to be under control in this period and there was hope that we were heading on a good path. At the end there started to surface that the recovery was faltering slightly and people started to assess where things were really heading.





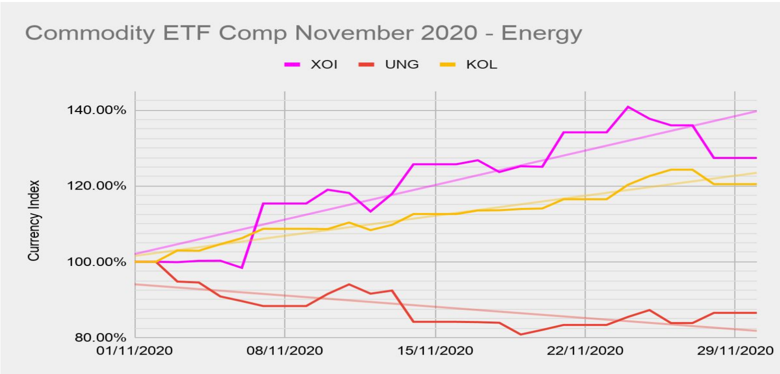
Q4 to date has seen a wider dispersion of performance with the underperformance coming from TLT and emerging markets and high yield being the best performers. The reflation narrative has taken hold of markets and the USD has continued to weaken across this period which is good for the global economy. Real rates in the US are starting to rise as the curve steepens. Beware though as there is still no credit growth in theUS and solvency issues still exist.

Taking a bigger picture look at the year to date (YTD) performance we can see that the TLT has clearly been the best performer over the course of this year. High yield has struggled to get back to where it started the year but has recovered the most from its lows. The “money printing” so far has helped the financial markets certainly in the US where there has been record new debt issuance this year.However the fiscal impulse has so far just plugged the gap in our opinion and has not been stimulative. Governments will need to do more fiscally in order to achieve this. Solvency is still an issue.



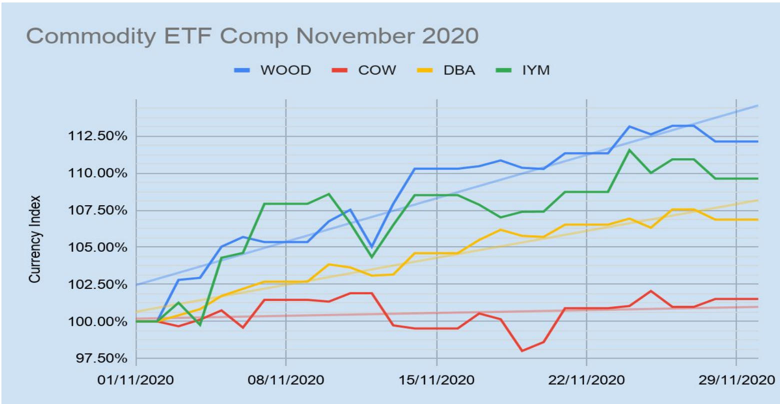
Commodities

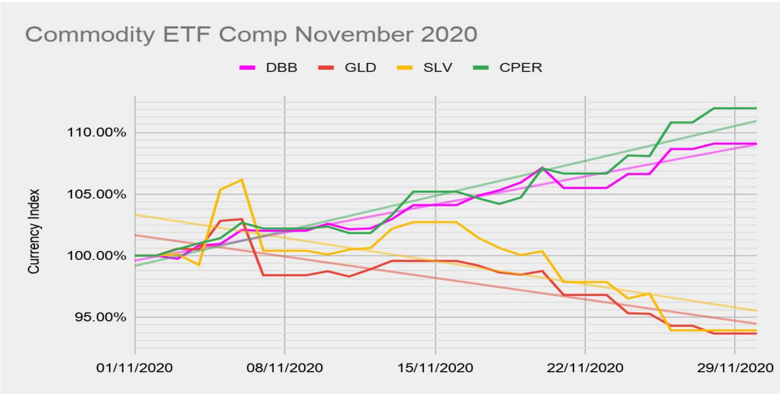
Commodities this month have seen a pretty steady rise across the board as the USD has continued to weaken and the reflation narrative has started to take hold. Precious metals have fallen through this month mainly on the back of real rates rising throughout the month. Energy has seen a monumental rise this month as people have bought into the reflation narrative and rushed back into the most downtrodden sector this year with a vengeance. All this anticipates a return in demand, the question is, will it return



Last month saw a rise in gas and this month that has lagged as oil and coal have shot ahead. The question asked above is whether demand will return as the market is anticipating. We feel it will return but not as quickly as the market may be thinking which could lead to a pullback or not much more upward price movement until later next year. With vaccine hope high the logistical facts of distribution may not be fully appreciated.

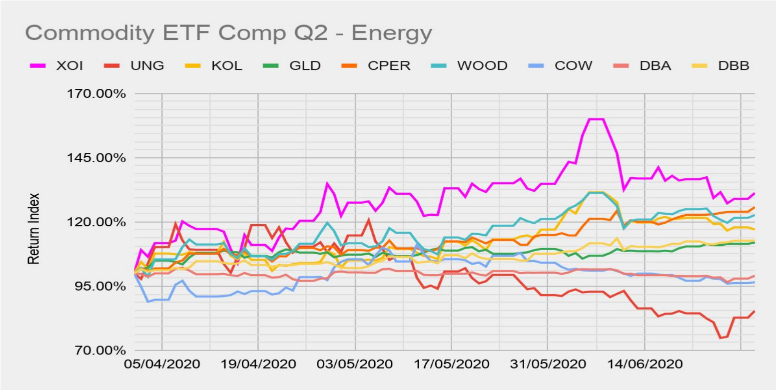
All of the commodities with the exception of meat (COW) saw a gradual appreciation throughout the month. This all points to the fact that there is inflation in the economy even though official figures do not show this. This is mainly due to the fact that deflation happens in the large one off discretionary purchases where technology provides productivity gains. The housing market is still looking strong on fundamentals and affordability.





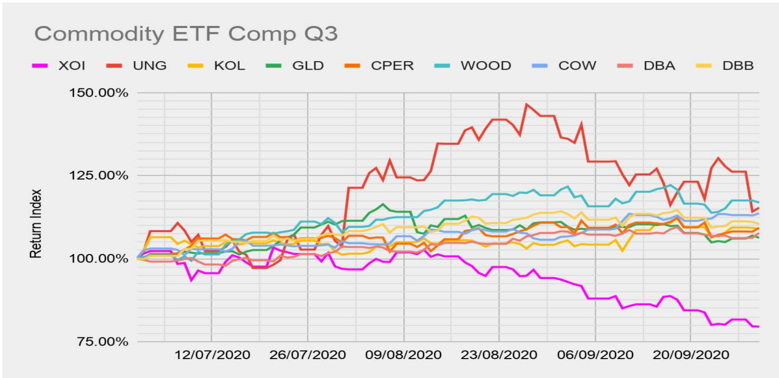
Again base metals outperformed precious metals this month with the Chinese economy performing well over this period. Gold and silver both pulled back on the month as real rates started to rise. We can see further falls over the coming period but still like these for the medium to long term. Doctor copper is indicating that the global reflation is on, but we caution that this has happened before and now we have a lot more debt to carry.

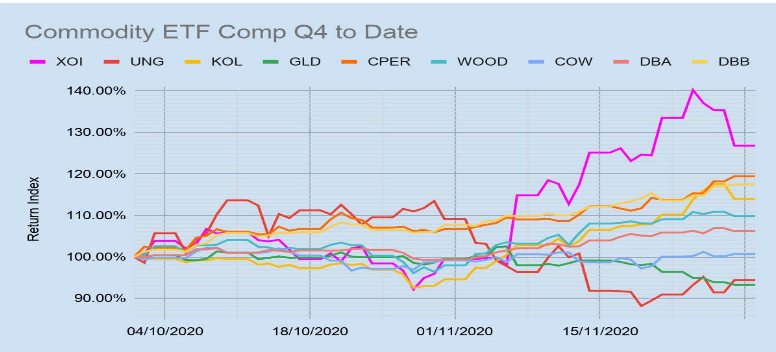
If the USD continues to devalue as a large portion of the market believes then we advise to stay long of commodities.However if the recovery proves to be another false dawn beware. Watch credit growth.



When we were in the teeth of the pandemic with no surety or certainty about what would happen and where we would go, there was little direction to the commodities sector. As we got over the initial shock and there were large government reactions to the crisis markets started to recover some of their losses. As the depth of the problems sunk in the markets leveled off to take stock and assess where we would go to from where we were at that stage.

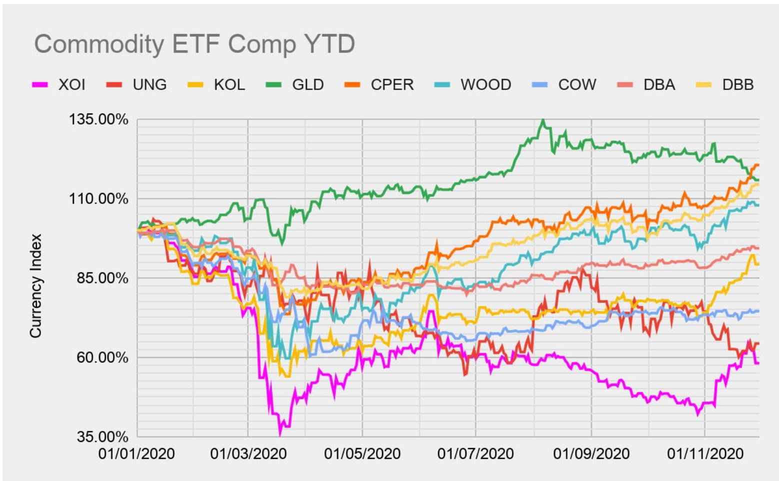
After the initial recovery and the assessment period markets started to place some of their money to work deciding gas was the future oil was dead and there was a small steady appreciation in other commodities as the market debated whether there was to be deflation or inflation. There was still little certainty about the future outcome and vaccines were still being worked on with no timeframe on their implementation.





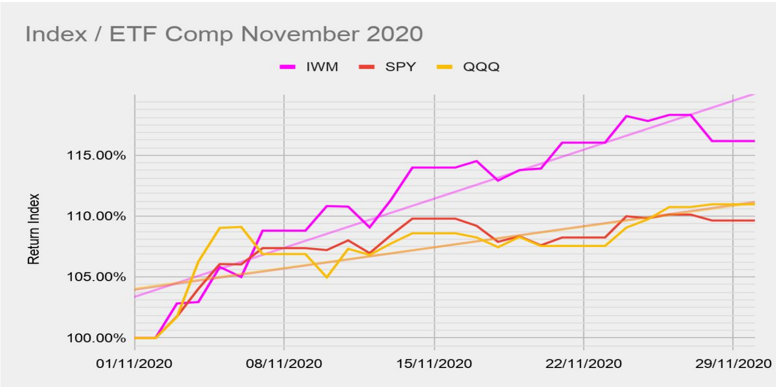
The reflation/ recovery narrative has taken hold slowly with the market believing that everything will be fine and that there will be inflation and recovery. The most unloved sector of the year energy has had a huge recovery in November and as we head into December.Oil has recovered its losses from the previous quarter. This trend we feel will continue until the reality of the scarring of the economy is materialised.

Looking back over this year in its entirety gold has been the best performing commodity alongside copper. Both speak to inflation and currency debasement. Gold has been falling since summer and copper has continued to rise. Oil although it has recovered remarkably this quarter is still nowhere near where it started the year which is somewhat at odds with the copper trade. Most have not yet recovered to their starting points which may point to more room to run, or else that the recovery although being the story may not be the reality.



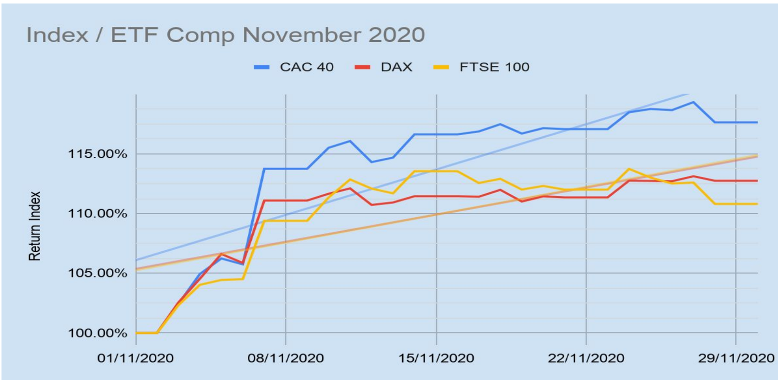
Stock Indexes

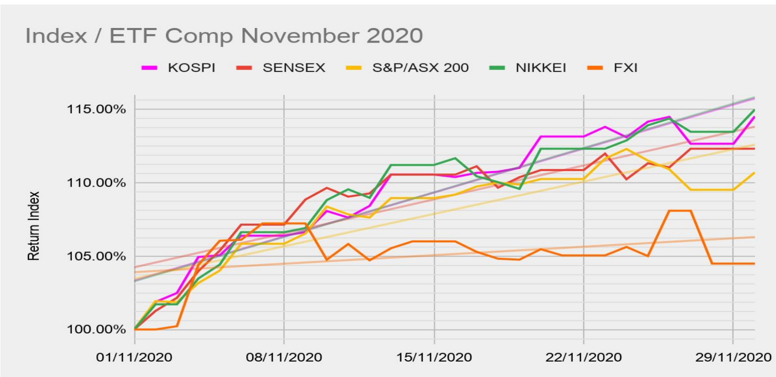
These are the local indexes of varying countries reflecting the value of the companies quoted on them, importantly in their local currency. We must always bear in mind the Index performance and the currency performance against other localities. Investing is a relative game and we like to show comparative charts to identify this and point out the opportunity cost of choosing one investment above another. For risk aspects we prefer developed markets, and prefer to enter smaller markets via investment vehicles that are located in developed markets. Liquidity can be an issue.



This month it was take off in the equity markets as the reflation narrative took hold and markets looked to continue the rotation trade from value to growth. The IWM lead the way being the best performer, but the SPY and QQQ were not far behind. One concerning factor was the amount of single stock call buying taking place forcing market makers to delta hedge. People want to rent this market here not own it, which is a concern.

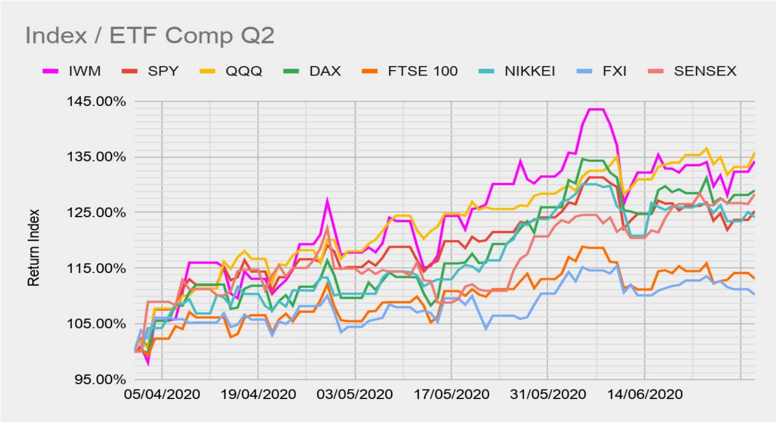
Europe despite all its structural problems followed suit as investors looked here for their rotation trade into value. The virus and lockdowns have set back the real economy and much will need to be done to support it going forward. The Uk also joined in again despite the issues it has with uncertainty about a deal with Europe still existing and further lockdowns and restrictions in play until next year. Are markets reading too much into this???





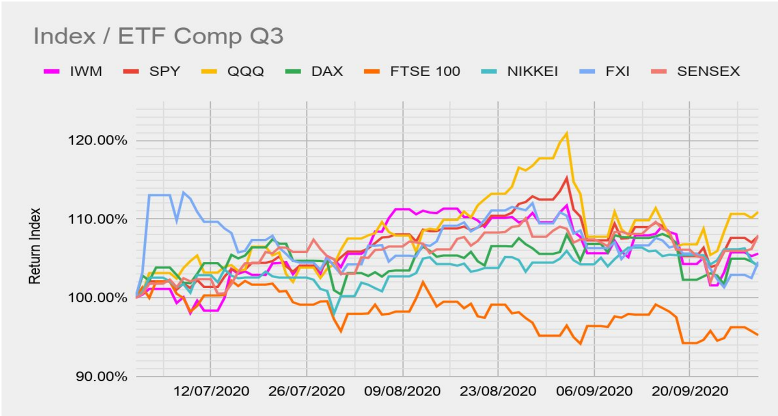
Other global markets also enjoyed a very good month as the risk on sentiment spread across the globe. China via the FXI was the lagged here as they stated that they will not look for quantity of growth but rather quality of growth in the future. This could be code for 5% growth in the future, maybe unattainable. Korea and Japan had great months and look to continue this trend into the future.

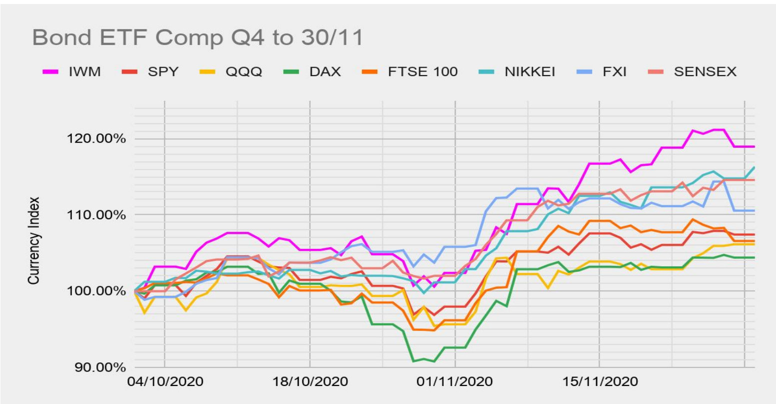
Equity markets are forward looking but maybe they are seeing a different reality to that which may materialise. Let's now take a quarter by quarter look at this year to see where we really are.



Q2 saw a general bounce back in allarkets after the pandemic shock. China and the UK lagged behind as other countries reacted rapidly with both monetary and fiscal measures. The UK lagging demonstrates just how unfavoured UK markets are at present for diverse reasons. US tech and small cap led the way in this uncertain period. This was a quarter of things cannot get worse and we will recover thinking, along with knowledge of what QE does to financial assets

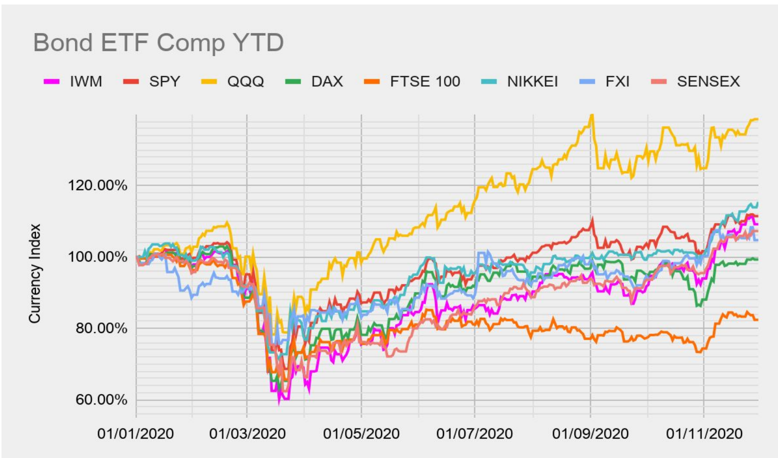
Q3 was much slower in comparison to Q2 but one thing was consistent was the underperformance of the UK markets. Again US tech led the way here really throughout the whole period. During this time frame there was more clarity about the virus and its economic effects with virus flare ups suppressing the recovery trade somewhat. At the end of this period the rotation trade from growth to value came to the forefront of the market. UK markets were also hindered by the looming Brexit.



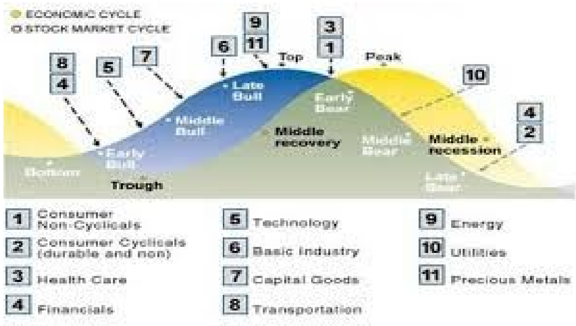


So far Q4 has seen the continuation of the recovery in financial markets as governments continue with QE. The real economy has continued to diverge from financial markets but to what extent may not become clear for quite some time. US small caps and emerging markets have led the way this quarter as the markets rotate to value and look for the USD to weaken. Europe and the UK have not fared well as the third wave of the virus hit in their winter time, forcing further restrictions.

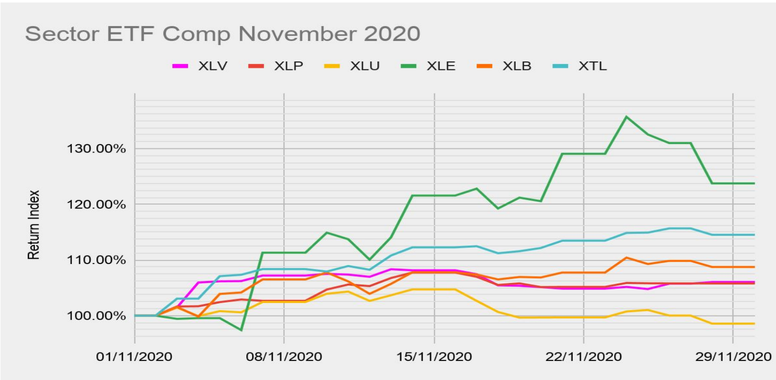
The Year to Date (YTD) picture clearly shows the winner QQQ and the loser the UK so far. Interestingly neither of these countries have dealt with the pandemic very effectively and some may argue they have in fact done a terrible job. The trend for growth stocks we feel will continue as although we are in a global reflation period we fear this is going to come to a stall next year as the reality of the scarring materialises and growth becomes very hard to achieve despite best efforts of governments and Central Banks.



Sectors

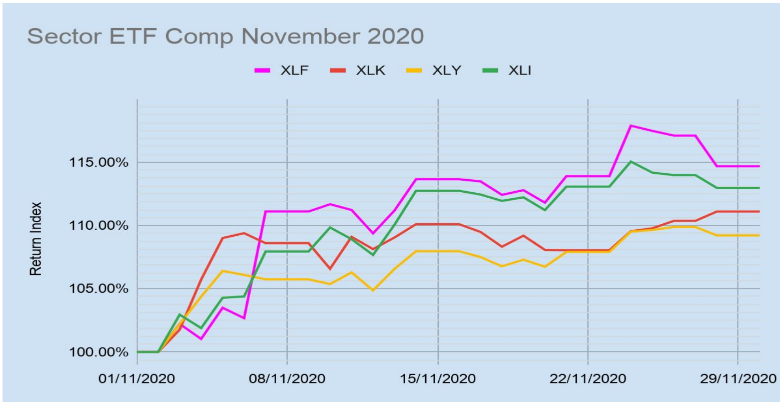


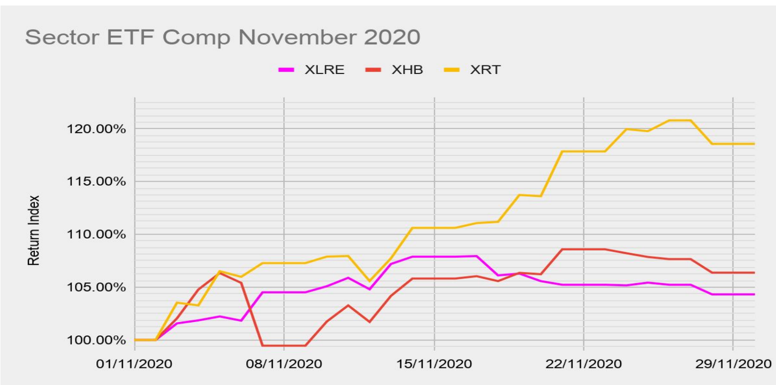
We use sectors to place stocks and other investments into categories such as technology, healthcare, energy, utilities and telecommunications. The different sectors have diverse risk profiles and perform at varying degrees throughout the business cycle. Here we shall contrast and compare the performance of the different sectors over time to help our understanding of their relative virtues with the target of augmenting our investment returns over time. We generally use US markets as these are the largest and most liquid.



November saw a large bounce back in the most beaten up sector Energy, as the reflation trade took hold in the markets along with the rotation trade to value. Utilities were flat to down on the month as investors moved out of the defensive trades and started to place risk on trades. This with a backdrop of the virus starting to surge in the US leading into winter and vaccines still quite a way off.

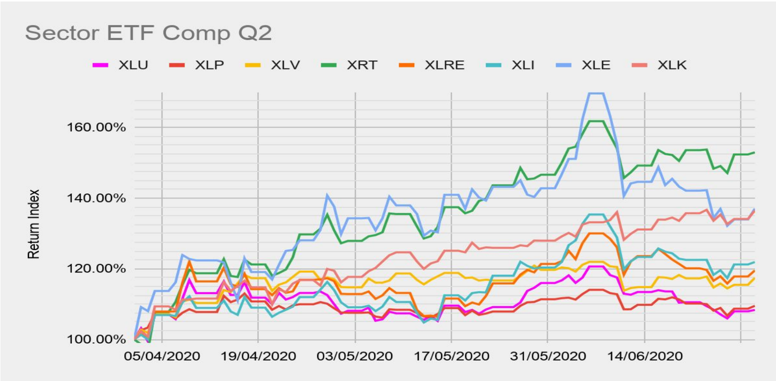
We also saw a steepening of the yield curve start , and this helped financials have a very good month in line with the reflation narrative. Other sectors also rose as a rising tide lifts all boats. We are still concerned that there is a lot of individual stock call option buying which may have markets heading into overbought territory. PMI are holding up well in the US despite unemployment worries still persistently hanging around.





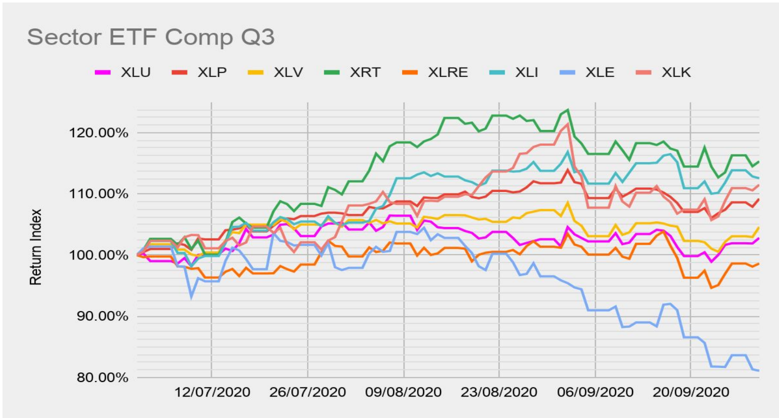
Retail still forged ahead despite our reservations about it and it seems for now that the US consumer in total is still strong. If we do not get further stimulus before next year this may not be able to hold up in the short term. Another bigger question is what will the economy look like when the stimulus is stopped? Home builders and real estate had relatively docile months as people looked to add more risk.

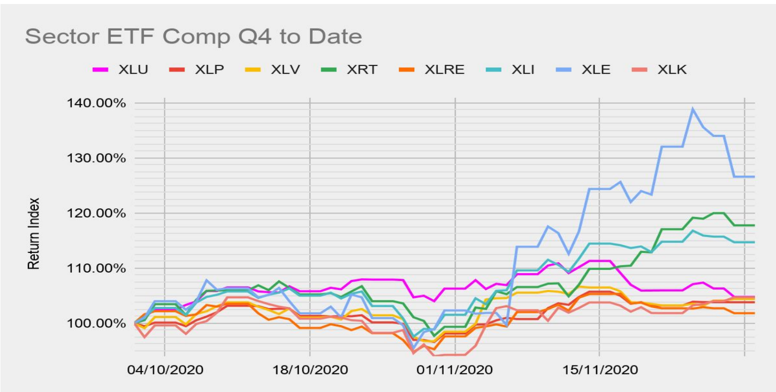
Let’s now review the sectors on a quarter by quarter basis and then take a look at the year so far.



In Q2 after the initial shock all these sectors made recovers with Retail quite surprising leading the way. Industrials bounced back quickly as the manufacturing sector held up well. During this stage the pandemic was still in its initial stages and there were many unknowns and lots of uncertainty. After the initial bounce back markets paused to take stock and reassess which sectors would recover most quickly for the pandemic shock.

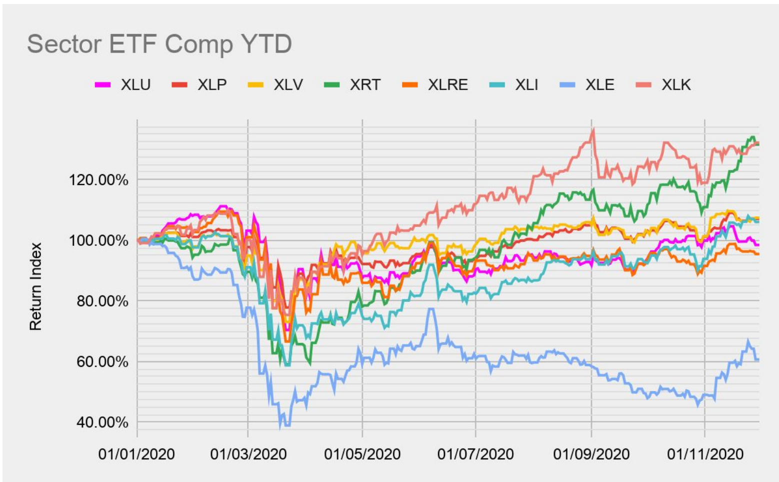
Q3 again saw retail being the top performer as the economy accelerated its move to online commerce. Energy took another leg lower about half way through the quarter as there was a realisation of the depth of the global impact that the pandemic was having. Most other sectors held up reasonably well throughout this period as QE was operating. QE is not money printing nut the mere market perception that it is is sufficient to hold up financial markets.





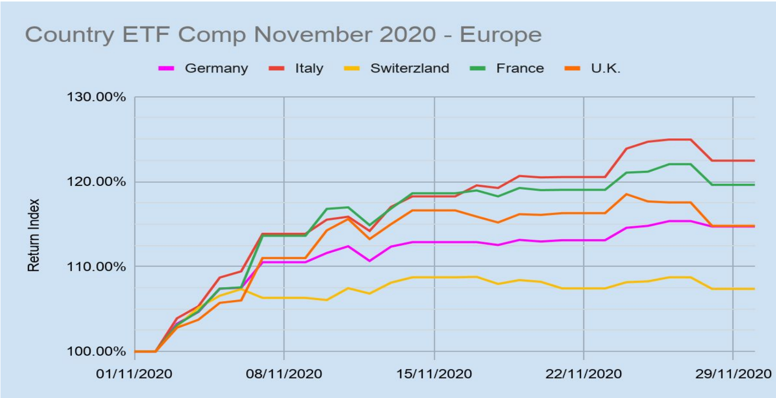
As hope abounds the energy market took off in November as people rotated to value and the beaten down sectors. Retail is having another good quarter as the consumer is holding up better than most expected, including us. The defensive plays are starting to get sold as the market goes to a risk on mode. The election result is gaining more clarity as time goes by and the elections in Georgia in January will have a large effect on policy moving forward.

The year to date picture gives us a better overview of the situation and it clearly shows how the energy sector was decimated in March. It has recovered but still has a long way to go to get back to its prior levels. Retail and Tech have been the winners so far this year with other sectors around their starting points. With vaccines on the horizon and the hope of at least some further support in the form of fiscal stimulus and continued QE US markets are at present experiencing large amounts of optimism. But with the virus rising this may be quite short lived.



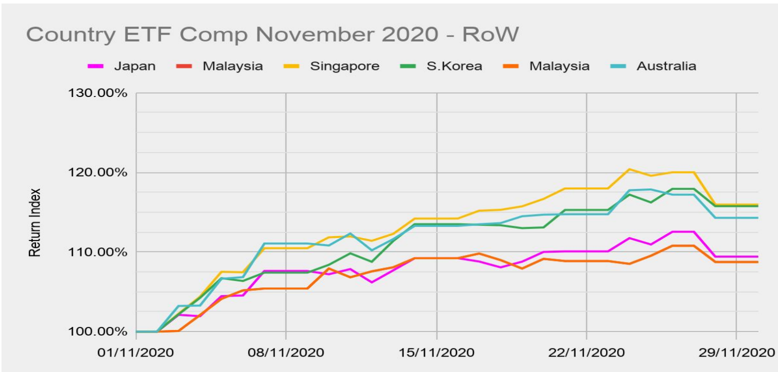
Geographic

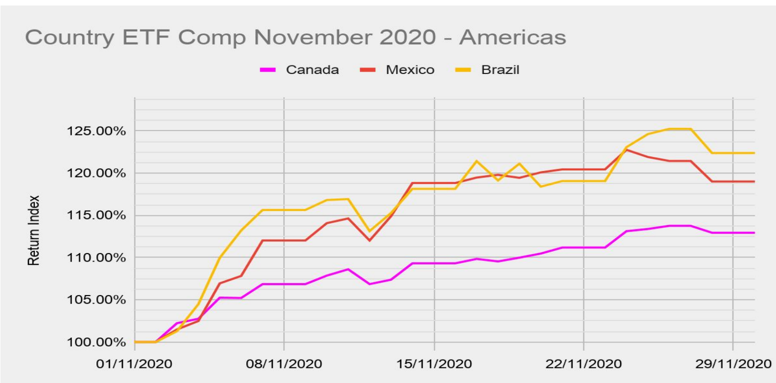
Certain countries or regions around the world will be experiencing different economic circumstances at any given time, usually. Therefore it is important to access these differences and utilise them in order to create greater returns on your capital. In this section we shall look at a range of ETFs, all quoted in USD covering varying countries around the world and look to analyse their differing performances and where they are in the economic cycle so that we may look to add value to our investment decisions



In line with the global risk on sentiment Europe had a good month with Italy and France leading the way, Switzerland was somewhat muted but we still like their currency here. The UK and Germany both rose during the course of the month but more mutedly than their counterparties. Europe though still has structural problems that need to be addressed and the UK still has Brexit looming as this is to date not resolved and could cause issues.

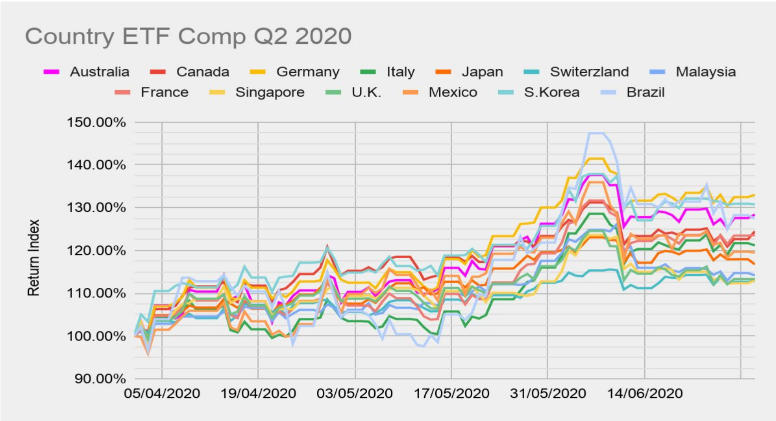
November saw the same story in the Rest of the World with Singapore, S.Korea and Australia leading the way here. It really was a month in which all regions saw a rise due to the risk on sentiment. The hope that the vaccine offers is really remarkable and this has translated into a large globally trend rise in equity markets. This we feel will persist in the short term but may not be sustainable as the reality of the economic scarring takes hold.





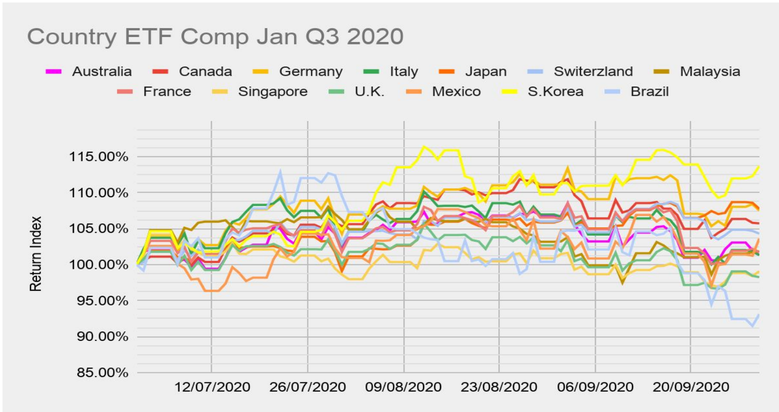
Brazil and Mexico saw large rises with Canada a little less so. The sentiment at present is really optimistic and we feel it may have gotten ahead of itself. But as long as economic numbers keep improving this can continue in the short term. There are still many uncertainties with the vaccine as it has not had the time to be comprehensively tested and if there were to be a bad occurrence this could quickly destroy the optimism that currently exists.

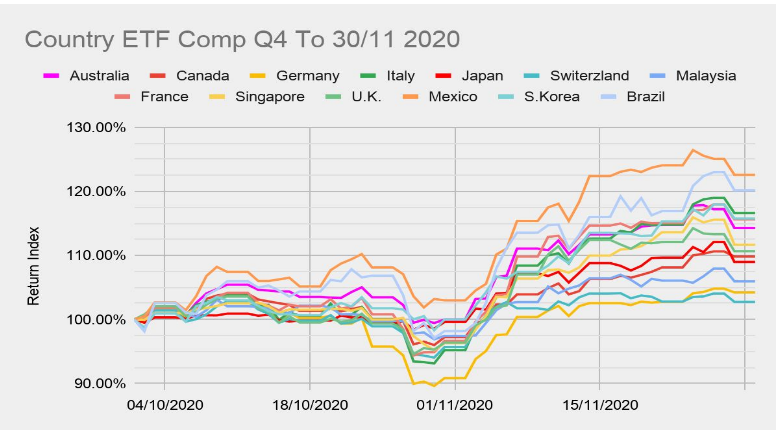
We shall now look at the country performance on a quarterly basis finishing with a tear to date perspective so that we can have a bigger picture view.



Globally in Q2 we saw a slow bumpy recovery from the initial shock and lockdowns slowly leveling out toward the end of the quarter. The best performers here were the countries that had appeared to cope with the initial wave the best.That said there were still uncertainties and the recovery was somewhat muted although the response from global institutions was rapid and large otherwise things would have been a lot worse.

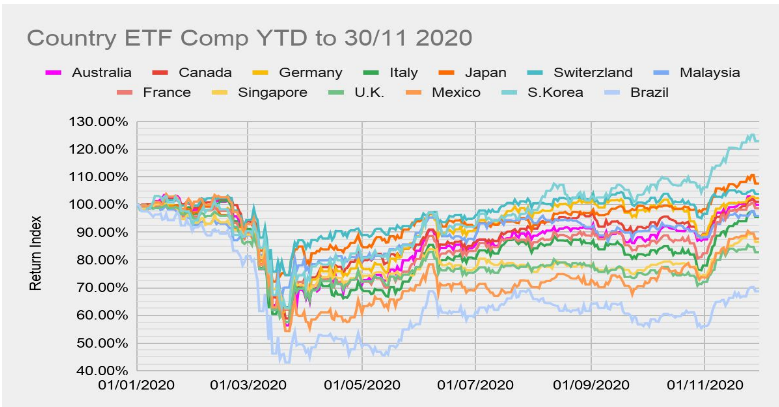
Q3 was more diverged as investors assessed the ongoing information and decided to make their relative plays. S.Korea came out on top in this quarter as their ongoing handling of the virus was very good which aided the economic recovery. Brazil was the worst performer with political problems and poor handling of the virus situation. Overall it was a calmer quarter with a slower recovery rate in the global equity markets.





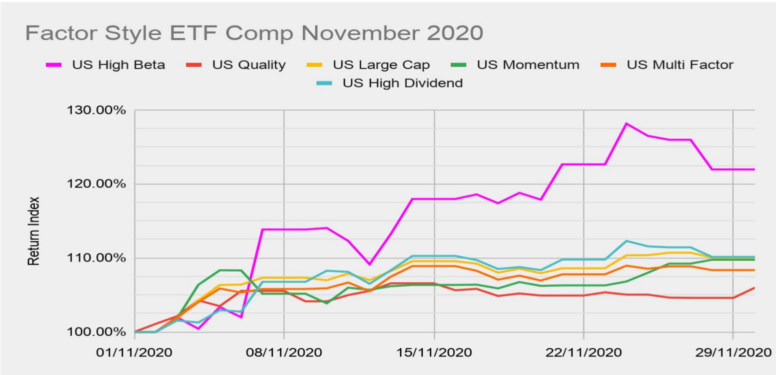
So far in Q4 we have seen a more concerted global rise in equities especially in the month of November. Mexico has lead the way so far, but all countries are benefiting from the hope inspired by the progress on the vaccines. We think that this hope may fade with time as so much is still unknown about the efficacy and duration of these vaccines. Without mentioning any possible mishaps or bad events that may occur round this subject at any time. Still very uncertain times.

With the bigger picture view here we can clearly see that S.Korea and Japan have been the best performers Year To Date (YTD). Brazil again is the laggard here, much of this does have to do with the government response and dealing with the pandemic. Most other countries on an equity market basis have consistently but slowly recovered to around their starting points. Their economies on the other hand have not as yet fared so well and this may cause a reevaluation in the future.



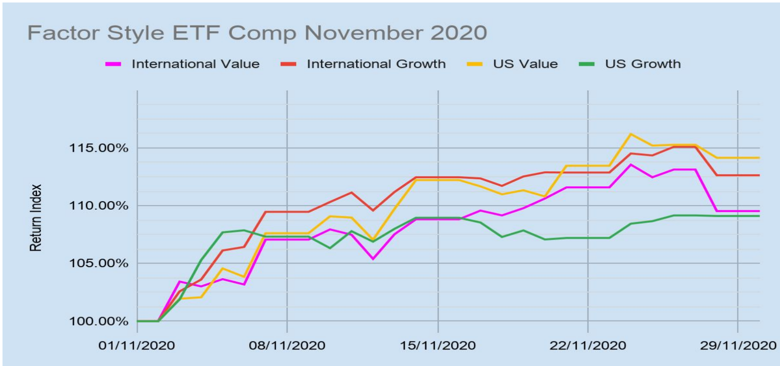
Factor Styles

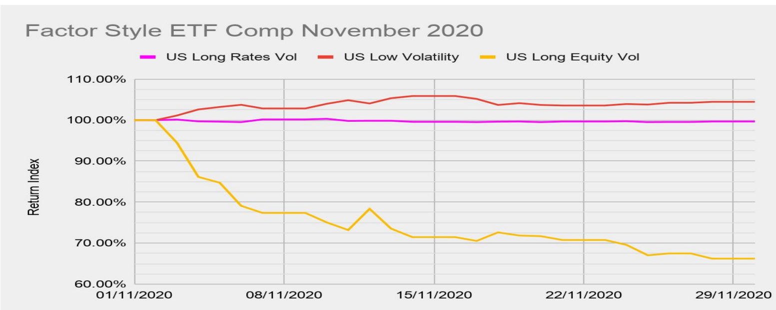
Factor investing is a strategy that chooses securities on attributes that are associated with higher returns. There are two main types of factors that have driven returns of stocks, bonds, and other factors: macroeconomic factors and style factors. The former captures broad risks across asset classes while the latter aims to explain returns and risks within asset classes. Macroeconomic factors include: the rate of inflation; GDP growth; and the unemployment rate. Microeconomic factors include: a company's credit; its share liquidity; and stock price volatility. Style factors encompass growth versus value stocks; market capitalization; and industry sector.



This month saw most US factor styles have good months with the high beta factor style being the best performer. The rest were all around the same performance level as this month was really a risk on month with investors piling into equities as the vaccine was announced and will very soon be rolled out. Unfortunately this may be a short lived rally as the virus cases are climbing rapidly in the US and Eyrope has just had further lockdowns.

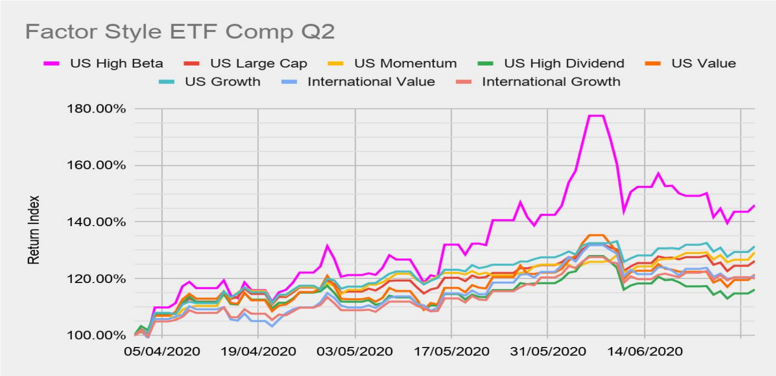
Also in these ETFs we saw good performance across the month slightly fading towards the end. US value was the top performer with international growth coming next. Europe had suffered lockdowns this month and we will need to watch the effects of these and what action the ECB will take in December. As mentioned virus cases are on the rise in the US soon we may see a pullback.





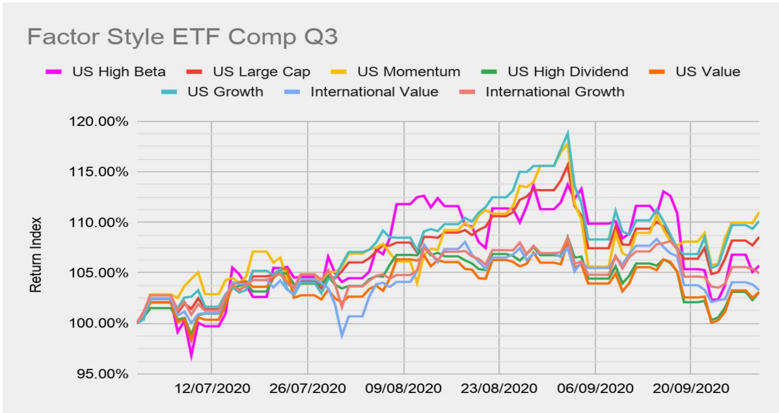
Equity volatility continued to decline throughout the month and investors risk appetite rose. There does seem to be a higher floor now in equity volatility with the vix struggling to fall below the 20 level. Low volatility saw a steady month and long rates vol was basically flat across the month. Elections in Georgia at the beginning of January will determine the makeup of the senate and we could see ol rising into this.

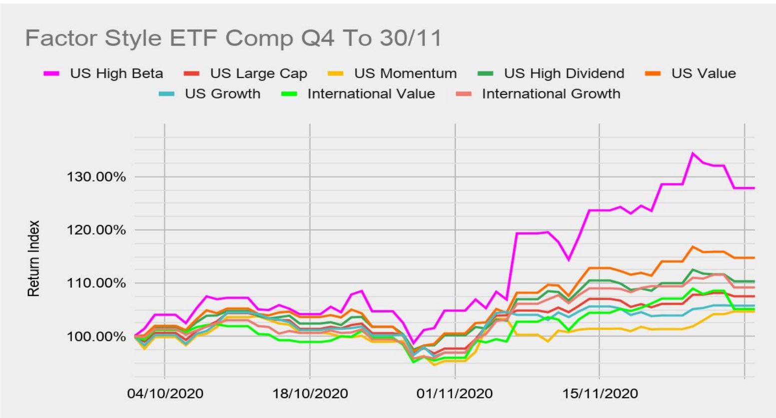
The hope brought about by the vaccine has boosted markets this month despite the lockdowns in Europe and cases rising in the US. We shall see if this is sustainable as we go into the year end. Now let's look at this year quarter by quarter.



Q2 as the world started to cope with the shock and initial effects of the pandemic saw the US high beta offer the best performance over this quarter. The other factor styles were much of a muchness as slowly the recovery took hold and accelerated as investors came to terms with the likely effects the virus would have on the economy. At the end of the quarter the rise stopped and there was a small pullback and then it levelled off.

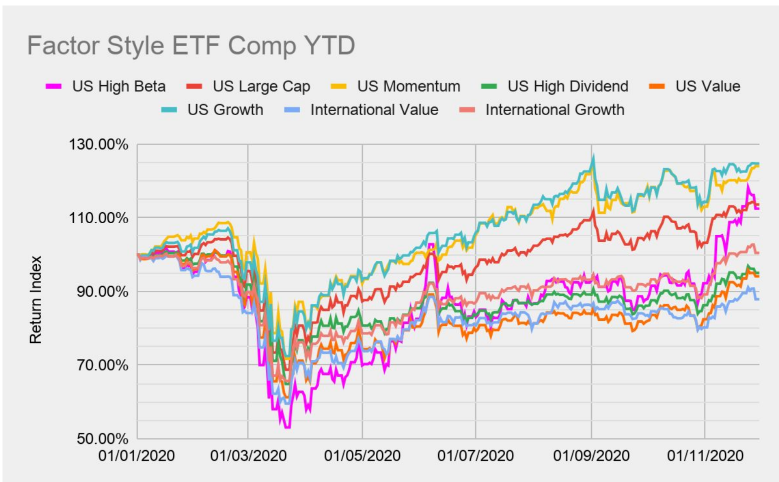
This quarter saw a less marked recovery overall, initially we rose quite consistently but again for the last month there was a tail off as investors reassessed and maybe booked some profits. US growth and momentum were the leading styles this quarter as tech generally led the way. Overall this quarter we saw the recovery rate in equities slow across the quarter as after the initial bounce back it becomes more difficult to generate growth.

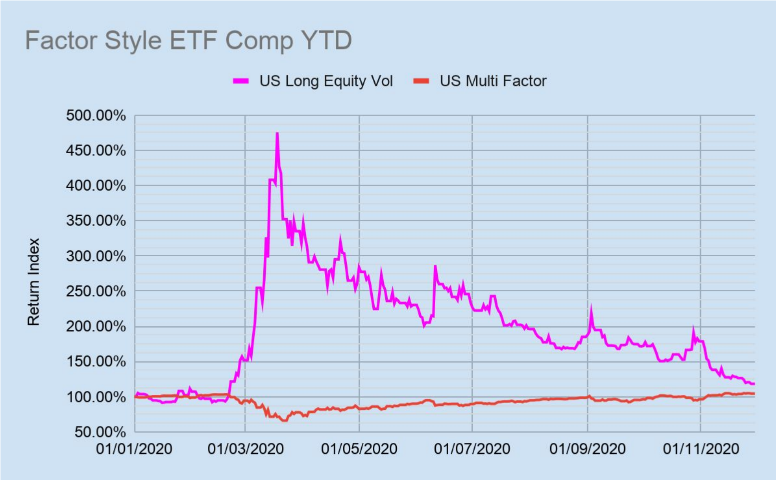




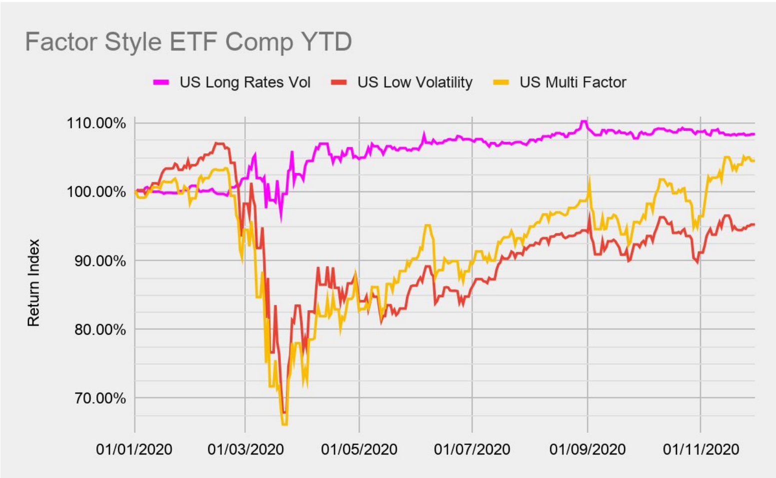
So far this quarter we have seen a month of not much to a small fall across October to a broad and strong rise through November. High beta again was the top performer so far but with the cases rising across the US and the threat of some form of restrictions or even lockdowns in December this could change quickly. Further fiscal assistance has not yet been forthcoming and the US economy badly needs something in the lame duck session as many of the programs will cease at year end.

Over the year so far it is US Growth, Momentum, High beta and Large cap that have been the best performers. In March the Fed and US govt. Acted very quickly to stop US capital markets seizing up and this has allowed companies with access to them to raise an extraordinary amount of capital. For those with no access it has been a lot more problematic and expensive. International markets have not fared as well. The US economy is a very flexible economy and this is of benefit to it in terms of market performance in times such as these. Europe has a lot of structural issues.





Here we have a direct comparison with the performance of the long equity vol index/ETF the VIX against a US multifactor strategy. Important point is that you should not buy and hold the VIX as it does have a high carry cost that will eat into your performance. But at certain points and for short periods of time it can be very useful to own volatility as it does provide great protection against portfolio drawdowns. It is interesting to see that the US multi factor strategy has only had a small rise over the course of this year emphasising the



importance of having an active portfolio management style and the potentials alpha that this can deliver over time.
The second chart shows long rates vol and low volatility strategies performance against the US multi factor strategy. With very little volatility in comparative terms the long rates vol has given a steady return over the course of the year with upside protection against inflation and therefore is a very useful tool to have when thinking about overall portfolio construction.

Summary : November generally saw investors move to a risk on mood with the news that vaccines would very soon be ready for distribution. The USD weakened further breaking below the 92n level which had held for quite a while. The helped markets believe in the reflation trade and we saw EM move to the upside and there was a shift towards value. We feel that this may continue for a while with the global economy showing increased growth and inflation probably into early next year where we feel that there could be a change in this regime by the end of next year. Markets are at present looking through many issues that are still unresolved Amongst these are debt levels have globally increased more, structural problems still exist in Europe with there being disinflation there at present, US employment is an issue and how long it will take to recover these jobs will depend on the growth rate of the economy. We still believe that there is a global USD shortage and this will constrain global growth moving forward. Foreign central banks selling US treasuries is a sign that there is a global shortage and the repo markets should be observed very closely for any signs that there are any problems. The liquidity event in March was swiftly tackled by the Central banks but we fear that the coming insolvency event, they will not be able to do anything about as they have no mandate or tools to deal with this.
In December the central banks of both Europe and the US will hold meetings and their actions will have an influence on the markets. We may see some portfolio rebalancing occur going into year end which could put some downward pressure on equity markets. It will be important to get some kind of fiscal package in the lame duck session to support the US economy as the virus cases rise into the Christmas period with Thanksgiving acting as a super spreader event. The scarring that this winter causes to the US will not be known for some time and could cut the recovery short. We watch the USD and DXY closely thinking that fall below the 90 level may not occur this year and we might even see a small bounce in the USD. We certainly see volatility staying above the 20 level.

Market Insights

Do we need a Mr. Rekclov ?

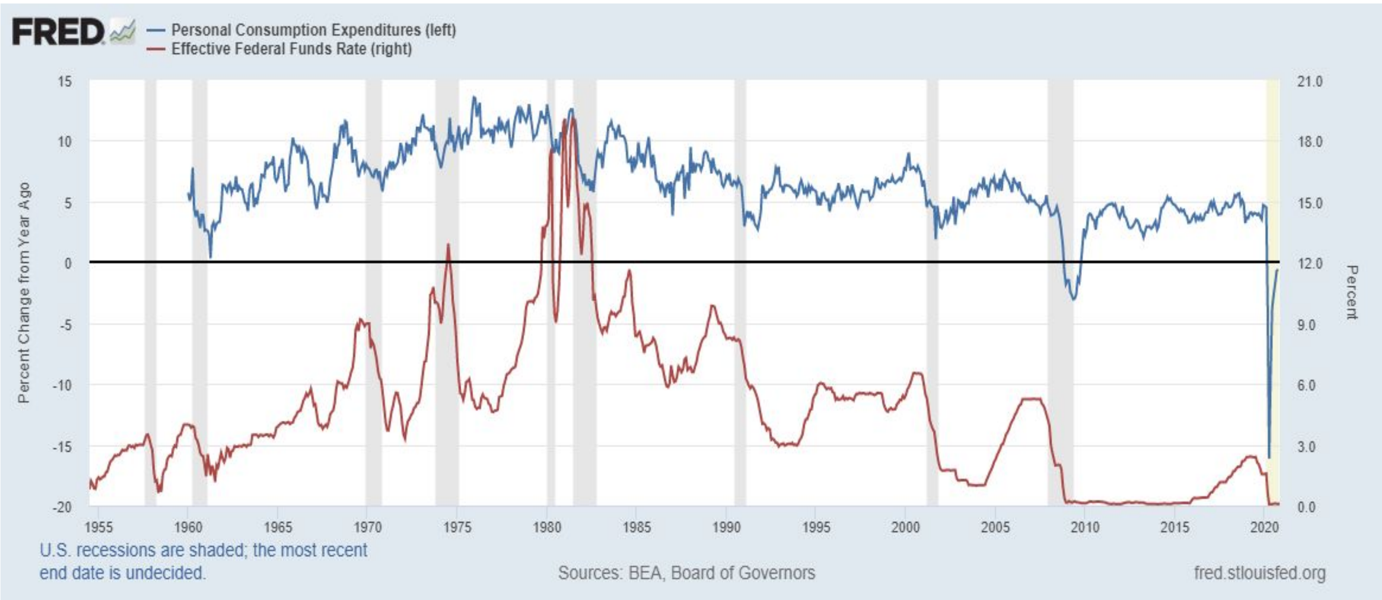
Credit creation - This function in our modern monetary system is fulfilled by the banking system and is necessary for the growth and expansion of our economies. This credit creation can occur domestically or it can occur in the offshore global Eurodollar system. For the banking system to do either of these it needs to have confidence that the economy will grow and that their credit which they create will reimburse them. If they do not have this confidence then they will be loathed to create new credit, and the economy will be constrained.

We find ourselves in a situation where central banks are “money printing”, creating banking reserves which are only functional within the financial system and even there their functionality is limited. But the banks are loathed to create new credit into the real economy. This lack of new credit creation will limit the growth potential of the economy.

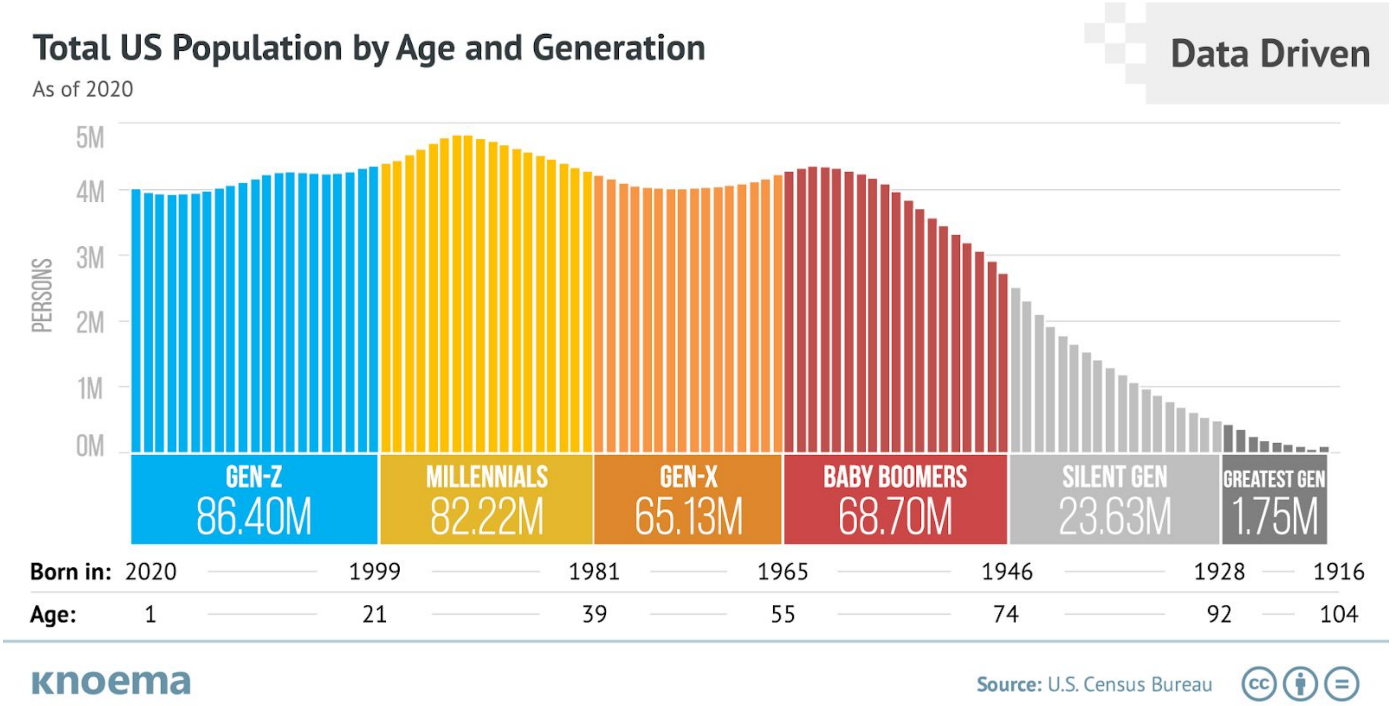
So if we need growth and in order to get growth we need the banks to lend, how do we make the banks lend?

There is an argument that if by penalising them for holding bank reserves / cash they will not do it and therefore they will lend it out. Now the counterargument is that this has been tried in Europe and has simply not worked. However if you charge someone a small penalty for a certain behaviour perhaps you do not manage to change that behaviour, but if you charge them a large penalty it is more likely that you will change that behaviour. So if banks were charged 5% for holding cash they would certainly be more inclined to not hold cash and therefore you would get the lending and credit creation you require for growth to occur in the economy.

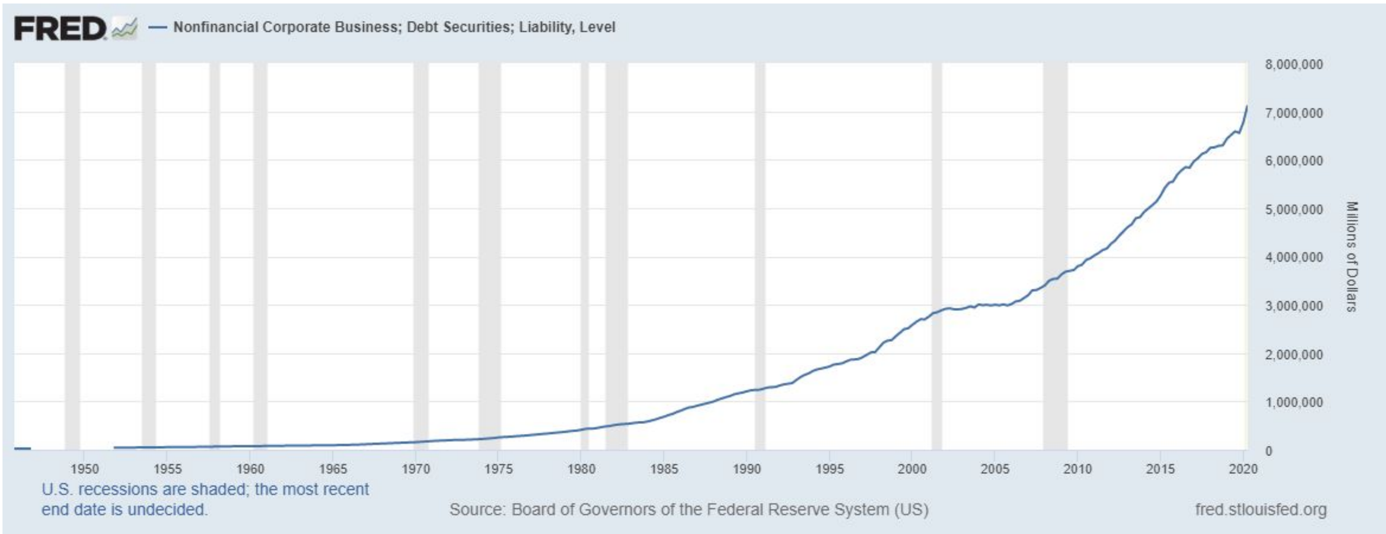
Mr. Paul Volcker raised rates to unprecedented levels in the early 1980s in order to crush inflation and he certainly achieved that. So perhaps we need the opposite of Mr. Volcker (Mr. Rekclov) to stimulate growth and get inflation to a level where the central banks are happy.



This action would surely penalise savers, and force them into alternative investments, but it would accelerate the transfer of wealth from the older generations (namely baby boomers) to the millennials who would have a higher propensity to consume. This would be of further benefit to the economy.

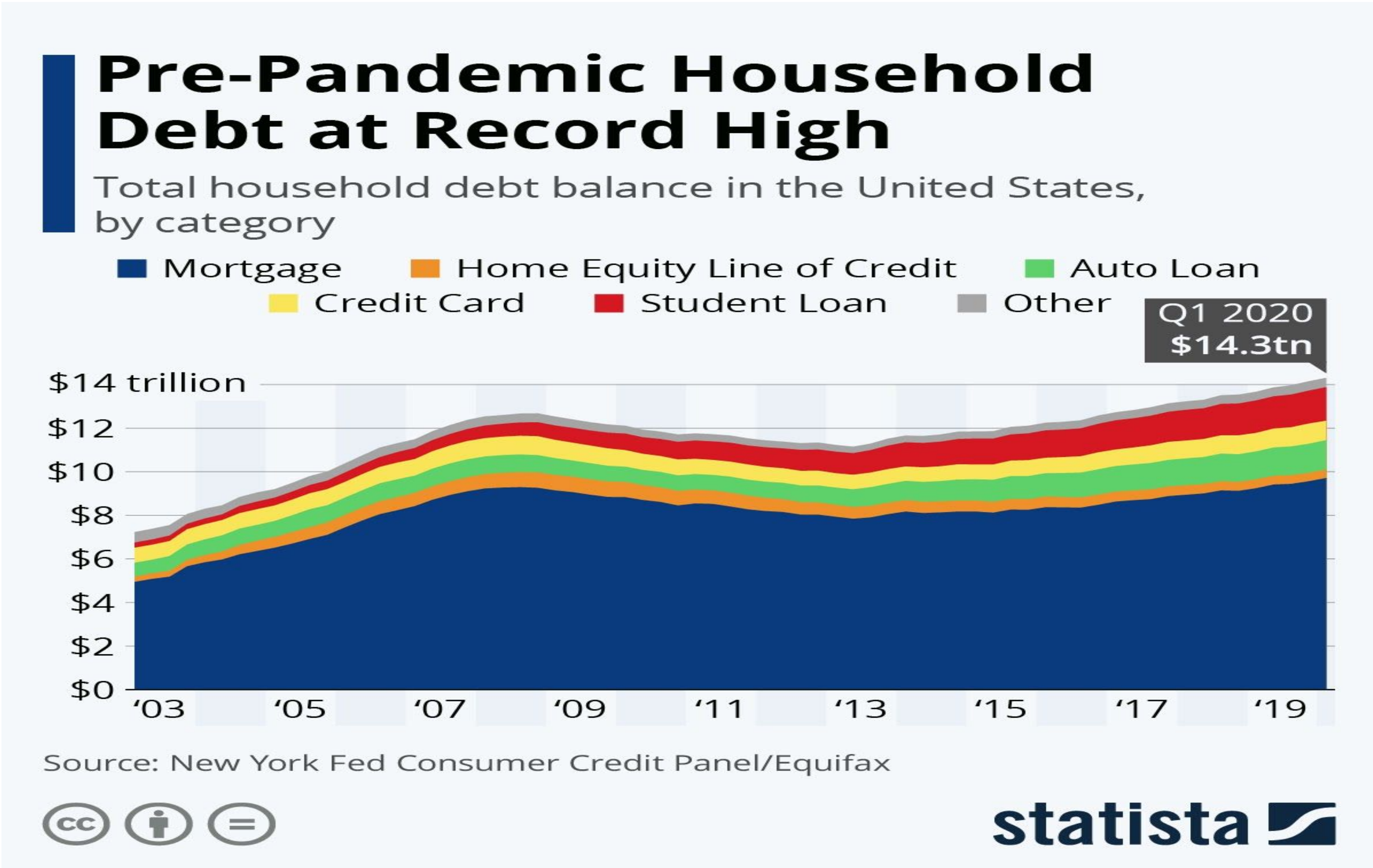


There would be steepness to the yield curve which would enable the financial sector to operate profitably. This may have unforeseen implications but one thing is for sure if we continue to behave as we are we shall get no different responses than we have done for the last decade.

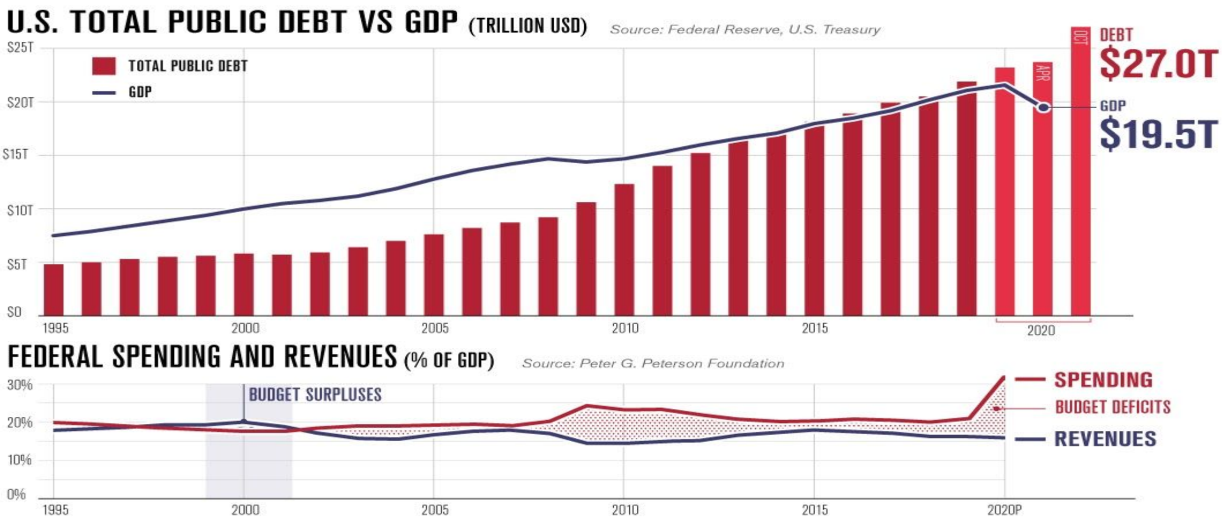


This graph shows the Us Corporate debt up until 1/4/2020 where after it has moved higher with a huge amount of debt being issued this year at very low rates, The number of zombie companies has also increased thus creating a very fragile economy.

The US household has also increased their debt load since slightly deleveraging after the GFC and the chart below shows to what extent, however as the virus hit and governments stepped in to add the public their debts have not diminished this year but grown at a time where many have lost there sources of income and jobs and do not have any idea when these may return and also to what extent they may return.



The US government is also following the same path, the increasing deficit means that more debt has to be issued by the treasury sucking more money out of the private economy and making the government a larger part of the economy. Misallocation of capital and corrupted incentive systems then become an issue for the health of the economy.



The economy is recovering at the moment and if there is further support this will continue into 2021, but at some point the debt drag and further growth will act as gravity on this economy and we need to be aware of this. Unless there is a pick up in credit creation we will be constrained as to the potential growth of the economy and this will have direct impact on markets.

The latest forecasts from the OECD demonstrate that the economy has suffered scarring and that it will take more time, than most believe to recover to pre pandemic levels and we may never return to pre pandemic trends, just as we never returned to the trend level before the GFC.

In our opinion this shows that there is something seriously amiss with the global economic and monetary system and that the demi gods who supposedly know everything and are in control of these systems. in reality do not understand the problem and therefore have absolutely no clue as to start to fix or remedy the issue.

Chart 1
https://oecd.github.io/oecd-eco-outlook/EO-interim-122020/confidence-en/

Chart 2
https://oecd.github.io/oecd-eco-outlook/EO-interim-122020/confidence-en/

Human behaviour we believe will keep momentum going throughout most of next year as we start to return to some form of normality, however one thing s settle down we see the economy being faced will the same problems that have challenged authorities since the GFC.For now the reflation trade is in full swing but beware this will not be an eternal story with the constraints we have mentioned acting as gravity one the initial euphoric period passes.

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Once again thank you for your time and see you again next month.

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