

# 36 South Views

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## **Barbarian invasions would be superfluous: we are our own huns.**

I read one line that resonated like a cathedral bell with me this month.

75% of jobs in the economy are superfluous to necessary living.

I would add that, in my view, a large percentage of consumer spending is also seemingly superfluous to necessary living.

The more the pandemic extends, the more our lives might be streamlined towards necessary living i.e. reduced entertainment, tourism, events, festivals, big social gatherings and, more importantly, reduced spending.

It is happening as we speak.

It feels true AND THE EVIDENCE IS given by the current rate of lay-offs due to COVID-19. E.g. Disney is laying off 30,000 people or 12% of its workforce.

This slack is being picked up by government largesse. In fact, personal income in the US has gone up post COVID-19 not down, mainly due to stimulus relief. Workers are being furloughed which means they get most of their salary whilst they sit at home and wait for the jobs to return.

Governments have constructed a credible delusion that they can continue creating money out of thin air ad infinitum.

This is facilitated by thwarting the natural interest rate (supply and demand of capital) and driving it to zero or near zero.

At zero, capital is free of cost.

The ultimate cost is borne by its diminishing value.

What if the jobs don't return because of the horrible truth that they are superfluous to necessary living i.e. a systemic ongoing crisis?

More and more people will turn to state help, which in all likelihood will be given at least nominally.

My concern is that one day it will be apparent that the government will reach the natural limit of what it is able to do without destroying the faith in its own ability to repay or worse in the value of currency concerned.

This is a well-worn path in history. It ends in inflation, stagflation or deflation/depression depending on government policy response.

The upshot of all of this is clear.

The "tails" of massive if not hyperinflation or deflation in the medium term are normally extremely low probability events. Not anymore. They are currently under-priced in the market given their rapidly increasing probability.

Clever investors hedge against known risk, wise investors hedge against known AND unknown risk (if the price is right).

The market is under-pricing extreme right tail and left tail events (equity left tail is arguably expensive given the US election but good proxies are available).

We have just left a period of multi-year low volatility, primarily caused by low interest rates and central bank suppression of volatility, into what I believe could be followed by a multi-year period of volatility and instability in prices.

Relying on a traditional diversifying 60/40 portfolio for your wealth preservation going forward seems to bear the most "unknown" risk of all.

*The more one considers the matter, the clearer it becomes that redistribution is in effect far less a redistribution of free income from the richer to the poorer, as we imagined, than a redistribution of power from the individual to the State.*

*Sooner or later, a society of sheep must create a government of wolves.<sup>1</sup>*

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<sup>1</sup>Quote attributed to Bertrand de Jouvenel quote