IceCap
Asset Management Ltd.

Our view on global investment markets:

February 2018 – "The Halftime Show"

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It's Spectacular

For many, the Super Bowl football game is a rather odd event.

To begin with, Americans claim the winner of the big game to be the world champion – despite never defeating the best from Europe, Asia, or Africa.

Next, most of the Super Bowl games are duds. Aside from the crowd pleasing 5 victories by the San Francisco 49ers, and the crowd pleasing 5 losses by the New England Patriots – most games are forgettable.

Now, this lack of competitiveness, isn't necessarily a bad thing. After all, for most people the game is secondary to the entertainment including the commercials and the Halftime Show.

The first ever Halftime Show in 1967 featured dogs leaping through hula hoops and catching Frisbees. Everyone agreed it was pretty cool.

In 1974, the Halftime Show scored a huge win when Miss Texas, Judy Mallett, played the fiddle to the 74,000 stomping fans in Houston. THAT was a good time.

Over the years, the Halftime Show developed into something bigger than the game itself, with the more memorable ones featuring wardrobe malfunctions and the ability of the Americans to actually make it rain while legendary rock star Prince sang about rain.

And with the possibility of reuniting the Gallagher brothers and Oasis for next year's final gig – the Halftime Show will cement itself forever as being the greatest show on turf.

As the Halftime Show literally occurs smack dab in the middle of the game – it should signal the mid-point of the big event.

Yet, in reality the 2nd half breezes by fairly quickly with the outcome usually well decided and well accepted by everyone glued to their screen.

The irony of course, is that this year as millions prepare to enjoy the big show, millions of investors are simultaneously wondering if financial markets have also reached their very own Halftime Show.

Naturally, with stock markets hitting all time highs, and Bond yields hitting all time lows – very good arguments are made supporting a significant change in direction for each market.

And as life imitates art, it is reasonable to believe that the 2nd half of financial markets will zoom by just as fast as the 2nd half of the Super Bowl.

So, to be safe. Buckle up. Strap on your helmet and pads. And get ready for the 2nd half of global financial markets.

It's a show you won't want to miss.

The Multiplier Effect

US Tax Cuts

One word – ENORMOUS.

Yes, despite all the growlings and howlings from both political rivals, and sovereign economic rivals – the recently announced American tax cuts are tremendously good for the US economy.

This is good.

And yes, just as proclaimed by many, these very same tax cuts will add significantly to the American debt pile.

This is bad.

Yes it sounds confusing, so let's take a minute to clarify the good and the bad. Remember – here at IceCap we are not American voters, and we shed our emotions and pause our personal belief systems when assessing geopolitics (something EVERY investment manager should be doing by the way).

First the good. From the most simplest perspective – the more money you have in your pocket the better.

We have yet to meet anyone on this planet who would not accept more money in their pay cheque due to lower taxes.

More money means more spending, more savings or faster debt pay downs.

When this is multiplied across all of America, the aggregate amount is very, very large and significant.

And, when you next consider the tax savings at the corporate level multiplied across all of America, the aggregate amount is bigger still.

The two amounts together create a powerful wave of economic stimulus not only for America, but for the world.

Some argue that the rich people are getting richer, and the wealthy companies are getting wealthier.

This is irrelevant.

If you are against the tax cuts and disagree, you are always welcome to pay more to the IRS than what is required. Yes, there's no law saying you can not make extra contributions to the US Treasury.

Any takers?

Regardless if the tax savings are spent buying Budweiser, pinot noir, stock buybacks, or yachts – money begins to flow through the system creating a multiplier effect which leads to even more spending and savings.

Not convinced? Consider recent comments from the world's largest investment manager Blackrock Inc.

Money has no feelings

Theory is becoming reality: **companies have already started giving us some insight into the transmission mechanism of tax cuts into the real economy via the supply side, consumer confidence, bank lending, corporate profits and further investment …**

Today the supply side impact (capex + hiring/retraining) may be shifting even higher!

*APPLE SEES REPATRIATION OF TAX PAYMENTS OF ABOUT $38B
*APPLE PLANS TO ESTABLISH APPLE CAMPUS IN NEW LOCATION
*APPLE SEES INVEST OVER $30B IN CAPEX IN US OVER NEXT FIVE YEARS
*APPLE:DIRECT CONTRIBUTION TO US ECONOMY OVER $350B OVER 5 YEARS

… and the tax bill may already be getting pushed down to workers

Walmart raises basic hourly wage to $11 on tax cuts
JPMorgan to Make $20b Investment in Employees over Five Years
*JPMORGAN EXPANDING PHILANTHROPIC INVESTMENTS BY 40% TO $1.75B
*JPMORGAN FURTHER INCREASING WAGES TO BETWEEN $15 & $18/HOUR
*JPMORGAN HIRING 4,000 EMPLOYEES IN NEW U.S. MARKETS
125,000 Disney employees to receive $1,000 cash bonus due to tax reform

Source: Blackrock

Also consider that Blackrock is controlled, and managed by Larry Fink who squarely supports the American Democratic Party, and is certainly no fan of President Trump.

Above is captioned from Blackrock's February 2018 Market Outlook.

In other words – if one of the biggest non-supporters of the US President can check his personal political perspective at the door, then maybe your manager should do so too.

As well, there are countless other company specific data points all supporting the same effect – people everywhere are receiving back more money due to the Trump Tax Cuts.

Now, it's also rather important to understand the significance of these tax cuts from a global perspective.

Understand that America is a pretty big butterfly – and now that it's flapping its enormous economic wings, the effect will absolutely be felt around the world.

For starters, and to really gauge the effect of the US tax cuts, simply listen to the response from America's economic competitors and you'll find never ending cries of unfairness.

Trump's Tax Plan Triggers Ire From China to the EU

By Mark Deen, Birgit Jennen, and Viktoria Dendrinou
December 5, 2017, 10:45 AM AST Updated on December 5, 2017, 11:46 AM AST

Go to where the puck will be

President Trump may be many things. But make no mistake, he is a business person who understands the art of a competitive advantage.

The rest of the world (and especially Europe, and Canada) pushes higher taxes on individuals and businesses as a way to pay for high-cost, government welfare states.

Since all multi-national companies are profit seekers, establishing various business centers in low cost jurisdictions has always been (and always will be) a rational business strategy.

And, depending upon your perspective, it gets better (or worse).

Not only is America lowering taxes; it is also lowering the source of the biggest corporate headaches and grief in the real world - bureaucracy and regulations.

And considering the European Union is the undisputed champion of rules, regulations and policies – the mere thought of operating in a jurisdiction with less (instead of more) is enough to make even the French take notice.

It should be clear that the call for lower taxes and less regulatory/bureaucracy demands, is at the very least forcing companies to have meetings and discussions about possibly relocating or making capital investments in America.

While Europe & Canada are really worried about being less competitive, China has a completely different reason to worry.

China runs an enormous trade surplus with the United States. This means China sells more stuff to Americans than what Americans sell to the Chinese.

And years of doing this means China has accumulated over $1.2 Trillion in US Treasury Bonds.

Some believe China is on the verge of selling its Treasury holdings, which would cause the USD to decline sharply. These people believe China is fearful of deteriorating American fiscal positions as well as the desire to dethrone the US and become the world's reserve currency.

This is wrong.

In fact, China fears the exact opposite. The Chinese are incredibly worried that America's new approach to trade combined with lower taxes and less regulatory hurdles make it a prime destination for foreign capital that will actually siphon even more Chinese private capital out of the country and into America.

This of course would weaken the Yuan, and force China's central bank to increase interest rates and impose even more strict capital controls.

Anyone who is short USD for Yuan is sitting on a whole lotta risk.

This is great news, unless it isn't

In addition to the tax cuts, the other point of contention towards America's new trade policies focuses on protectionism.

Effectively, going forward America will now do trade deals that are economically profitable.

While this may sound like a novel concept – the European Union (EU) is especially enraged at this new positioning.

In some ways you can't blame them. After all, for over 100 years America has used economic policies to further promote and advance their foreign policies.

Foreign economic losses to achieve foreign political agenda has become indoctrinated within the American political ideology.

For America to now change this approach, is unprecedented and should of course rattle the rest of the world.

After all – no one likes change.

Of course, having the EU refer to anyone as being protectionist is perhaps the biggest irony since Alanis Morissette sang about ironies.

Every country in the world engages in protectionism.

The French protect their companies from foreign takeovers.

Canada has been protecting and subsidizing Bombardier for years.

And then there's China and their internally promoted "Made in China 2025" industrial policy which clearly encourages domestic over foreign.

The uproar over the paradigm shift in American trade policy is being sold as protectionism – which is branded as being politically incorrect and unacceptable.

Whereas in reality, the only bad is from the perspective of non-American companies and nations who will gradually make less money from American trade.

As investors, one should simply accept it is happening and adjust accordingly.

In the end, with American corporate taxes now lower than that demanded in Europe and Asia – investors should expect a flood of business and investors flowing into the United States.

Yes this is exciting stuff, yet don't get too excited.

All of this is great news, unless of course you are heavily invested in bonds, or worse still - you are a bond manager, or a company or country who is heavily dependent upon continuous borrowing to survive.

Serious investors ask serious questions

The tax cuts are not the panacea for all wrongs in the world. In fact, the entire act merely provides the world with one final sugar high, delaying the inevitable – a crisis in the bond market.

The Debt Machine

Critics of the Trump Tax cuts focus on the expectation for the American debt pile to increase further and therefore causing a debt crisis for the country.

This view is correct.

Yet, the irony here is that these very same critics of America's debt balances are either quite ignorant of the debt balances of other countries, or worse still – they choose to ignore it.

Despite anyone's personal view of the world, they must understand, accept, and acknowledge that the entire planet runs off the same yield curve.

What we mean by this is that all global interest rates are a function of US interest rates.

When interest rates are established in Europe, Asia, South America, and anywhere else that borrows – the market interest rate is established as a spread (higher or lower) relative to interest rates offered in the US Treasury bond market.

Next up – know that sovereign debt levels are compared to each other on a relative basis. In other words, America's debt balances may be bad, horrible, disastrous or whatnot, but they are actually less bad, not as horrible, and slightly less disastrous than other country's.

Sadly, those who are bearish on the USD, ignore or have completely forgotten that the American's have another incredible advantage over all other countries.

With the USD dominating world trade and world debt issuance, the United States Treasury has a never ending private sector AND public sector demand for all bonds that it issues.

No other country or currency bloc has this advantage.

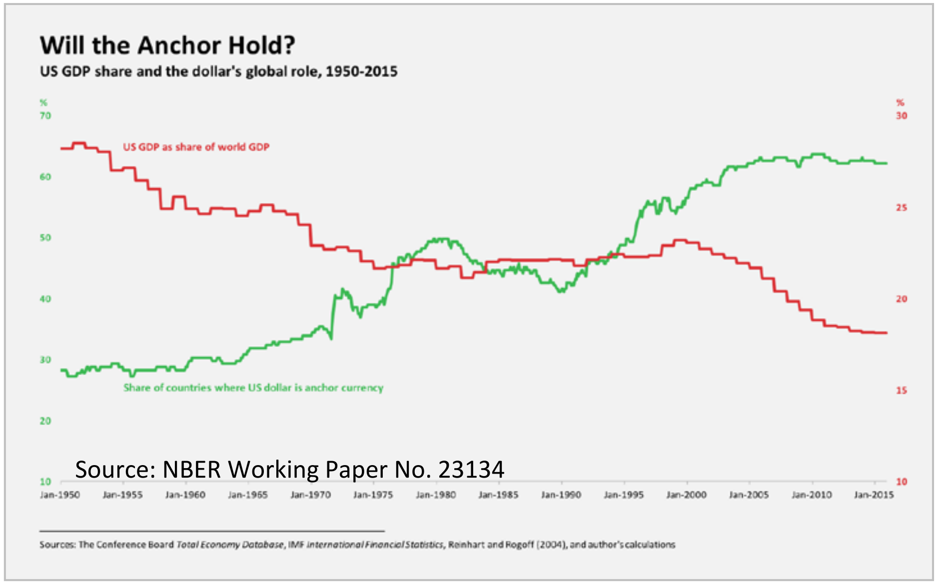
Put another way, when discussing sovereign debt levels, the most important fact to know is how countries are funding their borrowing.

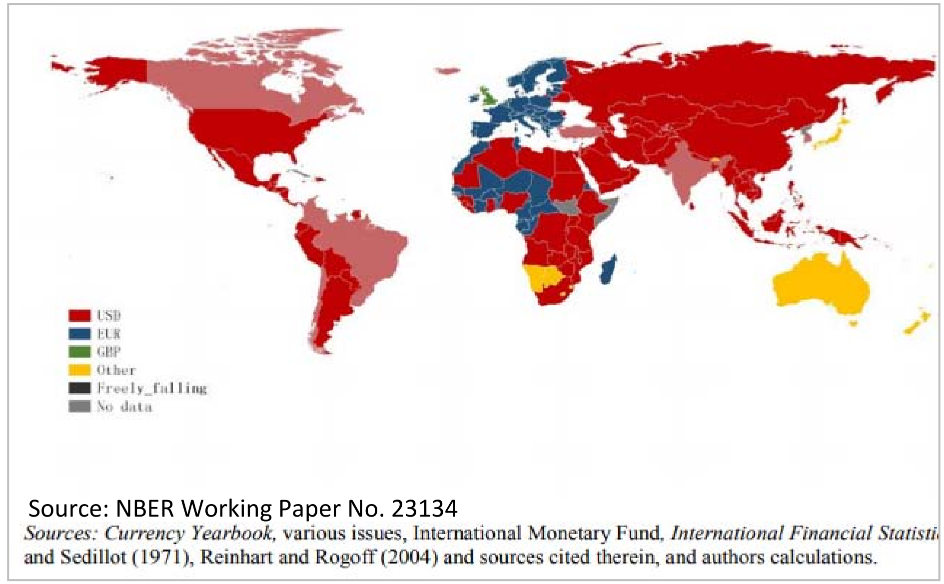
In other words – if a country is borrowing all the time, someone else is lending all the time.

Since we already know who is borrowing, serious investors should naturally be asking - who is lending?

Knowing the answer to this question should shine light on why the USD is not headed towards zero (well, not yet anyway – other currencies go there first, thereby causing USD to eventually surge).

American dominance





In many ways, the absolute level of interest rates are irrelevant. What is relevant is that investors are lined up to lend money to these supposedly dead-beat borrowers.

And this is where the USD dooms day hoopla is confused.

Today around the world, there is an enormous demand for USD and American debt.

In fact, the demand is so large – the real fear in the world is that there isn't enough of USD to spread around.

A recent study by Ilzetzki, Reinhart, and Rogoff shows 60% of all countries in the world use USD as their anchor currency.

And better still, this 60% equals over 70% of the global economy.

The amazing thing about this data point, is that it is occurring during a period where the American dominance over global GDP is shrinking.

Think about that for a moment.

And of even more significance is the fact that #2 in the world is not even close.

In other words – the last days of the USD dominating the world's

It's simple: demand VS supply

financial landscape can only occur if both the global demand for USD ends AND if there is a reasonable substitute.

Ironically, it is the world's reliance upon USD and USD issued debt that will eventually cause the USD to lose its reserve status.

This will occur – but first other currencies and sovereign debt will enter crisis first.

As of writing – the New England Patriots have a better chance of coming back to win the big game, than the USD dominance coming to an end any time soon.

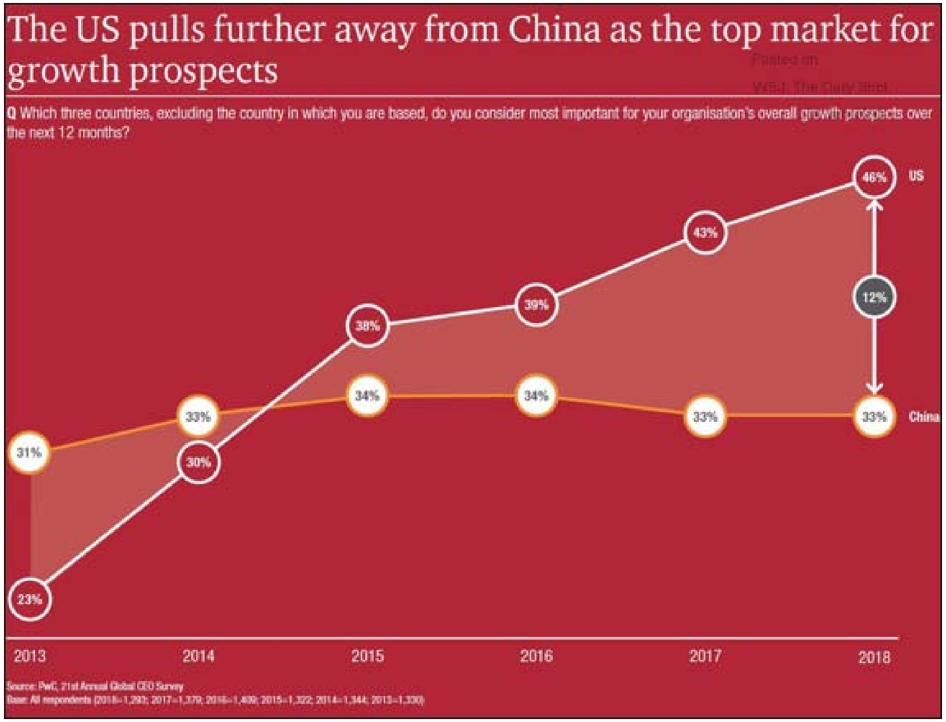
This isn't to say USD won't bounce around in the short-term – all financial markets do this from time to time.

But it is to say – those who are so painfully focussed every minute of the day on high-lighting any real or perceived flaws in America's economy, its politics, or its social make-up is looking in the wrong place.

To further demonstrate the relative dominance of America consider the following chart which details how global businesses view the United States relative to China.

This is a survey of 1,300 chief executives from the private sector who always seek to maximize their firm's profits.

Considering all of the negativity surrounding America over the last year, these survey results should grab your attention.



Putting it Together

To square the peg, investors must make the connection that all of this borrowing by countries, individuals and companies, is achieved by selling bonds.

The good news…

And it is the buyers of these bonds that are unknowingly sitting on top of the most explosive financial crisis to hit in our lifetime.

The biggest worry and concern in the money world today isn't tax cuts, trade wars or even the current stock market jitters.

Instead, the greatest worry that few even know exists is the slowdown of money printing by the world's central banks.

In America, the Federal Reserve has already stopped printing money, and in fact now, it is actually reducing the bonds and MBS it acquired over the last 9 years.

When this is considered, together with the relentless march higher in Fed Funds Rates (over night interest rates), it should be crystal clear why the US is a destination of choice for objective, foreign capital.

Europe is a different story. And it's a story that will not end well.

The big Canadian, American and Australian banks and their legions of mutual fund sales people have all completely dismissed or worse still, missed, the biggest risk story in our financial lifetime.

In some ways, they can be forgiven. After all, their relentless focus on short-term earnings, protecting margins, and meeting regulatory requirements are all to the detriment of actually seeing the risk in front of them – is a sad song that plays over and over again.

They all missed the Tequila crisis, the Asian crisis, the Ruble crisis, the LTCM crisis, the Tech crisis, and the Housing crisis.

Expecting them to see, understand and proactively protect their millions of investors exposed to the bond market is perhaps a bit too much to ask.

In the bond world, the bad news today is that long-term interest rates have already begun to leap higher, leaving a wake of losses and despair.

US Treasury Bonds

Global bond market sell-off gains pace

Yield on 10-year US Treasury above 2.7 per cent for first time in nearly four years

Mortgage rates surge to a 10-month high

Published: Jan 26, 2018 10:38 a.m. ET

The good news is that IceCap's forecast for higher long-term rates has been 100% correct. As well, anecdotal evidence shows that an increasingly higher number of other boutique investment managers now share the same view.

Protection against near-certain losses in the bond market is available.

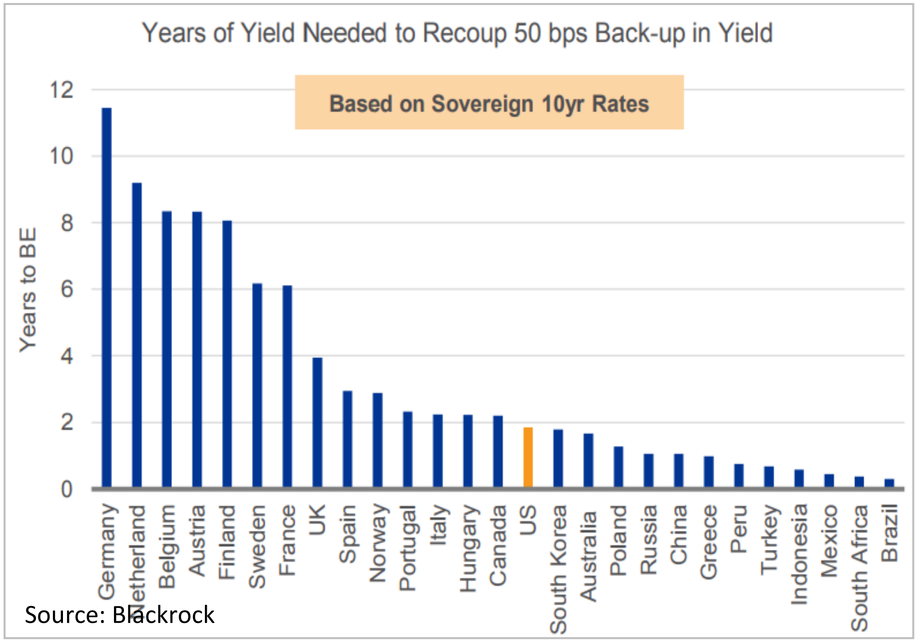
The real show hasn't started

There's even better news – the current bad spell for the bond market is entirely due to the expectation that inflation will be higher.

Our expectation for surging long-term interest rates will come from a re-escalation of the sovereign debt crisis. This recent bad spell for the bond market is a nothing burger.

The real show hasn't even started.

Yet, to demonstrate just how sensitive bond investors are to rising long-term interest rates, consider the below chart.



Source: Blackrock

The biggest financial crime to ever occur in our lifetime wasn't the Madoff scandal. Nor was it the scandals from Enron or WorldCom.

Instead, the biggest (alleged) financial crime was the decision by the central banks in USA, Australia, Canada, Britain, Europe, Norway, Switzerland, Sweden, Denmark and Japan to socialise the global debt problem.

To refresh your memory, in response to the 2008 crisis, all central banks lowered interest rates to zero or negative rates with the hope that it would stimulate economic growth.

The financial crime with this scheme, was the negative effect it had on the traditional savers and low risk investors around the world.

Now, nearly 10 years later we are starting to see where the risk lies, and the downside of what is to become.

Global long-term interest rates reached record lows and have now begun to swing higher.

The problem with higher long-term interest rates is that they have a significant negative effect on bond strategies and mutual funds.

This chart shows how a mere 0.5% rise in long-term rates affects bond investors and their ability to recapture these losses with interest/coupons received.

From the chart you'll see how a 0.5% increase in long-term rates in

The evidence is clear

America, and Canada will force bond investors to wait over 2 years to recover those losses with interest payments received.

Think about that for a moment. You are a cautious investor, dependent upon bond interest to buy groceries and gas, and then suddenly you realize you just lost 2 years worth of income while invested in supposedly the safest investments in the world.

For France, Sweden, Finland, Austria, Belgium, and the Netherlands the financial crime is even worse.

In these countries, a mere 0.5% increase in long-term interest rates means 6 to 9 years to recoup your losses.

Yet, this is nothing compared to the devastation awaiting the Germans. In Germany, the self-proclaimed bastion of conservative investing and financial management, investors here only break even after nearly 12 years of coupon clipping.

And all of this assumes long-term rates ONLY increase 0.5% and stay there forever.

Which of course, should lead you to ask – What happens if long-term rates rise more than 0.5%?

Two things actually.

To start, global losses from bonds will be measured in the TRILLIONS.

To end, and this is the risk few are talking about – countless individuals, companies and worst of all – governments, will have to pay exceedingly more to borrow money from investors.

And that's if they are able to borrow at all.

In fact, the threat of rising long-term interest rates has already hit markets and headline news.

Due to the medias' and the big bank mutual fund machines' obsession with stock markets, one has to look a bit harder for the evidence that is lying before you in plain sight.

Evidence #1:


BONDS

Source: CNBC

TREASURYS | U.K. | GERMANY | ITALY | FRANCE | JAPAN | AUSTRALIA

Bank of Japan offers 'unlimited' bond buying to curb rising yields

- For the first time in six months, Japan's central bank has conducted special operations to buy governments bonds to achieve the yields it wants to see.

Choose door #1 or door #2

Next to Europe, Japan sleeps under incredible bond market risk. The situation has become so untenable, that for the second time in 6 months, the Bank of Japan has declared war against anyone caught trying to sell Government of Japan bonds at a yield above 0.1%.

Evidence #2:

4Q SALES & TRADING	FICC Trading	YoY % Chg
($ Million)		
U.S. Peers	8,628	-27%
JPMorgan Chase & Co*	2,476	-27%
Citigroup Inc*	2,413	-18%
Bank of America Corp	1,709	-16%
Goldman Sachs Group Inc	1,003	-50%
Morgan Stanley	1,027	-30%

*Equity results exclude one-time Steinhoff charge
Note: Estimates in blue compiled by Bloomberg News
Note: All numbers are ex-valuation adjustments
Source: Company Documents, Bloomberg

The peak in bond trading has clearly been established as evident by the sharp declines in FICC (fixed income, currencies and commodities) revenues by wall street.

Evidence #3:

Dalio says investors may see 'the largest bear market in bonds' since 1980-1981

Published: Jan 24, 2018 12:48 p.m. ET

7 Aa

Founder of largest hedge funds says we're in the midst of a bond bear market

In case you've forgotten, during that 1980 period long-term rates sky-rocketed from 9% to 15% putting many investors and borrowers out for the 10-count.

Of course, the real risk with the bond market is what happens in Europe.

Next up on Europe's "trying to keep things together" plan will be the Italian elections (March 4), where the new government will be formed by either:

1) a party who strongly dislikes the Euro and everyone associated with it, or
2) the other party who strongly dislikes the Euro and everyone associated with it.

And when you consider that the only reason Italy currently functions as a financially viable country is due to the European Central Bank (ECB) buying all of Italy's newly issued debt – the outlook for long-term rates in Italy (and therefore Europe) is either rates remain low forever, or they rise sharply.

And the last time we checked – nothing in financial markets remain in status quo forever.

Italy risks storm as QE ends and politics go haywire, HSBC warns

Math is simple

To truly appreciate the animosity in Italy towards the EUR and the EU, simply absorb recent comments by potentially the next Prime Minister, Matteo Salvini:


'The EU can go and F*** itself!' Italian politician in SHOCK outburst as he rallies Italy

ITALIAN election frontrunner Matteo Salvini told the European Union to "go f*** itself" in a fiery TV interview as he rides a wave of anti-Brussels sentiment in the country.

This of course, is a very un-European response to anything related to Brussels, Germany and the European Central Bank.

Yet, this is exactly the point.

What the global political establishment brands as extreme right wing, and nationalism, others simply call it their point of view – which is essentially, the view that all isn't right and change is needed.

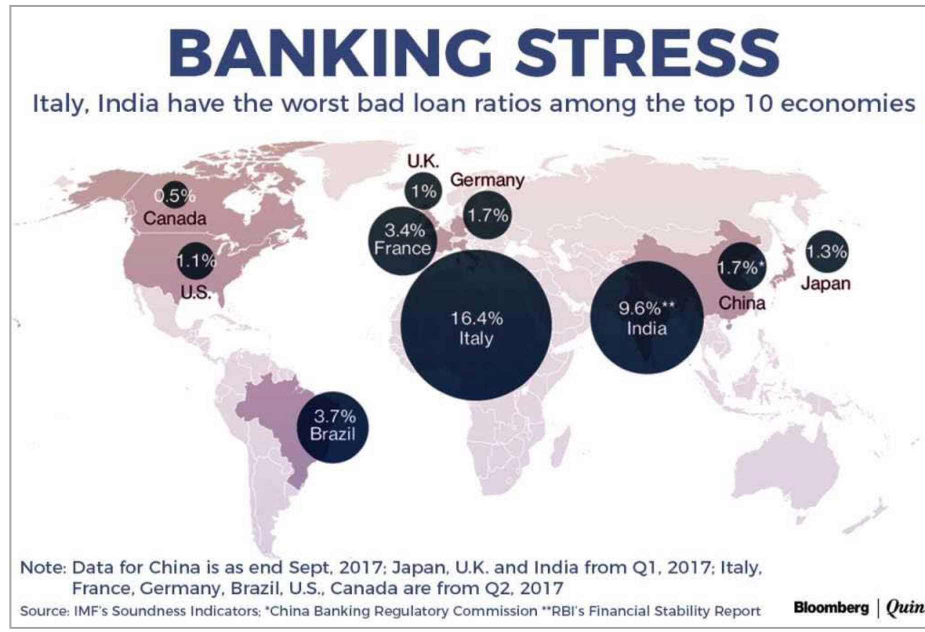
Once you understand the Italian financial situation, then you'll understand the anxiety being caused by the political situation.

Financially, Italy is in dire straights for 2 reasons:
1) Their banking system is in crisis
2) Their government finances are in crisis

For starters, all banks lend money and when they are not paid back that money, they absorb a loss.

If all the bad loans in the Italian banking system were properly accounted for, every bank in the country would be closed.

In other words, there's simply not enough equity in Italian banks to absorb the losses. It's very simple math, that can only be distorted in the economic fantasy land called Europe.



If everyone is selling – who is buying?

Now, since these zombie banks exist across Italy – the logical response is how can they remain open?

The answer – since 2012, the European Central Bank (ECB) has been printing money and giving this money to the banks to survive.

Granted, in the money world there is never a free lunch and that's the case in Italy. In exchange for this lifeline – the ECB has demanded the Italian banks use this printed money to buy bonds issued by the Italian government.

The reason the banks had to buy bonds from the Italian government, is simply because if the Italian banks didn't buy them, then who would?

This directly answers point #2 on the previous page.

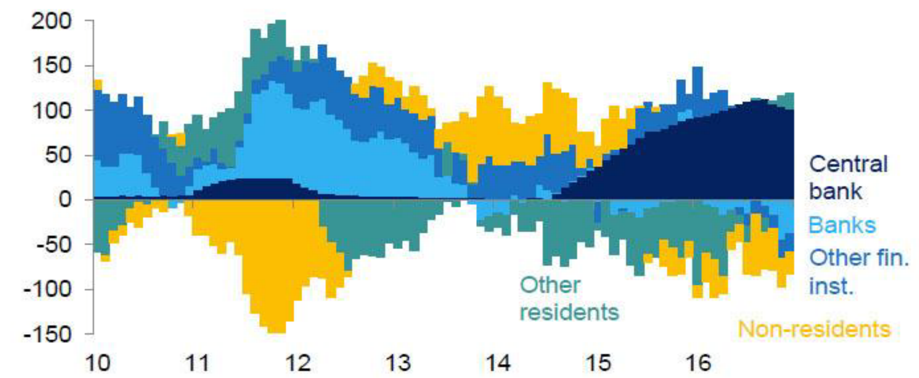
Since the Italian government spends more money than it collects in taxes, it has to borrow enormous sums to both pay for their spending, as well as pay interest on all of their previous borrowings, and now current borrowings.

The Europeans call this a brilliant strategy to help both Italian banks, and the Italian government.

Everyone else with an objective head, who understands global financial markets, central bank monetary policy and the current state of global geopolitics, call this a house of cards that 100% will be knocked over with a good stiff breeze.

To further understand the Italian monetary charade, simply know that the situation has reached such lofty levels, that even Italian banks are now selling all of their Italian government bonds.

Figure 1. Changes in holdings of Italian gov't securities by investor type, 12m rolling, €bn



Source: Citi Research, Haver.

And for those still not quite convinced, or worse even disagree – take note of the latest investments made by the world's largest hedge fund – Bridgewater (Italian banks and Italian insurance companies):


Bridgewater Triples Bets Against Italian Firms to $3 Billion

Nishant Kumar and Brandon Kochkodin

February 1, 2018, 10:03 AM AST *Updated on* February 1, 2018, 12:35 PM AST

This is a big bet – and likely a safe bet too.

Everyone knows…

Should Italy leave the Euro, run their own parallel currency, or even demand changes to the Maastricht Treaty – the ECB will be shaken to its core.

To the astute investor, this risk in bond markets is crystal clear. Cracks have been growing for several years now, and the all-certain end to money printing in Europe will likely be the event to change everyone's perception of risk.

Evidence #4:

> Bond markets could face a tricky moment if this protective shield is pulled away at a time when the economy is more sluggish. "Everybody knows that the nation being bailed out by QE is Italy, so this is a fundamental problem for the ECB," said Tim Congdon, from the Institute of International Monetary Research.

Evidence #5:

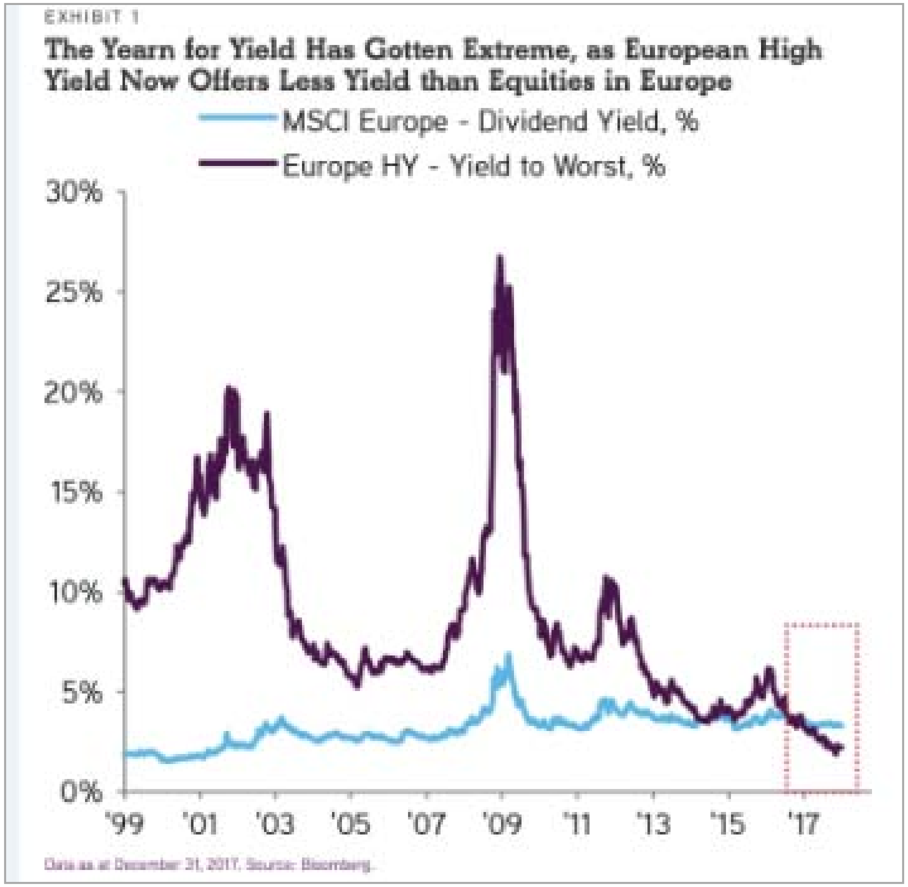
Italy's Northern League chief attacks euro, says preparing exit

Silvia Ognibene 3 MIN READ

FLORENCE, Italy (Reuters) - The leader of Italy's right-wing Northern League said on Wednesday his party was preparing the ground to leave the euro zone and called the euro a "German currency" which had damaged Italy's economy.

And to further demonstrate the risk in European markets, consider the following.

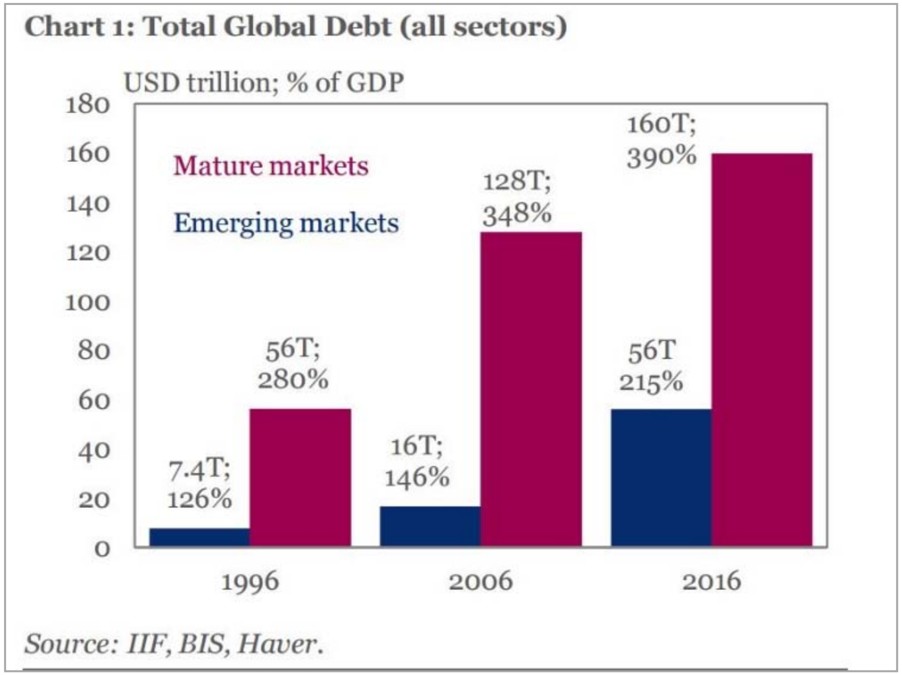
Evidence #6:



Opportunity knocks

Earlier we mentioned the entire world is attached to the global interest rate paradigm.

The deliberate scheme in 2009 to lower global interest rates to 0% and negative%, caused global borrowing by governments to surge sky-high, with the biggest surge occurring across the emerging market countries.



The moment the sovereign debt crisis re-escalates in Europe, bonds everywhere around the world will decline sharply.

And, due to the reliance of the USD emerging market countries – the effect in these markets will be even more severe.

These risks are very real, and are certain to occur.

Opportunities

IceCap believes significant opportunities (across all asset classes) are available to capitalize on the upcoming re-escalation of the sovereign debt crisis.

We encourage institutional investors and seeders to contact us to discuss potential partnerships.

Keith Dicker, CFA
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Email: KeithDicker@IceCapAssetManagement.com

Despite the bad that is developing from the bond market crisis, there are multiple ways to benefit, and take advantage of the opportunities that will occur.

IceCap is able to structure various strategies specific to each investor. The opportunities for institutional investors and hedge fund seeders are especially attractive.

Number of days since last accident

One market segment that concerns us greatly are the multiple fixed income funds offered to employees of defined contribution pension plans.

These target date, life cycle, and glide path solutions all contain the same inherent feature – as workers get closer to their retirement date, the funds automatically increase their allocations to bond strategies.

The crime here of course, is that at the exact moment in time when investors want/need to be conservative, they are being herded into the riskiest asset class, and biggest bubble in our lifetime.

The Stock Market

IceCap is not one of those investment firms that preaches to investors that stocks always go up over the long run, or if you miss the best 5 up days of the year you'll miss 90% of the upside return, or always buy the dip.

These are all marketing gimmicks to keep you in a product.

Markets do not work that way. Instead, markets work in another way.

All markets (including equities, credit, duration, currencies, commodities etc) move in cycles and trends. Some of these cycles and trends are short. While others are longer, and usually significantly longer so that all of the short-term noise causes people to lose sight of the bigger picture.

Putting aside the massive hyperbole from the main stream media, in many ways – the current correction was simply due.

Chart on the next page details the number of days since the last time stock markets declined 10%. As you can see, it's been 531 days since the last time stocks declined 10%.

531 days (or 1.5 years) may sound like a long time. But considering there were 9 previous periods ranging between 500 days to 1,750 days without a 10% decline, then all else equal – the current decline hasn't been anything extraordinary.

It is true that for stock investors, a lot of bad things have happened over the last week. 5% down days, followed by 2% up days, sandwiched between 10% intra day moves – seems to have rattled more than one investor.

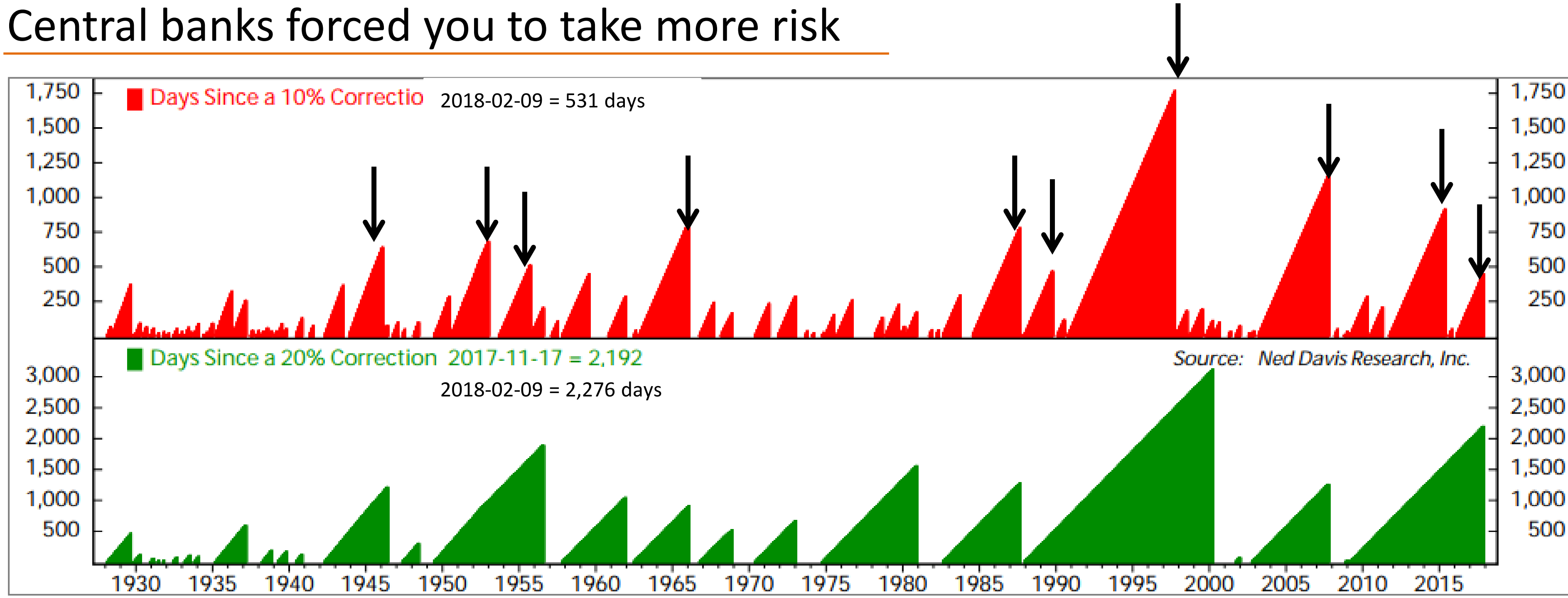
Yet, stock investors need to know that occasionally the stock market can go down.

Yes it happens.

Stock market investors (and especially bond market investors), ought to know that they are investing in non risk-free strategies. While the small print mildly states this rather obvious point – it's surprising how few people really grasp that markets can indeed go down.

Of course, when they do go down – people do not like it.

Central banks forced you to take more risk



It is human nature to be significantly more sensitive to losses compared to the joy experienced from gains.

Here again is where the problems from nearly 10 years of money printing, zero % interest rates, and negative % interest rates are being felt by the average investor.

Central banks forced investors to seek risk.

For those who are always in the stock market – big deal.

But for those who were previously only invested in term deposits and other forms of capital protected investments – they had the rug completely pulled out from underneath them.

Term deposit investors switched to long-term bonds.

Long-term bond investors switched to high yield bonds and emerging market bonds.

And high yield bond and emerging market bond investors switched to dividend paying stocks.

Mr. Roboto

And suddenly, 10 years later in the middle of the night – boom.

Investors around the globe are now calling their mutual fund sales people asking great questions, and likely receiving poor answers.

As well, the highly popular robo advisors platforms are now suddenly exposing their Achilles heel. While Siri, Alexa and Cortana claim to be at your side to answer all questions, in reality robo advisors have no one around to speak with you.

We've written before how these platforms are constructed using linear thinking combined with the inability to touch clients once any day of crisis arrived - which obviously just happened.


Robo advisor websites crashed, cutting clients off from accounts

By
Brandon Kochkodin and Suzanne Woolley
Bloomberg News

However, one thing during this entire correction that didn't happen was the usual flight to safety.

Investors have been trained that whenever there's a panic in the stock market, investors seek safety in bonds and gold.

This has not happened – and this should be the biggest eye opener since the Brexit referendum and the US Presidential Election.

While many were calling for stocks to crash spectacularly – they were also calling for USD to crash and for bonds and gold to zoom higher.

Clearly, this hasn't happened. While US stocks lost nearly \$3.2 TRILLION in value, bonds lost nearly \$1.5 TRILLION in value.

And the fact that it hasn't happen should force people to think differently. Think dynamically. Or better still – just simply think that maybe the narrative that the USD is the evil to end all evils, just isn't correct, yet.

To clarify – yes, IceCap is long-term bullish on the USD. There is no question that foreign capital will seek safety in the greenback.

There is also no question that the USD too will eventually have to look in the mirror and pay-up for all of its past liberties.

However, the major point for investors to understand, and we cannot stress this enough – global central bank monetary policies, combined with horrible domestic government fiscal policies has created a financial environment that will not be kind.

Yes the USD is a part of the global web, however due to the way the USD is constructed – it is LAST in line to experience any restructuring.

The Euro will be first, followed by Yen with USD remaining as the last one standing.

Of course, the ride through these crises will not be smooth.

Santiago High Income Trust

Once the sovereign debt crisis re-escalates, it should not be surprising to once again see stocks decline sharply.

However, as soon as investors realize that the risk is in government debt, and not in private sector equities – there will likely be a very strong swing back to the other side.

And then then the real fun begins.

As of writing, we cannot confirm whether the current correction is over. Yes, the losses were quick and unsuspecting – yet at present time, long-term trends have not been broken.

Normally after such a downward move, market volatility continues for several weeks all while forming a new base. This is what appears to be happening as we write.

Of course, stories of spectacular losses and the reasons for the market downturn seem to have fallen on hedge fund volatility strategies which were ignited by long-term interest rates shooting higher.

Throughout every market crisis, many managers, firms, and funds go out of business. Which naturally brings us to the poster child for the 2018 market correction:

Market Volatility

Fast-growing mutual fund is victim of market turbulence

LJM Preservation and Growth Fund had attracted $800m but lost 80% in two days

We all know stock investors ride the escalator up, but take the elevator down – however, for a fund to lose 80% of its assets in 2 days is spectacular indeed.

And considering the fund is named "…Preservation and Growth Fund", the ironies are endless.

The current correction tells us the Halftime Show is over.

While the red headlines for equity markets were undoubtedly attention grabbers - the correction in long-term bonds confirms the near 40 year bull market in bonds is over.

And this is what people should be talking about.

We're prepared to buy more equities

Our Strategy

Bonds

No changes. Our decision to avoid high yield, emerging market debt and long duration for fixed income allocations was 100% correct.

While long bonds have been oversold, any recovery should be seen as a dead-cat bounce.

We continue to see bonds as the riskiest long-term investment in the market place.

Stocks

The correction in stocks has not broken support, and we have not sold any positions. We'll remain agnostic and are prepared to either increase or decrease our strategies based upon continued market movements.

Currencies

Recent strength of USD during the correction reaffirms our long-term bullish view.

However, movements in USD prior to the correction have been weak and places these strategies on watch.

Commodities

We continue to have no direct holdings in the commodity spectrum.

The fundamental story for gold has not changed – yet the failure for gold to surge higher during a market correction triggered by rising inflation expectations (hitting the long end of the curve), shows the general public has yet to embrace gold as the ultimate protector of assets.

However, our technical models for gold are trending closer to entry levels meaning we are prepared to begin positions when the opportunity opens. In other words – don't let fundamentals steer you in this market.

We're growing

As always, we'd be pleased to speak with anyone about our investment views. We also encourage our readers to share our global market outlook with those who they think may find it of interest.

Keith Dicker, CFA founded IceCap Asset Management Limited in 2010 and is the President and Chief Investment Officer. He has over 20 years of investment experience, covering multi asset class strategies including equities, fixed income, commodities & currencies.

Keith earned the Chartered Financial Analyst (CFA) designation in 1998 and is a member of the Chartered Financial Analysts Institute. He has been recognized by the CFA Institute, Reuters, Bloomberg, BNN and the Globe & Mail for his views on global macro investment strategies. He is a frequent speaker on the challenges and opportunities facing investors today, and is available to present to groups of any size.

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We want Partners

Since 2010, IceCap Asset Management has consistently demonstrated a unique and correct understanding of the world's global macro environment.

Our ability to communicate this understanding in both our investment portfolios and through our highly successful **Global Market Outlook** is a feature we would love to leverage.

IceCap Asset Management is a growing firm, and we are completely open to discussing all opportunities, ideas and ventures with other firms, fiduciaries and individuals anywhere in the world.

Opportunities may include:

1. white labelling of funds
2. sub advisory of funds or managed platforms
3. speaking engagements for small or very large groups
4. joint ventures
5. other corporate opportunities

We want Partners

The Canadian investment industry is rapidly changing. If you are a licensed Advisor, or Portfolio Manager give us a call to see how you would benefit by joining our team.

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