

36 South Views

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Card sharps...

During the South Sea Bubble in the 17th Century, a set of playing cards were produced with pictures and an explanatory phrase lamenting the mania...

"The headlong fools plunge into South Sea water

But the sly Long-heads wade with caution after,

The First are drowning but the Wise Last

Venture no deeper than the knees or wast.

The Three of hearts ...

An upstart to the Heralds office flies,

Grown rich in stock, a Coat of arms he buys

But fatal South Sea falling to the ground

Does all his new Gentility confound.

The Eight of spades...

A rare invention to destroy the crowd

Of fools at home instead of fools abroad

Fear not, my friends, this terrible machine

They've only wounded who have shares therein"¹

...on this I really believe this time is different as central banks are complicit in the manufacture and perpetuation of this bubble.

They make fascinating reading and the rhyming to today's markets are inescapable. It definitely feels like the blow-off phase of a mature global bull market. No one knows the name of the snowflake that creates the avalanche, but the snow is precariously perched on the mountaintop.

Governments extend and pretend to backstop the global economy against the effects of COVID-19 using our children's and grandchildren's money and the tenuous faith in the creditworthiness of the central bank and the fiat currency they represent. The moral hazard between doing what is convenient and what is right is clouded in ethical fog.

Equities spiral upwards and upwards with Buzz Lightyear's mantra "to infinity and beyond" echoing in the stockbroker's digital chambers.

Elon Musk, the modern day John Law, ably assisted by the Robin Hood, cheerleaders of the latest rally, create value out of thin air daily.

¹ 1720. The South Sea Bubble. [Print, playing cards] The British Museum, Schreiber. London (England).

Everywhere it seems the greatest lies are the most believable.

We used to laugh out loud at the South Sea Bubble promoter which floated "a company for carrying on an undertaking of great advantage, but no one to know what it is." SPACS are now so ubiquitous it does not even raise a murmur.

Bonds begin to faint in dismay. Bond vigilantes being a very rare breed have my respect, if not my money...yet.

Biden, wielding control over all the decision-making government apparatus, seems determined to electrify the MMT Frankenstein in 2021. Like a new age parent, he will hand out party packs that have never been seen at any kid's party ever. Sugar highs do not last, as any parent will know who has tried to put his kids to bed after such a party attests.

Bitcoin?

It looks like a top is imminent if my fail-proof "shoeshiner tell" holds. Just as a famous supermodel demanded her salary in Euros at the top (1.62 or thereabouts), so too has an NBA star demanded his salary in bitcoin. This is closely followed by another reliable tell of having a credible source quote a price target more than 200% of the current price. A very credible bank gave 146k as bitcoin's target. The physics envy of being that precise adding to the gravitas of the prognostication.

In the absence of growth and in the event of significant inflation, which I deem probable, only two possibilities would then exist, the equity markets fall from their nosebleed levels or respective currencies fall in value, if not relative to each other, relative to real assets. Interest rates will stay lower for longer citing employment and the tepid economy but this inaction will only worsen the situation later analogous to the deleterious consequences of government's slow response to COVID-19 in the early stages.

The only comfort I can find in today's financial backdrop is the fact that we are long volatility, the probability of its imminent return growing daily.

We are going to need a bigger boat...

Disclosure

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