When?

"The art of financiering consists principally in multiplying and confusing accounts, till, at last, no one has courage to undertake an examination of them." William Cobbett "The Budget" 1805

"I imagine that Ben Bernanke, Mario Draghi and Haruhiko Kuroda all stay awake at night imagining ways to force negative rates on savers. But the larger question, beyond a sociopathic desire to control others in service of one's own intellectual dogma, is why anyone would advocate such policies. I can't emphasize strongly enough that there is no economic evidence that activist monetary intervention has materially improved economic performance in recent years." John Hussman 2016

The effects of quantitative easing may be diminishing compared with a few years ago, but "what we should say is, 'Effects are diminishing, so let's do more.' This is the spirit of Abenomics." Etsuro Honda, an advisor to Japanese prime minister Shinzo Abe

William Cobbett would no doubt be amazed at the level of "multiplying and confusing" that is practised by the central banks and the general banking system at large. Large perhaps not being an adequate description of say the Fed's balance sheet, investment banks' derivatives' books or unacknowledged bank bad debt all of which are up there in the trillions.

John Hussman has dared suggest that the emperor has no clothes. It is no mere suggestion, but fact, that quantitative easing, negative interest rates, deployment of helicopters (do they know how expensive it is to fly helicopters?!) and other sundry methods, designed on the back of a fag (cigarette to our US readers) packet, to normalise economies, has failed. Unless of course your goal is to inflate the stock and bond markets to levels of over valuation that will ultimately lead to a crash, which of course our heroic masters of the economic universe will fail to see coming and will have very little ammo left to do anything about.

The question is of course, "When?" With any degree of accuracy, it is an impossible question to answer. Etsurosan is typical of his breed confidently predicting that more of the same will work…eventually – beatings will continue until moral improves etc etc. Japan has been subjected to 25 years of monetary experimentation and has little, and that's being generous, to show for it. GDP is barely above 1991 levels and the mean growth rate is less than 1%. The Nikkei was over 22,000 and interest rates were 6%; today they are 16,500 and minus 0.1%. The only thing to have gone up is the BoJ's balance sheet from under Yen 1 trillion to over Yen 4 trillion and, as if that weren't enough, they want to do more!

Super Mario, the president of the ECB, not to be confused with Shinzo Abe the PM of Japan, who donned the Nintendo "suit" at the Rio closing ceremony, cannot sport any better credentials. Doing whatever it takes has produced some growth in the Club Med economies, but given how low growth had got down to, that would have happened anyway. The economies of Germany and France are struggling to get any meaningful traction 7 years into the "recovery" phase.

Janet Yellen & Co seem to be afraid of their own shadows, having raised rates last December and then blinked. The data in the US is just as patchy as in Europe with the numbers from the Bureau of Labor Statistics about as believable as Team GB coming second in the medal table – no wait – but you get my gist. Will they raise rates again this year? Probably, maybe, who knows?

Carney has cut rates at the BoE in the belief that Brexit has unleashed Armageddon, as the Remaindeers would have you believe. Brexit has been blamed for anything and everything. The only worry in this corner is that it won't happen at all. ComeWhatMay seems more than reluctant to invoke Article 50 and is undoubtedly getting support from across the pond, where their European "diplomatic initiative" would be in tatters if we do actually leave, with the threat of France and Italy following suit.

The central banks can keep this Ponzi scheme going for a lot longer than you or I can remain solvent by betting against them, but ultimately it is their solvency that is the issue. Whilst they continue to make things as complicated for folk to understand as Cobbett implied, maintain the narrative that "they have got your back" and "muddle through" as John Mauldin is wont to say, then they will hang on to the illusion of control.

However, when, not if, a true black swan event comes out of left field, then the bond, equity and real estate markets will find that they have been priced for perfection and the down draught will be a sight to behold. Whilst we wait for the dénouement, where do we put our hard earned cash.

Winning by not losing is a maxim that springs to mind as being eminently useful for this predicament in which we find ourselves. If you want to invest in negatively yielding debt, feel free; free of any return that is. Equity prices have been bid up by corporate management borrowing at insanely low rates and buying back company stock, as opposed to investing in research and development, which is what the central banks want them to do. They would have done, had interest rates been at meaningful levels, where improving efficiency was the better way to earnings growth, rather than the artificial accounting sleight of hand we have at present. Other than deep value equity plays, this market, too, is for the birds.

Real estate has been one of the bond proxy's for those seeking yield, which is pretty much all of us, but reality is returning to real estate. The great residential property boom looks to be ending with significant corrections in Vancouver and parts of Oz. London has maintained some degree of order as a weaker pound has made it relatively attractive for foreign buyers, but the sheer amount of new properties going up makes parts of the metropolis look like China New Town. Commercial property is all fine, allegedly, but the market place is changing rapidly as the internet of things changes our shopping and working habits. Retail, office and industrial property ownership is going through a significant sea change; not everyone will come out of this on the right side.

So if not there, where? Hedge funds have been getting a bad press as they have not performed as well as pure equity funds. Guess what? That's what they do when equity markets go on a tear! The FCA has launched an inquiry into whether they represent value for money, so folk will in all probability be put off just at the time when they come back into their own. Remember the reasons for buying an asset; these funds, and trend followers (CTA funds as they used to be known) in particular, are insurance policies against market instability. If the monetary base continues to be compromised by the central banks then the only real currency is another must; gold of course. There are still pockets of the equity markets where deep value can be found, but if you have to hold equities in general make sure you build in some optionality into your portfolios.

Where might this elusive black swan appear? China? Nobody except Kyle Bass thinks they will devalue the yuan in a rush, but will take their time as is their nature. Kyle is a Texan and branded by all those who "know better" as the archetypal Stetson wearing article. Those who really do know better and know the man himself realise that his admonitions are based on logic and experience that only a few possess and have more than a fair chance of happening; sooner rather than later. The US? If Hilary wins it will be the same old same as, but a Trump in the White House could have more unintended consequences than the fragile infrastructure can bear. Europe? We have a plethora of insolvent banks in the EU. Draghi can probably fix the Italian Job, but any fall out across France and Germany might be impossible to contain. There could be more defections from the EU. Le Pen is gearing up the French right and Renzi, the Italian PM is nearly as unpopular as Hollande. When the natives get restless things tend to change pretty fast. And we haven't even mentioned Russia, the Ukraine, Syria and many more potential bear traps besides.

We truly live in interesting times do we not?

Clive Hale –The View from the Bridge – August 23rd 2016
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