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36 South Views

By Richard “Jerry” Haworth

God laughs when we make plans

I wrote over the last two months of ominous technical signs in the equity market, suggesting that some very significant juncture had been reached.

Well, in a NY minute, the geopolitics exploded with the invasion of Iran. I don’t think I have ever seen, in my 40 years in the markets, such a confluence of signals and events.

What remains is to try and work out what it means.

The technical signals point to some multi-decade event; inevitably bearish. Hence, I am sceptical of the short war hypothesis, without any basis in fact.

Unintended consequences have a habit of creeping up on the original plan and ambushing it.

Hence, I stick with my original prognosis for this year… a liquidity crisis where all assets retreat in price, including bonds, equities, private credit, private equity, gold, silver, crypto and commodities… confounding market participants, who may be left looking for winners amongst the debris.

Sometimes the biggest winners are the ones who lose the least.

Not so for long volatility. This could be the perfect storm of opportunity for multi-asset, long dated volatility portfolios.

Volatility itself appears massively underpriced, given the risks that are roosting on the roof.

Asset prices may be set to fall much further than the common garden variety of 5-15% or so we have become habituated to witnessing.

Again, a boon to long dated options, which gain when asset prices fall, and volatility rises.

We spend years trying to convince traditional asset owners of the benefits of tail risk hedging strategies. Invariably, the markets themselves prove to be a better teacher.

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