36 South Views

BY RICHARD "JERRY" HAWORTH

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We are in interesting times!

The Reddit phenomena is in full swing and it feels like a revolution worthy of the Les Misérables moniker.

Do you hear the people sing?[1]

Singing the song of angry men?

It is the music of the people

Who will not be slaves again!

When the beating of your heart

Echoes the beating of the drums

There is a life about to start

When tomorrow comes!

[Combeferre:]

Will you join in our crusade?

Who will be strong and stand with me?

Beyond the barricade

Is there a world you long to see?

[Courfeyrac:]

Then join in the fight

That will give you the right to be free!

[Feuilly:]

Will you give all you can give

So that our banner may advance?

Some will fall and some will live

Will you stand up and take your chance?

The blood of the martyrs

Will water the meadows of France!

1"Do You Hear the People Sing?" from Les Misérables

Les Misérables

We are experiencing this in real time and the barricades are manned and the battle continues…

Unfortunately, like all revolutions, the people who pay the highest price and take the most risk will probably end up losing the most… I hope not but history says otherwise.

The phenomenon does say a lot about the anti-establishment rage, the power of social media and the mania we find ourselves in and probably a lot more.

Cooperation and fairness are the cornerstones of modern society and when people sense they have been treated unfairly they stop cooperating.

Watch the following video to see this phenomenon vividly:

"Capuchin monkey unfairness experiment" - https://www.youtube.com/watch?v=meiU6TxysCg.

Inequality is a natural concomitant of unrestrained money creation; those closest to the money spigot get the lion's share. Inflation, either in the financial or real asset markets, is another natural concomitant. Financial asset inflation is already here, real asset inflation is lagging mainly because of structural deflation drivers, but it is coming to a local store near you.

Both these potential consequences will only serve to make people angrier and angrier as inflation exacerbates inequality.

Central banks have stated they will be behind the curve in tackling inflation. They will start to benchmark against "average" inflation, which to my mind is inherently dangerous as inflation tends to follow a power law, and expecting mean reversion and getting a power law is a recipe for getting way behind the curve.

We have had decades of the best kind of inflation one could wish for, prices going up in the places one stores one's money and prices going down in the "real" economy, so when you get to sell your financial assets to buy "real" assets they are relatively inexpensive.

I suspect that will change in the future…

The price of real "stuff" going up and up, and the relative financial asset prices going down.

Admittedly I am biased. My father invested his retirement totally in bonds and went bankrupt in 2 years as inflation hit. I reserve the most scorn for bonds; I can't for the life of me understand the 40 side of the 60/40 portfolio at present price levels. It is like driving a car with a deployed airbag, assuming it will work again in the event of an accident.

Yields are too low to provide any reasonable diversity or negative correlation. In fact, bond and equity prices might reasonably be expected to go down together.

And if that wasn't enough, central banks have essentially told you what they intend to do via financial repression and the pursuit of inflation to the value of these instruments?

But as I like to say, I'm often wrong but never in doubt!

[2]*Turning, turning, turning through the years*
Minutes into hours and the hours into years.
Nothing changes. Nothing ever can
Round about the roundabout and back where you began.
Round and round and back where you began!

2"Turning" from Les Misérables

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