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36 South Views

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The Truman Show of Finance

The Truman Show is a movie about a person, Truman, who was gaslit from the day he was born. He lives his life in a huge bubble-like sound stage and is the main character in a reality TV show. He slowly comes to realise that it is all fake.

I feel like I am in the Truman Show of finance in real time, where nearly everybody is Truman and lives a sort of controlled financial experiment, where reality has to be continually bent to make people believe in financial rainbows and unicorns. Only a few of us are suspicious that it's all fake.

I feel like my whole financial career has been spent unwittingly living in a controlled financial bubble.

But the bubble is tired, it's been nearly 40 years in the making. It takes exponentially more energy to keep it expanding, and the cracks are starting to show. More and more people are starting to notice.

All the politicians strut around as if there is nothing wrong and, even if they suspect there is, they've learnt that narrative, spoken with conviction, becomes the absolute truth.

How do we know we are in a dream? Can we read anything twice?

How do we know we are schizophrenic? Like in the film "*A Beautiful Mind*", do the imaginary characters grow old?

How do we know we are in a bubble? It takes more and more of "something" to keep it going? In this case, money.

I therefore ask a simple question: where would the S&P be this time next year if the US government made a commitment to only spend what they receive? Not a big ask really. Isn't that how governments are supposed to work?

At the moment, they overspend 1 trillion dollars every five months, financed by debt and, failing that, by money printing.

My take is that the S&P would be down by more than 60%. It's just a fly on an ever-expanding balloon of debt.

What happens if the US government can't sell its debt, the proceeds of which are needed to keep expanding the balloon? Either they print the money, or the balloon pops and the fly ends up in the ICU.

If they print the money, the currency eventually pops, but the balloon and the fly are safe in nominal terms. The problem then becomes inflation, or stagflation. Too much folding stuff and not enough real stuff. A paper currency, when faced with a crisis of confidence, tends towards its intrinsic value: zero.

Surprisingly, people get grumpy when their money runs out before the month does, especially if they can blame someone or something. That's when the probability of a regime change, and its accompanying volatility, is at its greatest.

There is always the hope that governments will collectively come to their senses and start reining in spending. No one will get elected on that mandate, so unfortunately, it will never happen.

So, either the bubble has to expand at an increasing rate, or it pops at an exponentially decreasing rate. That is very definition of volatility.

So, if history is any guide, we feel quite comfortable suggesting volatility exposure in any portfolio, if bought at a reasonable price.

If the real economy takes deflationary fright, volatility will increase.

If the financial economy takes inflationary flight, volatility will increase.

Heads you win, tails they lose.