

The financial vaccine

I watched a video recently that stated COVID vaccines are a ticking time bomb. Rushed to market under the cloak of a crisis (and indemnity), the second and third order effects on multiple health issues are unknown and where it is known, it is downplayed.

I'm not a scientist and can't comment about the validity of this, but it made me think of the analogy to what central banks are doing.

Rushed to market under the cloak of a crisis, QE, exponential CB balance sheet growth, and all the other bewildering array of acronyms denoting throwing money at the latest crisis, is simply staggering.

Yet is this a world first for this type of activity? I suppose not when you consider war funding, the Mississippi bubble and a myriad of other financial shenanigans in some developing and dictatorial nations. But it *is* a first for a peacetime crisis in developed economies and, as such, we assume it will be different. We know better than those tin pot dictators, we have thousands of PhD's working on it.

Where we do know the potential downsides e.g. wealth inequality, inflation, it is downplayed and portenders of doom are publicly shamed whilst indentured academics fearing their loss of position and reputation publicly endorse it.

My gut instinct tells me you can't Rumpelstiltskin the economy i.e. weave gold out of thin air, like vaccines. Whilst nobody knows how this experiment is going to play out, it gives one the same feeling as leaving your house to your teenagers for the weekend.

The person speaking on this video clip felt he knew, it is going to be the biggest disaster to befall humankind such is his belief of the potential long term damage to people's health and to add petrol onto the fire he basically said the crisis wasn't nearly big enough to demand this kind of response.

Was the financial crisis of 2008 and 2020 big enough to warrant the central bank and government fiscal support that came soon after?

I know that if I was a 20 something I would say no.

I would have liked the opportunity to get into the housing market in 2009 onwards at realistic levels where I didn't have to lever up to the point where two percent interest rate hikes would blow me out of the water.

I would have welcomed a reset where the "oldies" disgorged their asset rich portfolios at basement prices. Where zombie companies failed and interest rates acted like they should, a switching valve from unproductive assets into productive ones.

Even as an oldie myself I find the whole notion of investing at these levels intrinsically painful as I know there is potentially an awfully long way to fall if perceptions change.

The whole financial landscape has become one big meme stock where you close your eyes, invest and pray.

Fortunately I have the privilege of running a volatility fund. Volatility is cyclical, it is inevitable and the odds run in the investors favour if one buys longer dated volatility, counterintuitively to the crowd i.e. it is low and therefore cheap.

Nothing is cheaper than currency volatility at the moment, even out to 10 years. As I am often wont to say, long dated volatility is the canary in the coal mine for the underlying asset. This phenomenon has its basis in underlying behavioural biases and it is a very reliable indicator of, firstly, much higher volatility and, secondly, a potential change in the trend of the underlying asset.

Can countries align their relative real and financial economies so exactly in the next few years given the markedly different approaches to the COVID crises? I would be surprised.

That is assuming the next crisis is COVID related. Inflation, weather and many other factors can all morph into black swans at any time. A real black swan would be the disruption to the internet, the basis now for pretty much all financial and logistical systems in the world. Whilst not being a techie of any note, the possibility, however small, must be there. Such is the nature of developing complex systems, they are much more efficient and effective within one standard deviation from the mean but are fragile at their tails.

I don't have to volatility fantasise about the real world black swans, the financial arena should provide more than enough excitement in the coming years given the uncertainty the "financial vaccine" has engineered into the system.

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