



Marching towards the dragons

This particular couple of lines from a *Kamikaze* death poem struck a chord in me...

We are always moving away from something.

We are always moving towards.

Kamikaze death poem, unknown author*

We have been steadily moving away from the debt and consumer spending abyss of 2008. There be dragons... and we don't want to fight with dragons.

We remember how close we came to the total demise of the financial system, with its attendant debt implosion, destruction of wealth and spending power and the onset of depression/war/misery, and so we march as fast as we can in the opposite direction. In order to achieve this, central banks have assumed leadership and have so far effectively averted our date with dragons for nearly eight years through radical monetary policy implementation including zero interest rates and QE.

What are we moving towards?

- A distorted financial system which, at least optically, keeps GDP positive.
- Bloated asset prices which disproportionately favour speculators and rentiers.
- Infinite borrowing capacity for the largest institutions, including the governments, resulting in exponential growth in regulation and bureaucracy.
- Distorted merger and acquisition activity and equity buybacks based on widely disparate costs of borrowed capital.
- Artificial suppression of volatility to give the appearance of a sound financial system.
- Pension fund shortfall problems (mild understatement) as pension funds and retirees alike cannot find any yield in the world without taking inordinate risk. Their assumption was they that could build capital relatively safely by compounding.
- Millennials' disillusionment as most of their meagre salaries get swallowed by landlords.
- Middle class disillusionment as costs keep rising in spite of a low official inflation rate which is used as the benchmark for salaries.

What is particularly confusing is the apparent abdication of the basic laws of motion as applied to finance and money:

- Governments declare negative interest rates; their currency appreciates.
- Overall earnings fall for equities; equities rise.
- Threat of a credit crisis grows; bond yields fall further.
- Gold appears mute, deaf and blind to all the transmutations of the financial world.

One gets the feeling that we are going to arrive at the same place post 2008 as we would have without intervention, just later. Can anyone else smell smoke?

The falcon cannot hear the falconer;

...

The best lack all conviction, while the worst

Are full of passionate intensity.

The Second Coming, William Butler Yeats

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