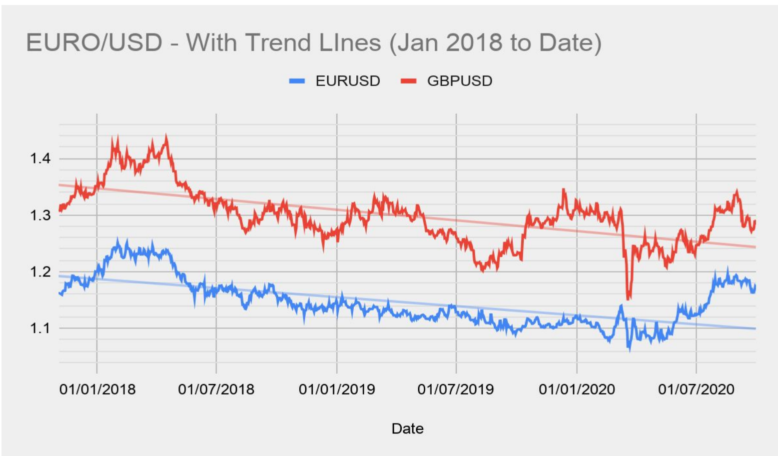
The Market Wrap September 2020

Introduction - This is our second 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 !

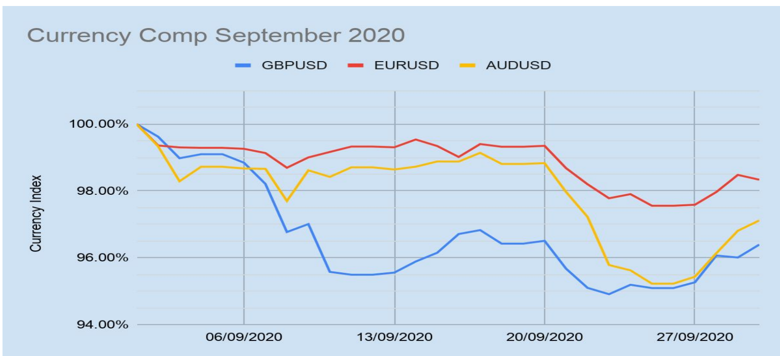
Currency

In September we saw the USD strengthen towards the end of the month as we envisaged. Whether this is a trend reversal remains to be seen. We would like to see the DXY close above 96 to confirm this reversal. A strong USD is not a good sign for the global economy and we shall be monitoring carefully the path of the USD over the coming period. We feel that as global trade slowly starts back up the demand for USD will increase and this could lead to further appreciation and perhaps some bottlenecks in the global USD system. The virus is starting to resurge around the world and this can lead to a stalled recovery. With fiscal packages being slow to be implemented we feel that there are risks to the downside with growth and inflation.

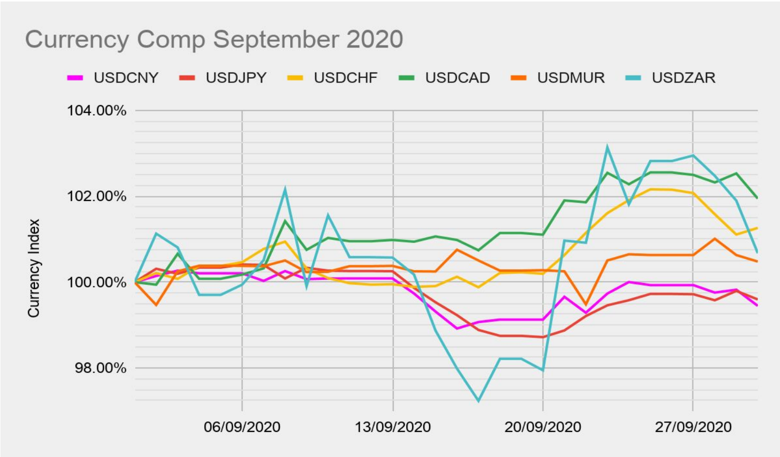


Both the Euro and Sterling have been in a long term downtrend against the USD from the start of 2018. Lately both have shown relative strength since the March collapse. Their strength we believe was overdone and we look for a reversion to the mean, as neither of their economies are reflective of the strength being shown by their currencies. The direction from here of the USD is a great importance and this will define our strategies moving forward. Probabilities are rising that we see a stronger USD in the next quarter.

Here you can see the magnitude of the strength of the USD over the month. Sterling broke down early but the Aussie and the Euro followed, with the Euro holding up the most so far. With the northern hemisphere headed into winter and the rising cases of Covid we see the economies being slow over the winter time and not staging a stronger recovery until next year. The impending US elections will matter.

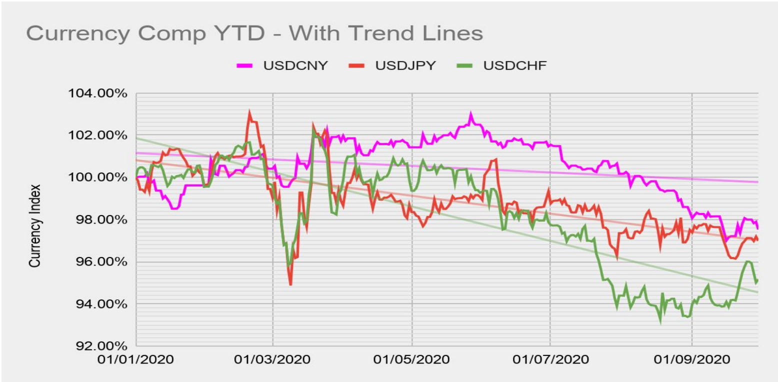


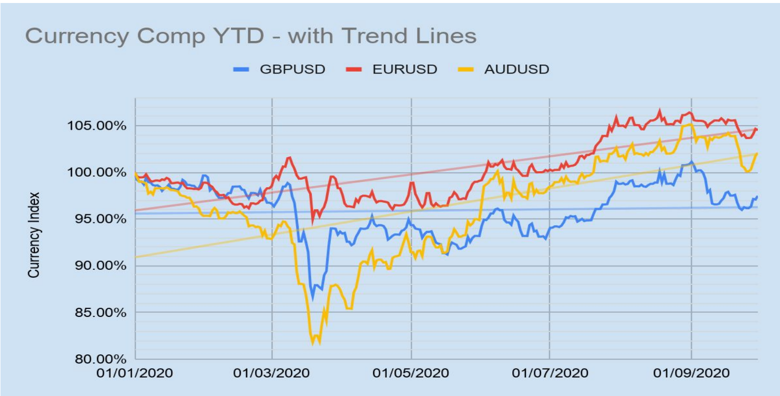
The direction of the USD over the coming months will be of paramount importance in deciding asset allocation. We shall also need to watch carefully the US yield curve. Interesting times.



This chart shows the general appreciation of the USD over the month, USD/ZAR has been quite volatile this month. The Swissy and the Yen have maintained their strength in line with their "safe haven" stature. Generally the USD weakness of late has been against G10 currencies and the smaller have tended to weaken. We believe that this trend will continue with some smaller currencies suffering large depreciation against the USD. We see that the recovery is going to be very uneven and there will be winners and losers.

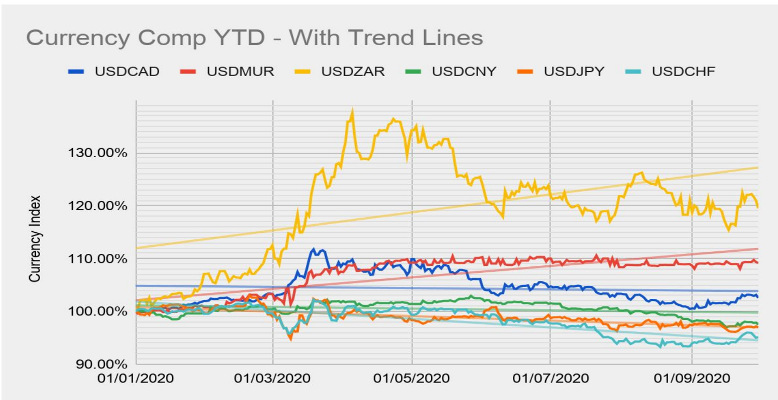
The USD in this graph again shows a general weakness over the month with varying degrees to these currencies. The rise of CNY we feel is due to the fact that there are further down the line to recovery. As an authoritarian country they have been able to manage the crisis better than most western countries. However if the recovery stalls around the globe this trend may not continue as we see a flight to safety benefitting the USD mainly.





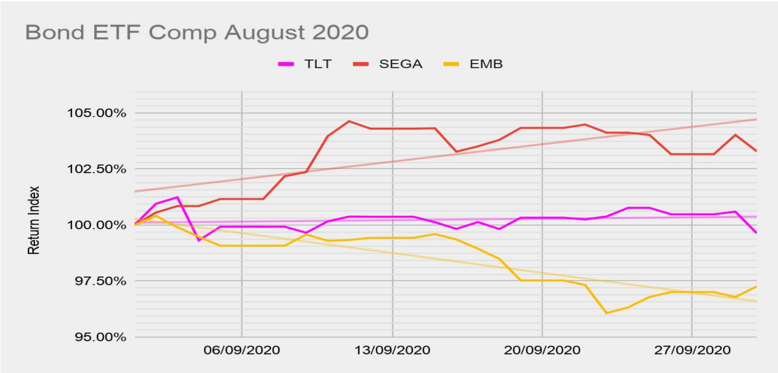
Here we see the USD strengthening in the last month against the majors, but still in a downward trend. We would like to see the DXY stay above 95 level for a continuous period before we would consider there will be a trend change. If this is the case then we would look to see equity markets fall on a strong USD. With the US election due this quarter we hope the result will also be this quarter as otherwise uncertainty will reign. Who wins may decide the fate of the USD.

With the stronger currencies maintaining their strength over the course of the year we can see that the smaller currencies are struggling to stay on terms with the USD. This goes along with our uneven recovery thesis and as global trade picks up, access to USD may become an issue for the smaller countries and this could lead to issues in the EuroDollar system. Without an abundance of USD in the eurodollar system the recovery will struggle to take hold.



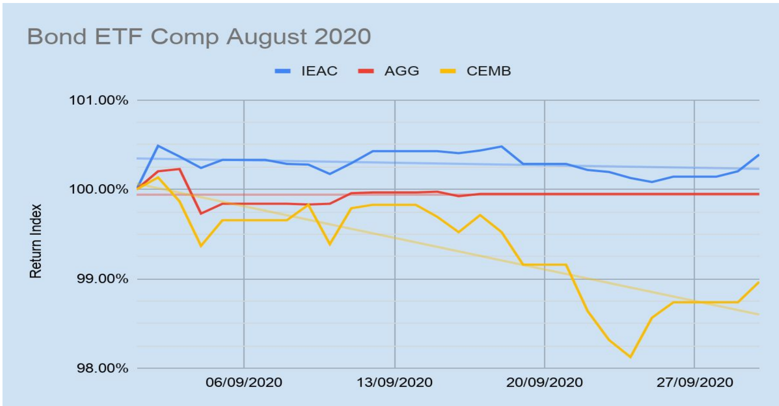
Fixed Income / Bonds

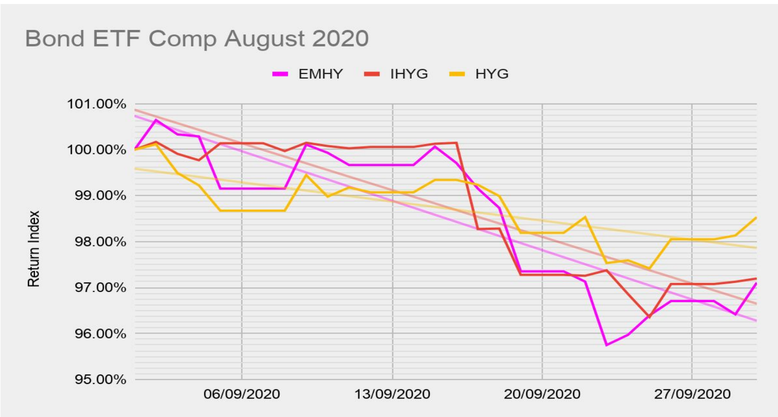
US 10 Y yield was between 0.6 and 0.75 this month, With the treasury issuing quite large amounts in the longer duration. Prices of bonds dropped heading into the auctions, but slowly rose thereafter. We feel this was a bit of market manipulation from the primary dealers as they tendered heavily on the auctions but were still left short of their requirements. We see yields heading lower over the coming months and any dips in bond prices should present a good opportunity to top up.



European Govt. bonds had a strong month, seeming to show that investors are not all that convinced by the European recovery story. The virus is surging again and it appears investors are hunkering down for a long cold winter. We see the US as likely to follow suit. EM dropped a bit over the month again reflecting concerned investor sentiment. Bond markets are the truth and we see it getting worse before it gets better.

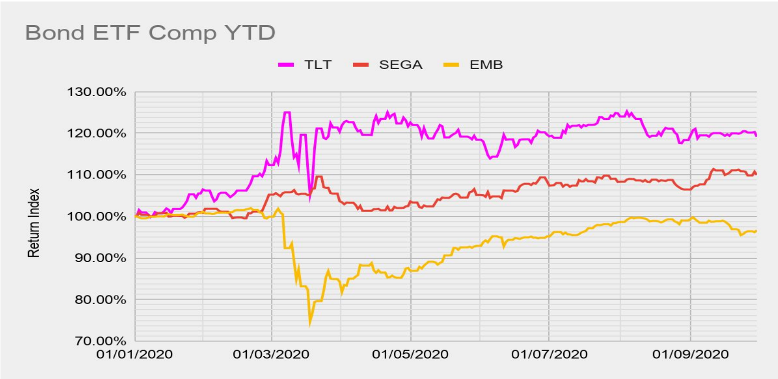
Again pretty much the same picture in the corporate space, Europe edging higher and the US holding. EM were the worst performers this month lagging the developed markets, this all goes to indicate that investors are still very cautious, as so they should be. If the recovery falters as we envisage we would expect to see AGG pick up over the coming months. We still favour the US over the Euro area, there are just too many issues unresolved for our liking.





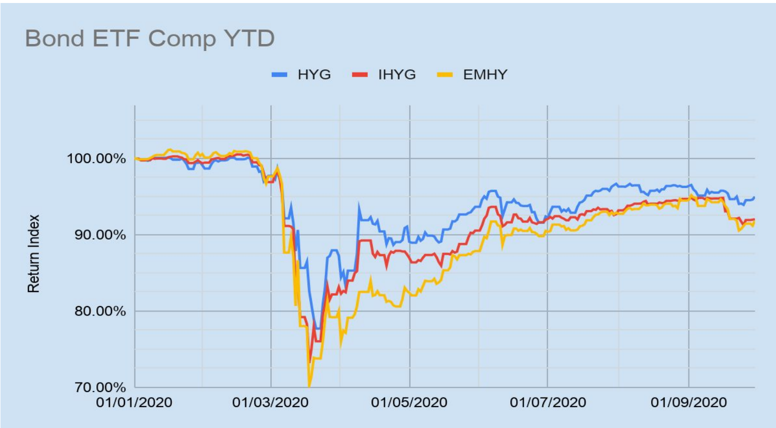
All high yield markets headed lower this month in line with the risk off mood for the month. The credit spread has now risen over 500 basis points and bears close watching if this continues. We seem to be coming into the insolvency phase where companies just cannot hold on any longer without further assistance from governments, which seems to be slow in materialising. We generally still favour long duration US Government bonds at present and look to increase on pullbacks.

With the start of Q4 we believe that the next few months will be a trying time for the global economy with insolvency issues rising as the true extent of the crisis slowly reveals itself.



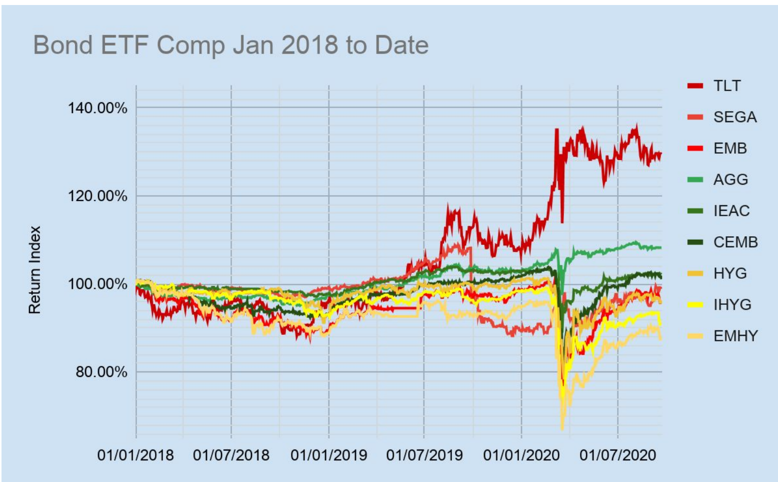
As mentioned above we still favour the US markets and they have performed the best YTD. If the economy does start to slow in the fourth quarter we shall look to add long duration bonds (EDV) to our portfolio as we imagine that these can break down to below 1.2%. Positioning in the long duration bond is exceptionally long and we could see a scramble for the exit. FED has been buying a large amount of TIPS pushing the inflation narrative, we just do not see it.

The chart says it all, US corporate the only space to really have been in this year, we do not see this changing in the near future. European for us has significant currency risk if the global economy slows from here and we prefer to remain USD centric for the time being. If the economy picks up and we have global synchronized growth we shall reassess.Also the space is very crowded now and to get yield you need to lessen the quality. We prefer good quality for now.



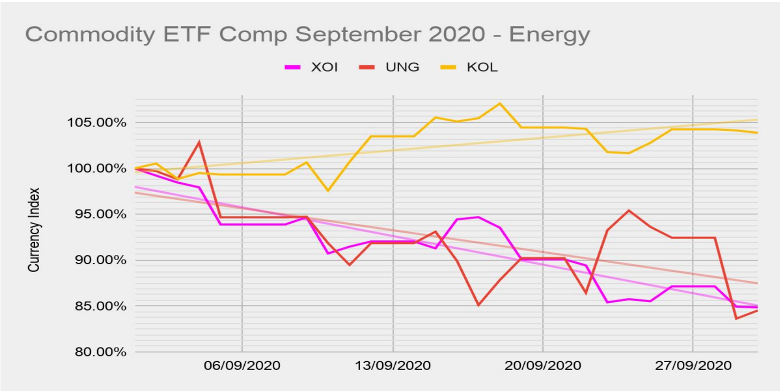
With the economy slowing and insolvencies growing we do not feel the need to take unnecessary risks in this space chasing yield when the downside is potentially so large. If there is no stimulus this year we can see a reasonable adjustment in the high yield prices and for the present would prefer not to have exposure in this space. We feel that there will be better opportunities in the future and now is not the time to have exposure here.

This chart really demonstrates the huge out performance of the US Government bond really from the middle of last year. We do not see any immediate reason for this to change and if you need to hold uncorrelated assets in your portfolio these still represent the best hedge in the bond space for present. What happens to growth and inflation from here will be crucial to our asset allocation moving forward and without any clear idea of the policy that will be implemented we are happy to stay small and safe for the moment and allocate once there is more clarity to policy.



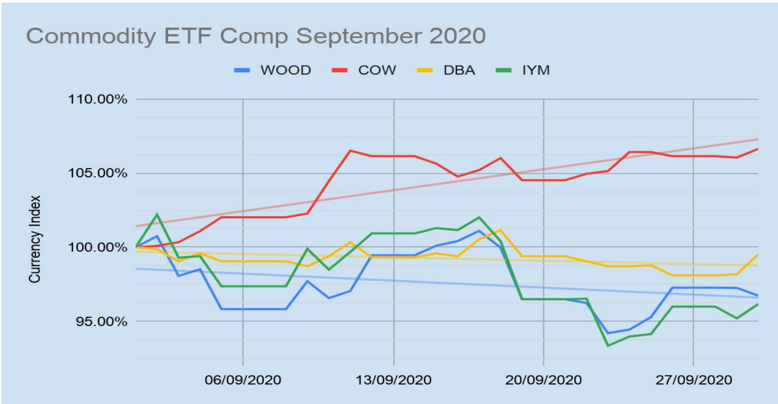
Commodities

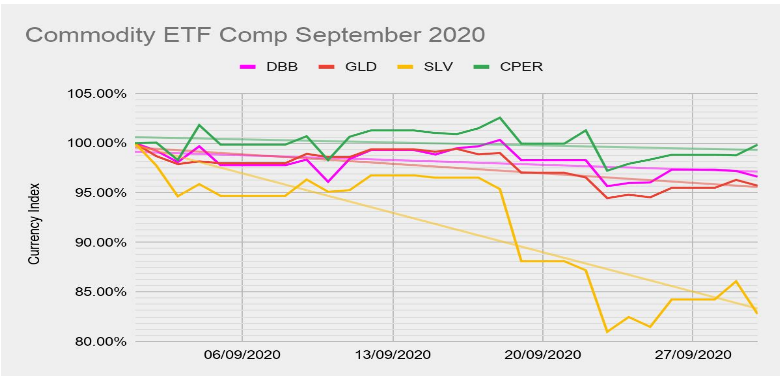
The commodity complex seemed to stall out this month as the USD found a bottom and slowly started to rise. This may indicate that we are about to enter a phase where both growth and inflation start to roll over. If so this will be a good time to lighten up on any commodity holdings as this environment is not good for the commodity space. We feel that the initial recovery is running out of steam and any further progress will be much more difficult. The supply shocks seem to be slowly working out so we remain careful.



The energy sector seems to be showing that the recovery is not as strong as some would have us believe. Oil and gas have both fallen this month as stocks have slightly rolled over. Without any imminent stimulus we fear that this will continue until we receive fresh stimulus in 2021. US supply may drop off over the winter months but demand seems to be weak enough to offset this. We shall watch and wait for now.

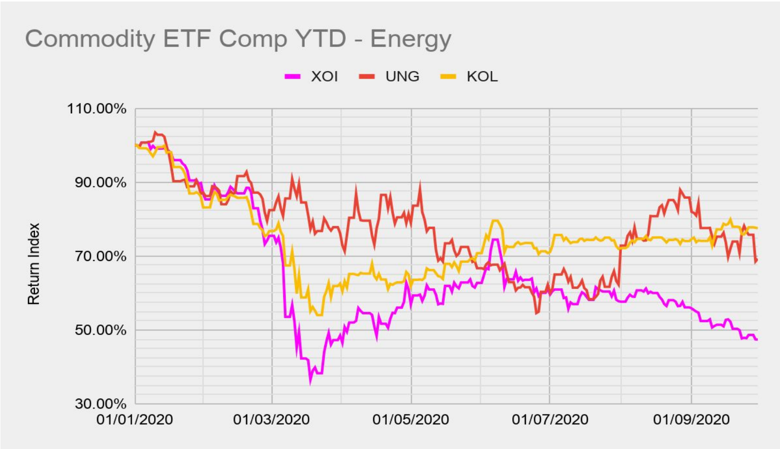
Meat had a slow steady pick up throughout the month. With the others neutral to slightly lower. Again we are not seeing any pressing signs of inflation from the commodity space and although this is a market narrative we do not see any signs flashing this to us. Lumber is due a pullback after its amazing rise as the supply chains slowly recover. Perhaps agriculture may pick up if China starts to increase their buying in the coming months , this is debatable.





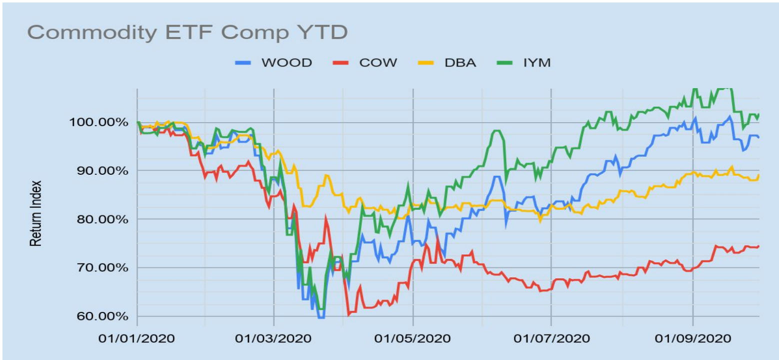
The metals complex had a sideways month of consolidation with the exception of silver which had a reasonable retracement after its meteoric rise. We shall watch copper closely over the coming weeks and months to see if it offers any signs of where the general economy may be heading. Silver may present a fresh entry point if it continues to pull back although we do in general favour holding gold for the moment.

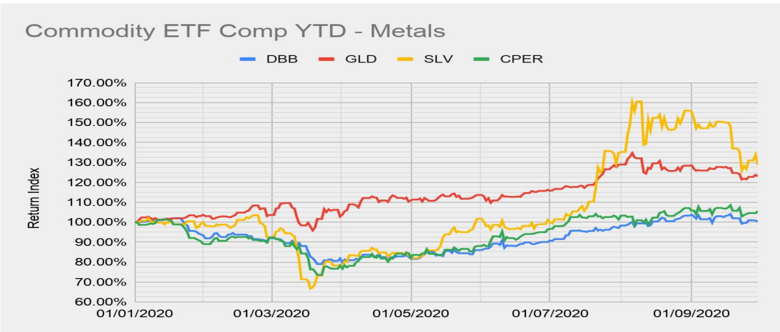
Again with the uncertainty in markets at present it is a time to be vigilant and careful, watching the important facets of the market that can lend us an insight as to its future direction.



This illustrates that although there has been a recovery, it has been weaker than anticipated and as supply and demand settle, these both appear to be at lower levels than before the crisis. Demand has just not materialised as people hoped and this does raise questions about the global recovery narrative. We see US production dropping off over the winter period, but opec does have plenty of spare capacity. With this scenario we do not see much of a price recovery until late next year, unless there is a dramatic increase in demand.

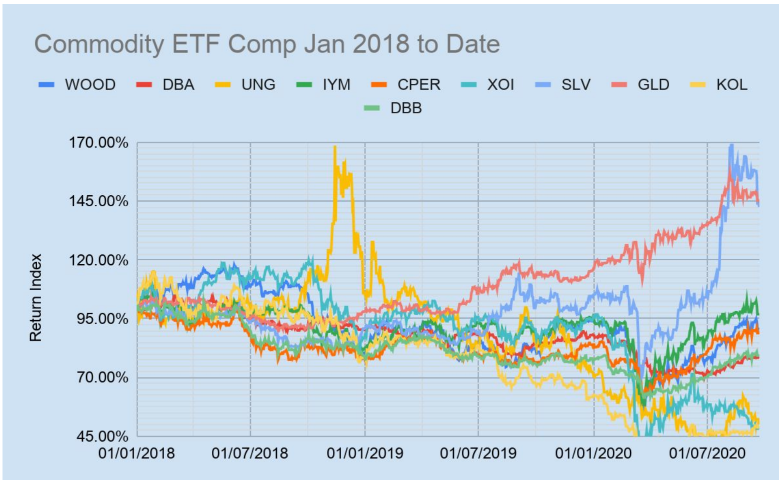
.Food products are slowly recovering, but still have a fair amount to recover their levels at the beginning of the year. This is not inline with the inflation narrative that is being touted around. We still believe that the hit to aggregate demand has been to such an extent that it is at best dis-inflationary. However the longer people are caged up the larger the rebound maybe, if they have the financial means.





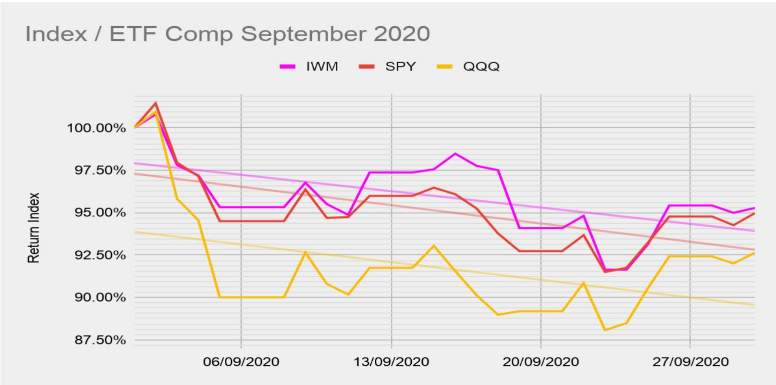
Base metals and copper have recovered their previous levels, and shall need to be monitored for signs of further increases. Gold has seen steady appreciation and this has much to do with the debasement of the USD. Silver has been more volatile but is basically following gold's lead. We still like gold here and will look to add on any pullbacks.

This chart plainly demonstrates that there has been no real inflationary pressure coming from the commodity space over the last two and a half years. We do not see this changing in the near future no matter how much people keep talking it up. If aggregate demand does not return and grow it will be almost impossible to have inflation at the levels central banks wish for. If deflation does appear the central banks will be in a very difficult situation, and will need massive fiscal packages to help reverse this situation. Central banks remain powerless to create the inflation they want.



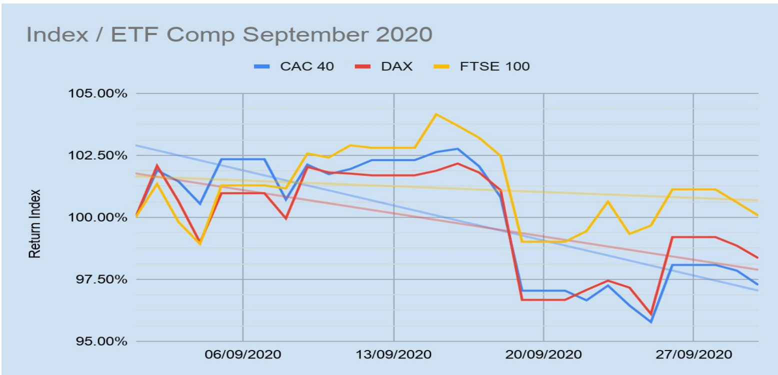
Stock Indexes

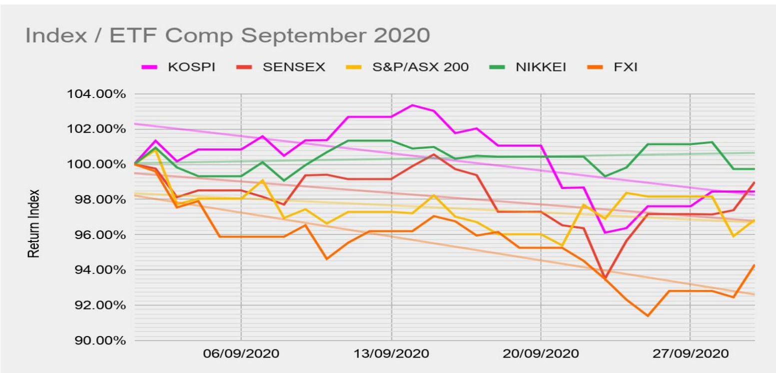
These are the local indexes of varying countries reflecting the value of the companies quoted on them, importantly in their local currency. We must always bear in mind the Index performance and the currency performance against other localities. Investing is a relative game and we like to show comparative 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.



US markets had a down month in September with a correction occurring. The Tech sector had the largest pullback after its record reise in August. As we approach the election volume is shrinking as people look to banton down the hatches. Volatility is still elevated and will probably remain so through to January next year. If there is no stimulus package before the election we could see a risk off sentiment in the markets until we have some clarity.

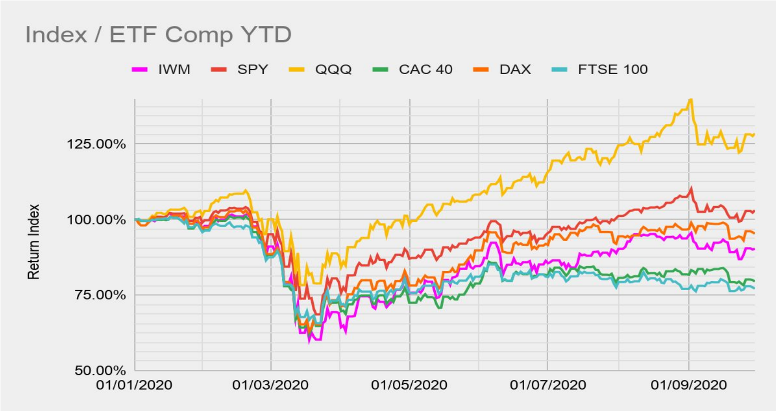
Europe had a small down month as the virus started to re emerge across the continent. There is also talk of some issues with the European fund and getting it signed off and implemented. The inflation numbers were not good across the area and confidence is waning towards the recovery and we could see a pullback if the situation does not improve over the winter months. It seems that the recovery has stalled out and will need fresh impetus.





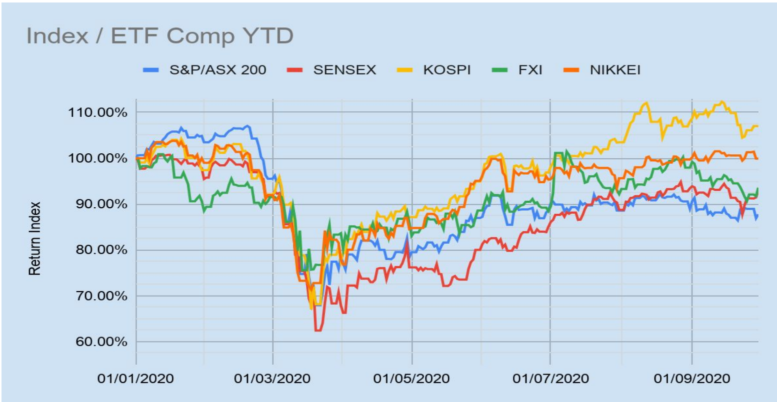
For the rest of the world the markets were again slightly down on the month. The global recovery is now at a stage where the easy gains have already been achieved and the road from here on in is going to become more difficult. The ability of governments to offer fiscal stimulus may define how their countries' recovery proceeds from here. The path of the USD will also have a large bearing on the macro circumstances and where we go to from here

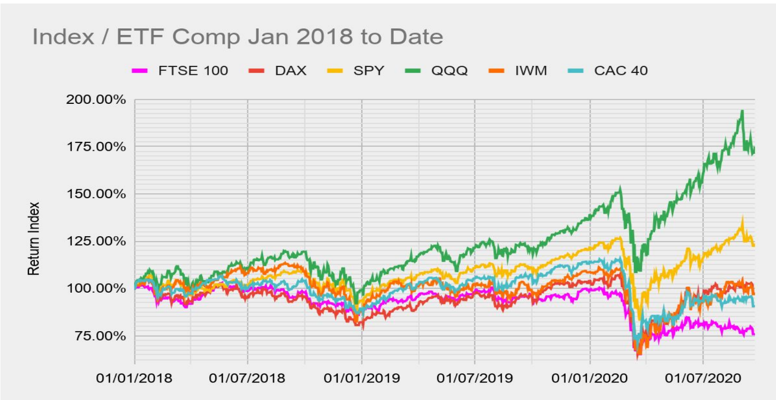
Let's take a look at a larger context timeframe to get some more perspective on the markets.



Even with the latest pullback the US tech market has been the place to be this year. Europe has continually lagged the US and although there is a call for a rotation to Euro we do not feel now is the time. There are some many challenges that Europe needs to overcome and we surmise that this will take a long time to achieve. The UK has been the worst of this group and with the uncertainties that lay before them we still feel this market is best avoided for now.

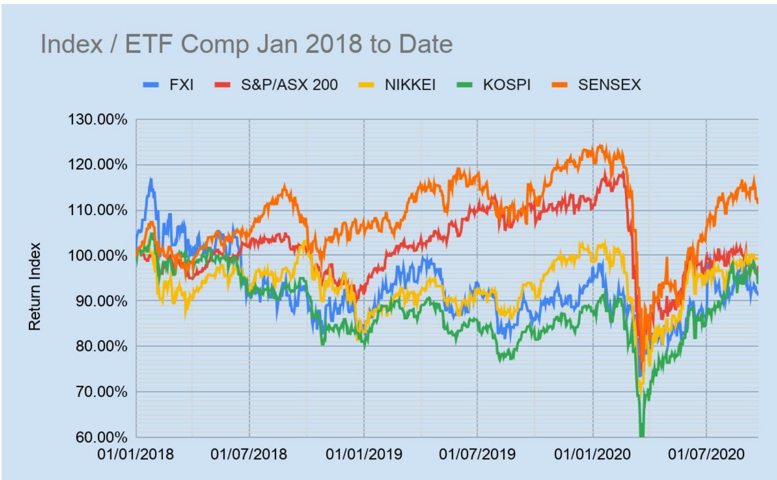
The Korean market has recovered the best since the crisis along with the Japanese market, these both are quite heavily exposed to technology. With Q4 being here we feel that there are opportunities in the rest of the world but will be holding fire for now as we would prefer to have more clarity in the macro situation before allocating capital to our current ideas. The course of the USD over the coming months will have a large influence on our decision making process.



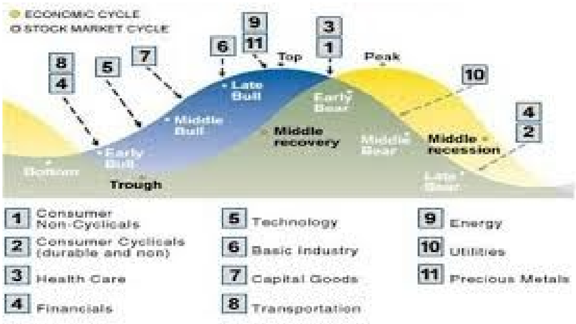


This really shows the consistent outperformance of the US tech maret over the last 3 years. The question is will this continue, and when should we look to move some capital to other markets. With the tech companies sitting on lots of FCF and still seeing good growth, we think that the opportunity still lies here when the recovery really starts. Until that time a more defensive positioning is prudent as the virus and Govt. responses play out.

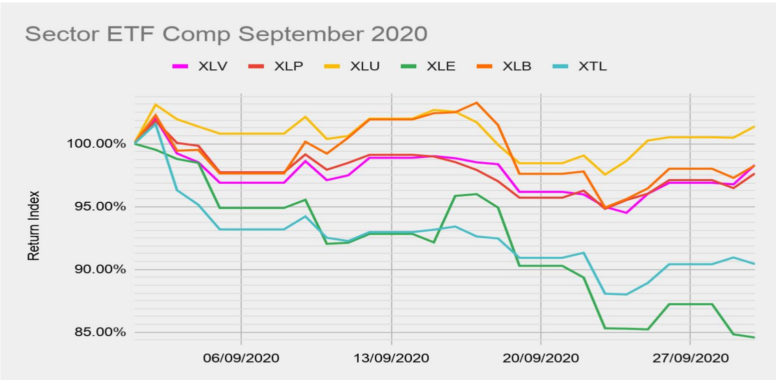
India markets have recovered well from their bottom and still represent a great long term opportunity. Timing and sizing on this are important along with the awareness that this is a long term play and may suffer from opportunity cost in the interim period. As the global economy struggles with the virus and the Govt. reaction to the virus, we favour a defensive posture as we see a struggle to recover to prior levels and central banks exhaust their play book and the fiscal response is slow to materialise, and may not have the effect that they would wish for.



Sectors

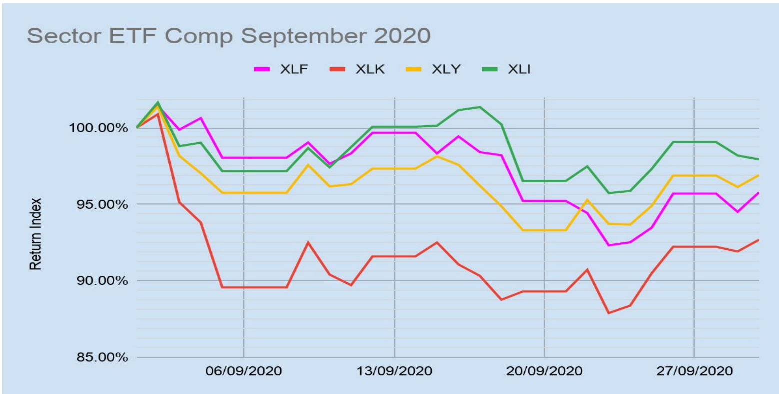


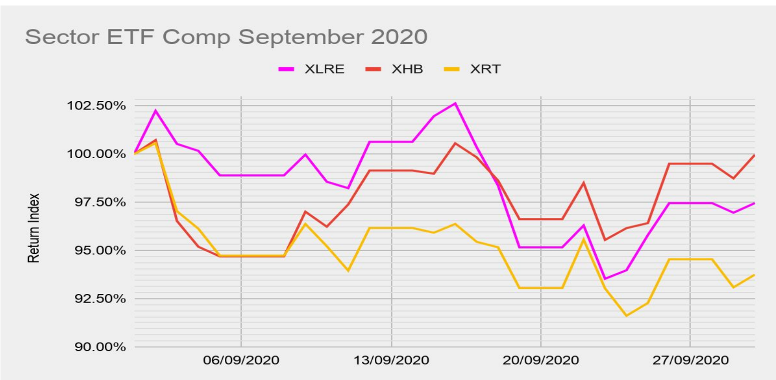
We use sectors to place stocks and other investments into categories such as technology, healthcare, energy, utilities and telecommunications. The different sectors have diverse risk profiles and perform at varying degrees throughout the business cycle. Here we shall contrast and compare the performance 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.



With the general market pullback in September the more defensive sectors held up best, and yet again energy saw a large drawdown. With the energy sector performing so badly we struggle to buy into the inflation narrative that is being touted. Until we see a pick up in demand for energy we do not see the inflation narrative being realistic. This may not happen for some time and would look to be more defensive over the next period of time.

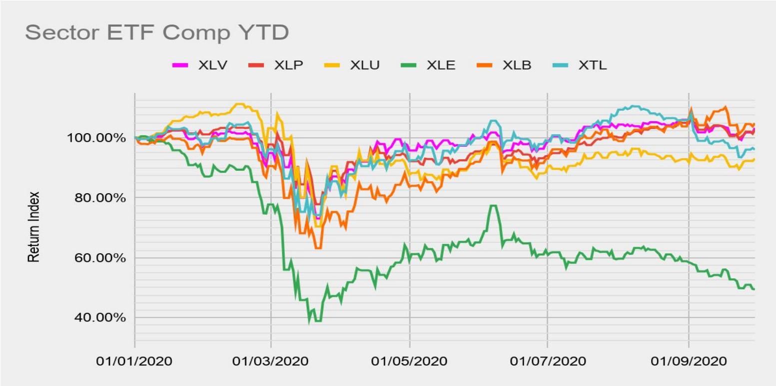
Tech (XLK) had a pullback but slowly recovered towards the end of the month, whereas energy did not. This shows the market still wants to buy the dips in tech. Running into the election with volatility heightened, we will look to reduce our risk exposure as we see the upside being limited and the downside potential quite high. Quality and safety are the watch words for the moment.





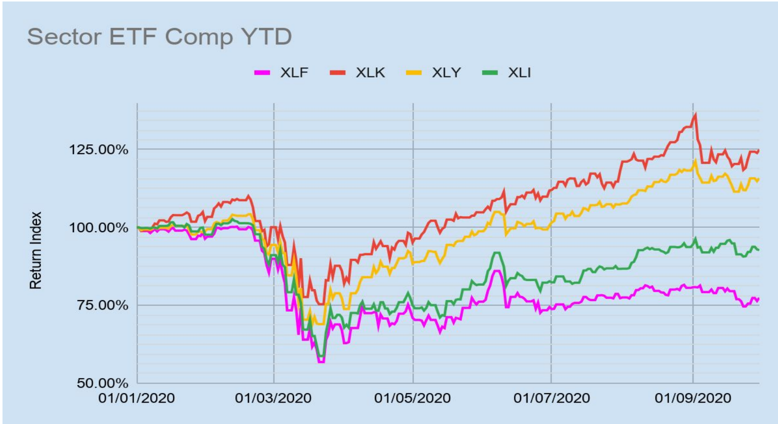
Housing again held up well throughout the month and retail was relatively strong. As the Govt. support slowly runs off the retail space may start to weaken over the coming months especially if the virus surges over the winter months. The real estate space should represent a solid place to hold assets over the coming months especially if you can receive a safe reliable income. XHB should also present some opportunities for growth with changing living trends.

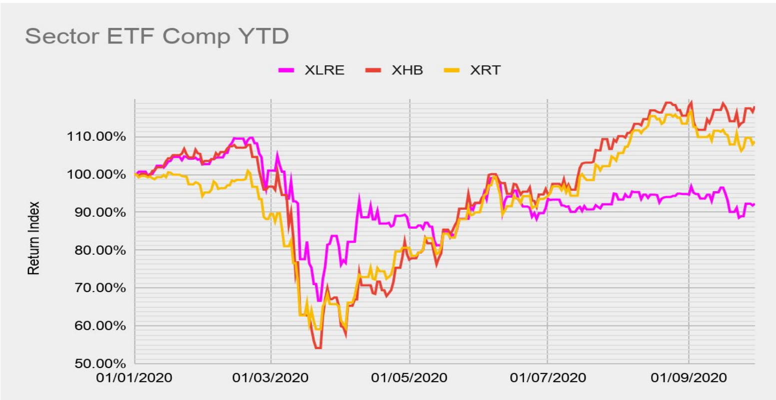
Generally we feel the next quarter will be tough with the recovery faltering and Govt. responses being slow to materialize. Defensive positioning is the best course of action until we get clarity on the policy front and also the direction of the USD.



At some point the energy sector is going to be a buy but at present it seems to be in free fall. Even now it has a yield of over 7% which appears attractive, it is only a question of whether this will hold or dividends will be cut. Until we see a real recovery, it may be best to hold off for now until the solvency issue resolves itself further.The defensive sectors are generally flat on the year which relatively speaking is a good performance.

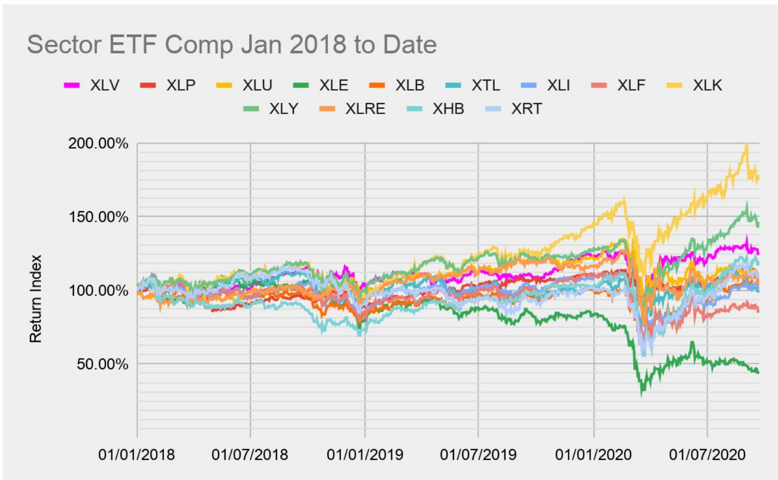
The continuing poor performance of the financial sector is a worrying phenomenon. With all the assistance they have received from the Govt. and the FED they should be performing better. The fact that they are not is worrying. With yields not going anywhere for a long time, their immediate future is very concerning to us. We still see the outperformance of the tech and consumer discretionary sectors moving forward, but may hold off on these for next few months.





Interest rates are going to be low for a long time even by the admission of the FED. This should be good for the real estate sector, however there are problems in the sector that have yet to be resolved. We think there are opportunities here but will be very careful about allocating to certain parts of this sector. Retail has held up very well so far but we feel that this may be running out of gas and would not look to be invested in this sector for the immediate future.

The recovery is faltering and the fiscal response seems to be slow in coming. Without fiscal stimulus the recovery may fall flat and solvency issues are still very wide spread. We feel that the global USD system is badly damaged and needs to be repaired for any recovery to be sustainable. The alternative is to create a new system,and with central banks slowly starting to talk about their digital currencies, it seems they favour this option. They would have direct control over credit creation in such a system and this would greatly assist them in controlling the global economy. Watch out.



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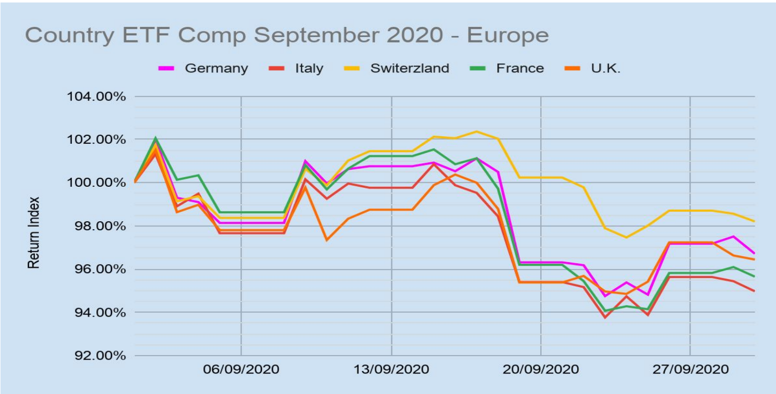
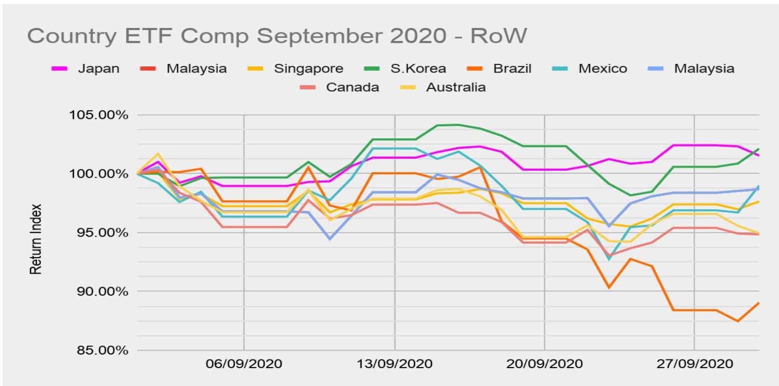
Geographic

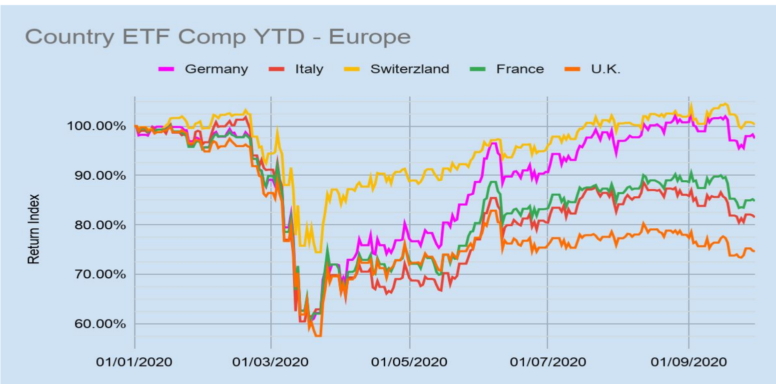
Certain countries or regions around the world will be experiencing different economic circumstances at any given time, usually. Therefore it is important to access these differences and utilise them in order to create greater returns on your capital. In this section we shall look at a range of ETFs, 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



Europe is starting to tail off a bit as the virus rears its ugly head again and several countries start to impose more restrictions. We also have some issues with the european fund, and how quickly it will be implemented. The issues still indicate to us that now is not the time to be switching from US markets to Europe as there are still many challenges the area faces. The currency remains strong but for how long we do not know. ECB doesn't want it above1.2.

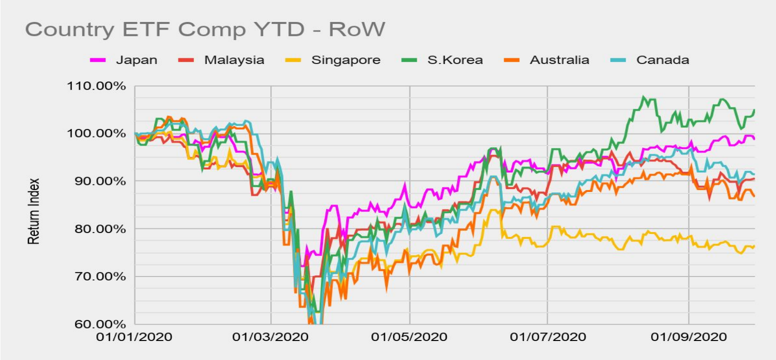
Japan and S.Korea still are holding up well, their exposure to tech helping them. Other countries are starting to drift lower. The easy gains have been made and now the hard work begins to receiver to previous levels. The larger countries may be better placed to deliver on this as it will require large fiscal impulses. We feel the next 6 months will be difficult for all and this will take longer than most people imagine to attain the levels of late 2019.





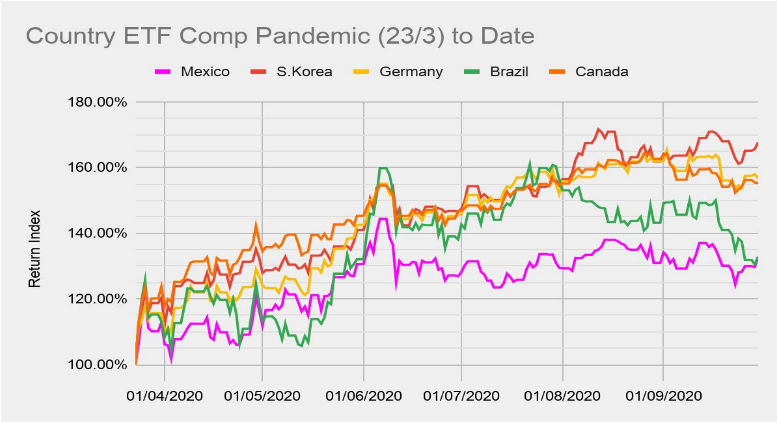
We may be seeing the start of a rollover in European markets, as the initial exuberance wears off and the harsh reality starts to hit home. Europe is a more regulated work place then the US but as solvency issues continue we believe the employment situation will worsen and cause a hit to aggregate demand in the Euro area, whilst we think the recovery in China will also be slower than investors imagine. The UK is lagging and bears watching.

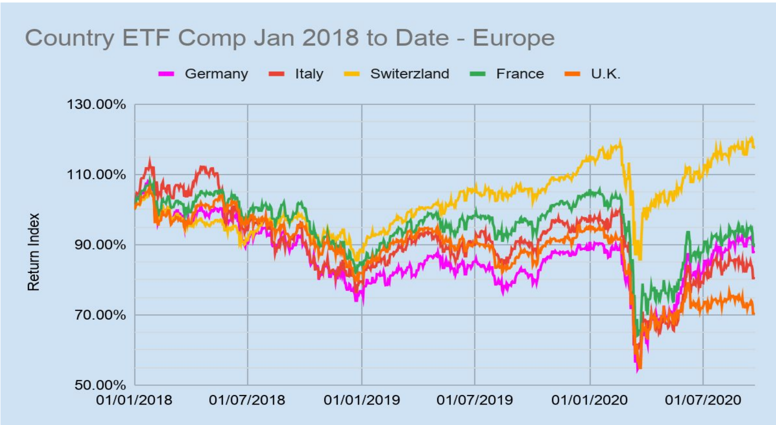
The optimism shown by the markets to Europe we feel has been overstated and with all the issues and challenges they face we just feel it is too early to start to rotate to these markets. Depending on the manner of Brexit there may be opportunities in the UK market in the near future.



Again we seem to be running out of gas around the rest of the world as well. The recovery is not quite living up to expectations and the reality is now starting to bite. Singapore is the worst performer here. The more modern, technological economies are best placed to recover from this global crisis, the others will take longer to come back. Then they will need to re invent themselves to compete.

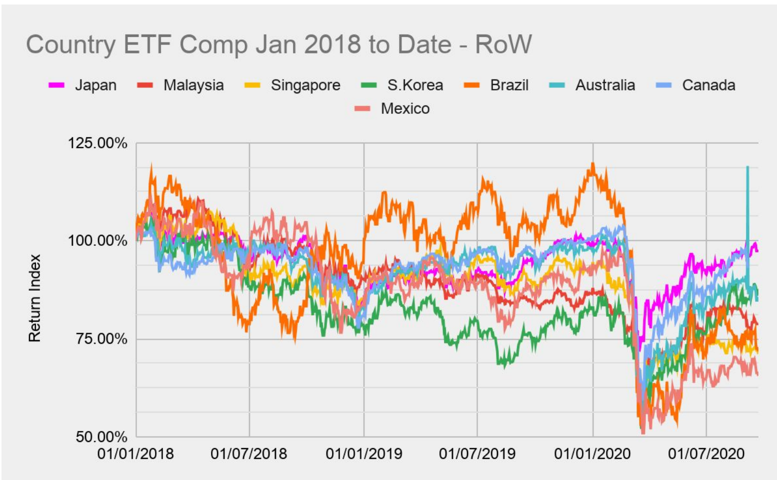
From the pandemic bottom the pace of recovery has started to vary more in recent times, with some countries regressing. Generally we seem to be topping out here and it is looking as if we may start to rollover through the coming months. Stimulus from fiscal packages seems to be encountering delays and this will definitely hold back the recovery. With the hit to aggregate demand that has been taken and the stimulus being delayed we do not see the inflationary story that is being spoken of.





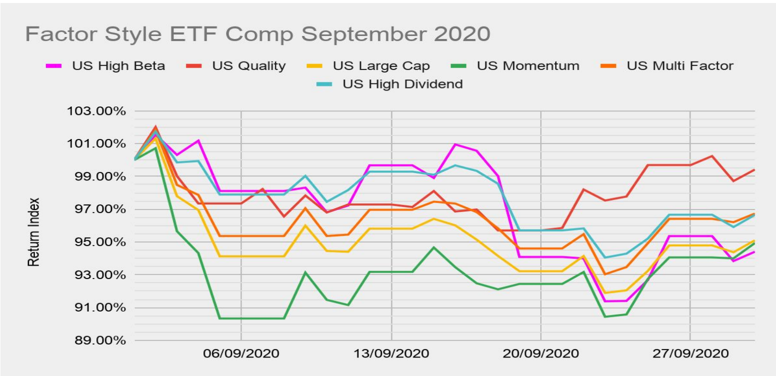
Over the longer run it is illustrated here that growth has been hard to come by and that the reaction to the virus has placed a big dent in what little growth there was. Switzerland has out shone most of Europe and we feel that this will continue to be the case, however we would like to see some pullback before initiating a fresh position. The UK is worth watching and seeing how the next few months play out as it has underperformed recently due to certain issues, but may represent value soon.

The rest of the world over the longer time frame is below where it was almost 3 years ago. There have been large movements in these markets, but to buy and hold has not been a successful strategy. This again demonstrates how in modern times an active management strategy can be very effective when compared to passive. The market is a complex system with many moving parts, a strategy that makes one evaluation and then does nothing may not be the best way to put money to work in an ever changing environment.



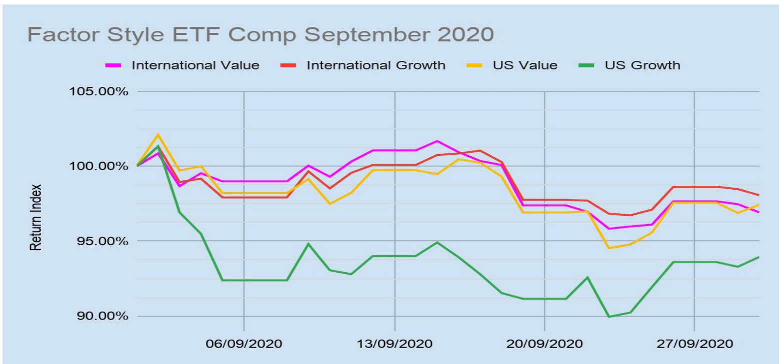
Factor Styles

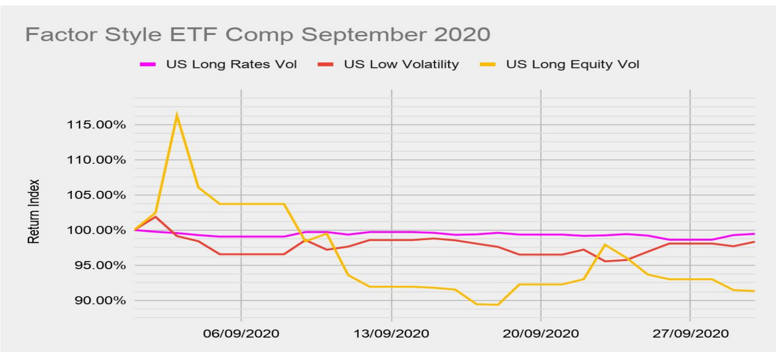
Factor investing is a strategy that chooses securities on attributes that are associated with higher returns. There are two main types of factors that have driven returns of stocks, bonds, and other factors: macroeconomic factors and style factors. The former captures broad risks across asset classes 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.



September was a down month for most styles as for the markets in general, quality held up best as one would expect. Moving forward we still favour quality, of these styles as we are looking to be defensive over the coming months as we look for both growth and inflation to slow. The election is upon us and we would prefer to be protective going through this volatile time and reassess on the other side.

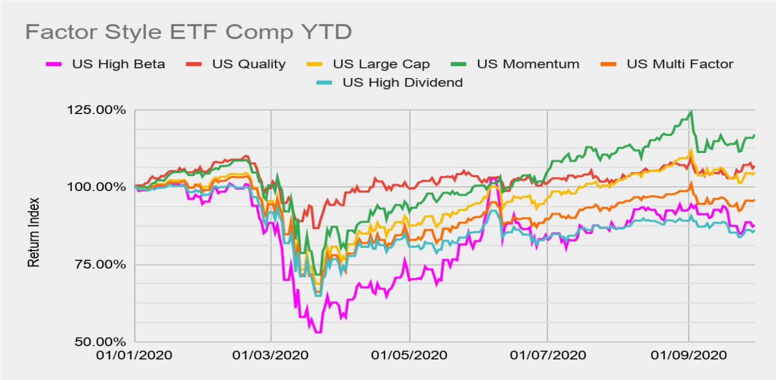
A negative month for all of these styles, with the international ones having the edge over the US centric. Not sure that this will be the case moving forward as it appears the issues of Europe are starting to materialise, and we feel the head winds there are stronger than in the US. Growth had a bad month with value outperforming, but again not sure that this will remain true moving forward





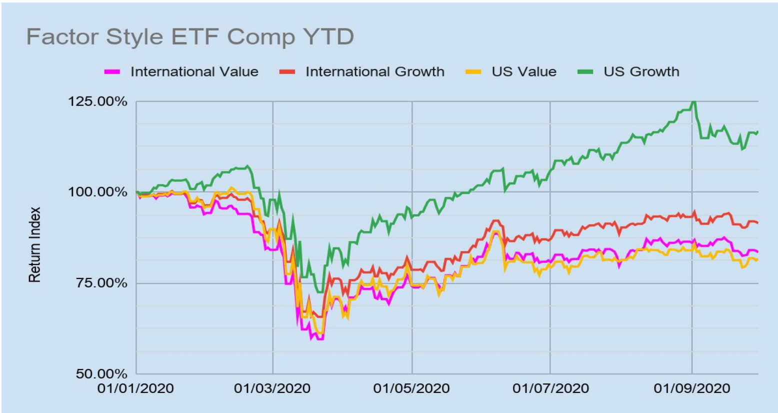
Equity volatility spiked at the beginning of the month, with the tech sell off and has remained elevated throughout the course of this month. This is quite a worrying sign for us and thus our defensive posture moving forward from here. The economic numbers are seeming to struggle now to show any great advances and without further stimulus we are apprehensive for the immediate future. This could get ugly.

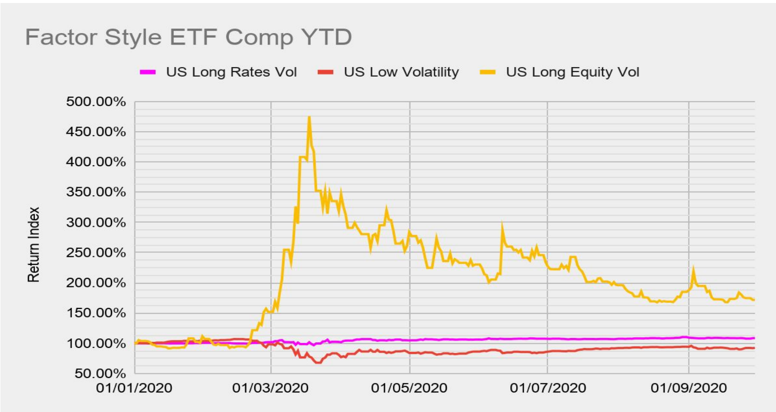
Caution is the key word at present and we would rather sit on the sidelines and dwatch how the show plays out from here.



Momentum is still leading the way with associated styles, quality and large cap. As we enter this period of uncertainty we do prefer to be defensive. The policies that the new Government implement wil have a large bearing on the course of the economy and the USD so we feel it is best to wait and see. The risks of a recession are quite high at the present and we are sitting on an allocation that represent that scenario.

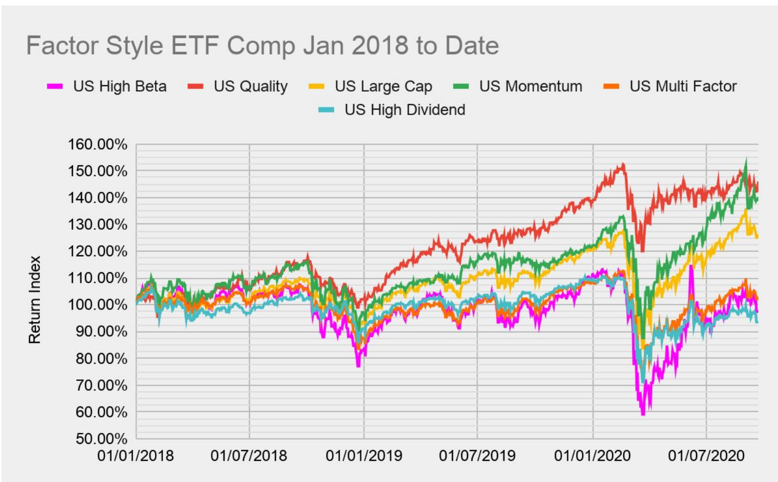
US Growth a similar style to momentum, has outperformed on the year and international styles have both had negative returns. The US economy has proved to be the most dynamic and flexible over the last years, probably due to the reduced regulations. Moving forward the policy with respect to this facet of the economy will indicate what the future will look like. It appears that Europe has no intent to lessen regulations, if anything they may go the other way.

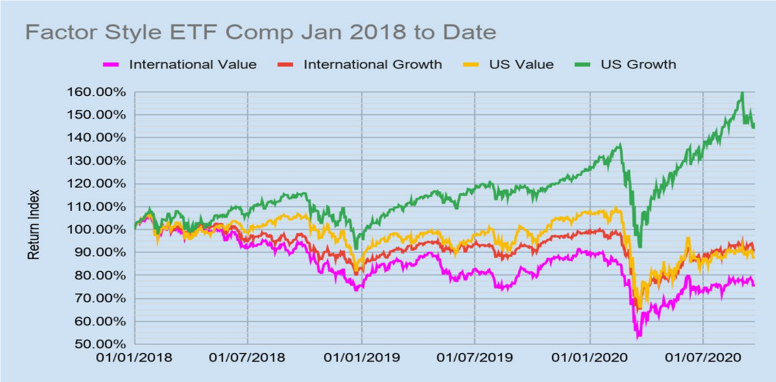




Equity volatility has remained elevated since its spike in March, having intermittent spikes along the way. With the election around the corner and volatility still elevated we are very comfortable being defensive here and waiting out the event. The probabilities of growth and inflation falling from here are quite high and we see no particular benefit from having market exposure here in risk assets. Fixed income volatility is very low at present and we would prefer to have exposure here.

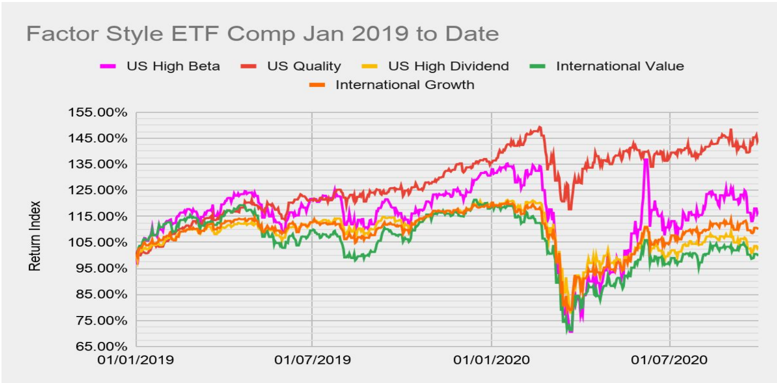
Quality has been the name of the game for the last couple of years and we believe that it shall be so moving forward for the immediate future. With bond yields being so low many people will find themselves being forced into equities over the coming years to gain the income and we would emphasize that quality is the place to be. Other styles will come into their own as the nature of the economy changes over time and with policies that are implemented. We must wait and see what these are to be and how they will affect the system.

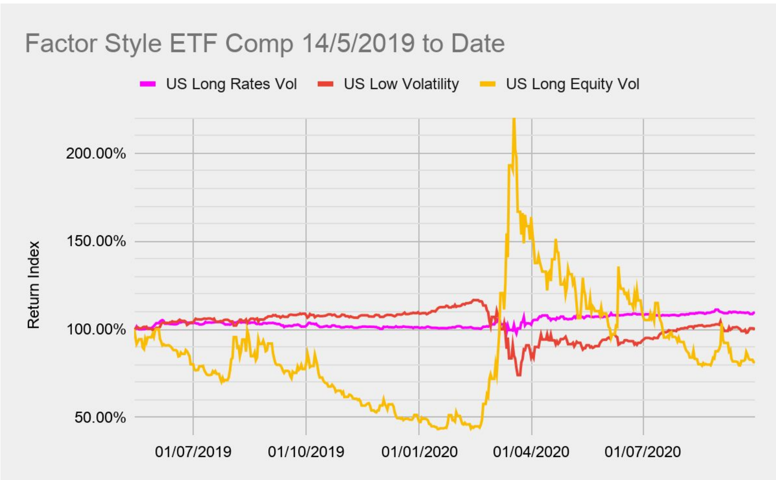




This just reinforces where the play has been over the last few years. Until there is a fundamental shift in the underlying economies this trend seems destined to continue.Both have many challenges to overcome it is a matter of which you feel is best placed and structured to be able to overcome these challenges. For our part we still do not see Europe having the structure to be able to easily cope with the challenges that lie ahead of it.

Over the last couple of years from January 2019 after the last big drawdown US quality has been a consistent performer with relatively small drawdowns in March of this year. The other styles highlighted here have had varying performance. It is interesting to note that investors looking to gain income fromHigh yield equities have not fared very well over this timeframe. This should be noted when considering using equities as an income replacement strategy.





This clearly demonstrates that owning long equity volatility ETFs over a long period of time is not a good investment theory. However owning it for short periods of time can be very profitable. We are constantly monitoring market volatility as price volume and volatility are important facets when evaluating markets. The long rates Volatility strategy can provide much needed stability to a portfolio and should be considered by all. It is important to look for uncorrelated assets to provide protection for your portfolio. Bonds may still offer this but to a lesser extent than before.

Summary : September saw a little bit more volume and volatility, with an adjustment in markets. The Saudis lower oil prices on seeing a lack of demand in the markets.The FED said there would be no rate rises until 2023, and they wish to average their target on inflation; they will need to get some before they can average it. They have not clarified how they will get inflation, but everyone seems to believe they can do it even though they have not been able to do it for the last 10 years. They have been aggressively buying TIPS to try and help the inflation narrative, all of this is psychological and at some point the reality of the situation will come home to roost. If there is deflation you will see them panic. More issues arose with Brexit and the time is running out to get a deal. The virus cases seem to be picking up in Europe and around the world causing the recovery to falter. Issues have also arisen about the European fund and how quickly they will be able to get it implemented. The same story in the US with a further fiscal package maybe not coming until next year. All of these point to the fact that it may be a long cold winter in economic terms. We are positioned defensively and plan to stay that way for now.

Money: Creation & Destruction

Creation - This is done by commercial bank lending, the money is lent into existence. A person will go to their bank and ask for a loan, the bank will conduct an assessment of the potential borrower and if they are satisfied the “money” will be credited to their account and on the bank’s balance sheet they shall place an equal asset. Thus the money is created.

The question that is of great importance is can the Government spend money into existence?

The government increases their spending, this happens first, to account for this the government issues debt. The markets buy this debt. They buy this debt with money that is already in existence. The Fed will then purchase the debt from the market (Commercial banks and financial institutions that have accounts with the FED). But the FED pays for this with bank reserves which the commercial banks cannot use directly for normal economic transactions they must stay with the FED. So although the FED is buying the US government debt or spending it is not doing so with what is commonly recognised as “money” it is doing so with bank reserves. Banks only receive 0.1% on their excess reserves held at the FED so this is not an attractive trade for them unless they can turn a profit on the buying and selling transaction from the Government to the FED.

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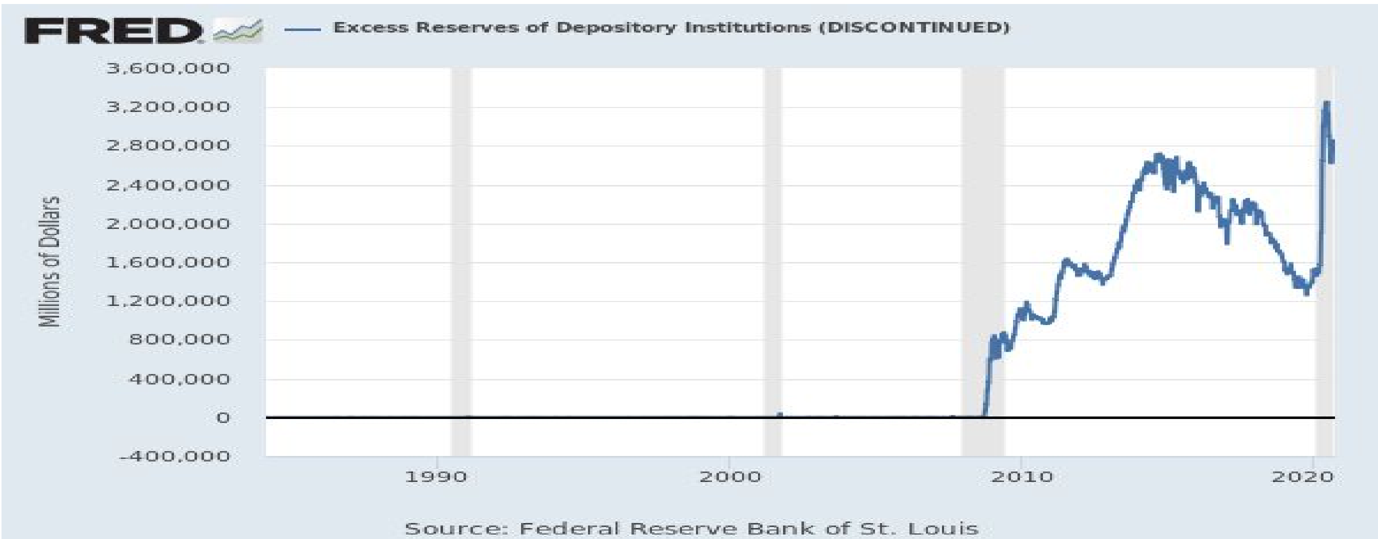

The excess reserves of banks have exploded since the GFC and the Covid pandemic but these are not “money” as we recognise it. The banks cannot spend them or lend them into the economy, they can lend against them if they wish. They can only use these with other counterparties that have accounts with the FED , other banks for transactions in financial assets. This explains the rise of financial assets since 2008 but why the real economy has not also benefited. In reality as it needs real “money” to purchase the government debt in the first place the whole process actually can be seen to drain money from the economy. It is arguable that commercial banks can purchase the debt from the government with reserves as the government also has an account at the FED. However pensions and funds do not and these also buy and sell lots of Government debt.

Destruction - This is the opposite of the money being lent into existence, when the money is repaid the money is destroyed, the asset and the liability disappear from the balance sheets of both the lender and the borrower.

In normal circumstances loans are constantly being repaid, therefore for money in the system to increase the new loans must be larger than the loans being repaid. If we consider a normal loan the borrower must repay both interest and principle, in a low interest rate environment the interest portion is smaller and the principle amount larger for each payment. Thus the principal is repaid more quickly if the payment instalment is the same. Normally the payment installment will be less in a low rate environment and the duration of the loan will remain constant. However what often happens in trying economic times is that those capable of repaying the principal more quickly have a tendency to do so to mitigate their risk in the future.
If this happens then new loans will have to increase even more as there is more being repaid, this happens at a time when lenders are not keen to issue new loans due to their risk assessments. So the outcome can often be a shrinking of the money in the system.

This goes against what most people see as the process of QE injecting liquidity into the system.

For there to be an increase in new loans the interest rate has to fall to attract new borrowers.

Summary - QE drains liquidity from the real economic system, causes asset price appreciation and forces lower interest rates

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

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