

BY RICHARD "JERRY" HAWORTH

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## Tick tick tick.... all the boxes

The real economy versus the financial economy... Real economy fading fast whilst equities are rallying?

I now understand what it must be like to be in a relationship with a pathological narcissist who keeps on gaslighting you until you have a very fuzzy idea of what is reality and what is not.

The falling economy is understandable, but the rising equity market is not.

Government financing needs are definitely crowding out the private sector. Banks offer 1% on their savings deposit rates whilst governments offer 5% and they wonder why they are losing deposits?

As they lose deposits, they restrict lending and, where possible, call in their loans. Not conducive to a vibrant real economy.

Inflation and higher mortgage costs have hamstrung the consumers. Check out the plummeting Johnson Redbook Index<sup>1</sup> of same store sales to get a jaw dropping pictorial.

Maybe this is what governments actually want. Trash the real economy to such an extent that nascent inflation, whilst not extinguished, is hidden by rapidly falling prices, whilst businesses struggle to keep revenue and earnings up in order to survive. Once the real economy is well and truly on the mat, central banks can ride in on their white horses and reduce interest rates, claiming multiple victories. Government finances massively benefit from these lower rates as well. Just saying.

It is a plan. Only problem is that a cursory glance as history will show that it ultimately makes the problems worse down the road. Inflation tends to persist in spite of deflationary real-world conditions, and then one has the worst of all worlds. High inflation, no growth, or worse.

Once this happens, governments expenditure must now increase to boost fiscal spending to compensate for a moribund economy, as well as to fund increased social benefits. They must borrow more and more and more.

China is in the same boat as they struggle to keep their property sector afloat at all costs, as the majority of citizens' wealth is tied up in property. Popularity rates for politicians and property prices go hand in hand in China.

"Whatever it takes" comes to mind here.

This can only mean one thing, more monetary inflation there as well.

So, investors have taken refuge in the equity market but only in the super caps, as they know the smaller companies are going to struggle to produce any real earnings growth. They also seem to sense that inflation is here to stay and, at least nominally, they can hold some sort of value with equity exposure.

And thus, we get a major aging bull market indicator... Narrowing of the leadership. Tick that box.

I wonder aloud whether the reasons for a narrowing of the leadership at the blow-off stage of a bull market are always the same as this one, or whether they differ every time? Does it really matter if they are different?

Volatility is also falling rapidly, which is another indication counterintuitively. Volatility tends to be at its lowest around big cycle tops and bottoms. When long dated volatility starts to plumb the lows, the canary in coal mine falls off its perch gasping for breath. Nearly tick that box.

Meme mania? Add it to the aging bull indicator list. AI has all the hype of a famous celebrity's private equity venture and probably the same substance. Tick that box.

I don't have a crystal ball, but there is a lot of rhyming apparent with this bull market and other late stage bull markets of old.

Tick, tick, tick....

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<sup>1</sup> <https://tradingeconomics.com/united-states/redbook-index>