



## Oracle of Delphi

*The inexorable 30 year path to zero interest rates globally is rapidly arriving*

Given this information 10 years ago, one could have probably forecasted share buybacks, a raging equity market and bond market, burgeoning government deficits and robust GDP growth. One could have reasonably expected runaway property markets and low volatility.

But certainly I would have forecasted rising real inflation and commodity prices, however to date the opposite has been true. Why hasn't Japan, the first to reach the zero bound, bought all its fuel requirements 30 years forward at today's prices? Or everything else it needed in the future for that matter?

Ditto for Europe.

I just don't know.

Well, the fact that we haven't had inflation rear its head and the fact that commodities have remained low is actually wonderful news. It means the best kind of "flation" ...inflation in what we invest in while when we get to take it out and spend it, everything is the same price or cheaper! As opposed to stagflation where what we invest stays the same or goes down and when we get to take it out and spend it everything is much more expensive!

So why get out the queue for a free lunch?

Ultimately it is a game of musical chairs, we want to participate in the financial market melt-up until the music stops and then find a seat in the real world before everyone else. The real world is where we live ... where we sleep, drink and spend on things that we imagine will make us happier or at worst make our misery more comfortable.

There are more and more people dancing in the financial world, but fewer seats in the real asset world... we instinctively feel that...

Will it end? Probably.

Why?

When ancient Greeks and Romans needed to make important decisions they would consult the gods. Famously men would make the long and difficult trek to the temple of Apollo at Delphi to seek advice, there the oracle would tell them the right choice for their future, or the future of their city or kingdom.

Interestingly, only two messages have survived on the entrance to the Temple of Delphi: "Know thyself" and "Nothing too much". It seems today's central banks have not made such a trek, and perhaps not been told the right choices for their countries' future regarding just how much could be too much.

We should encourage leaders and central banks to do the journey!

"Nothing too much" essentially means "everything in moderation".

Where we are and what is coming down the line does not seem moderate by any stretch of the imagination. And we suspect this excess will cause stagflation to emerge. The incentive for everyone to overspend is now overwhelming...modern monetary theory, massive fiscal spending using deficits, universal income, and lower tax rates to name a few.

Corporate leveraging of balance sheets way past what is prudent.

Individuals ramping up on the risk curve to leverage themselves in the property and equity markets.

And this excess or absence of moderation will be the Achilles heel globally. Stagflation will probably emerge, at a time we least want it to and later than most, including myself, expected.

By then, all strata of society will be addicted to cheap or free money.

CPI will creep upwards until central banks have no choice but to raise interest rates or stand idly by and watch the decimation of their currency...so the "unwind" snowball (wrecking ball) will commence, tearing at the social and economic fabric as it goes.

Like we tell ourselves after every big party...a little moderation would have gone a long way.

Pity we only realise it the following day.

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