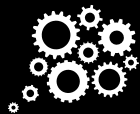


THINGS THAT MAKE YOU GO HMMM...

By Grant Williams

THE WINDS OF CHANGE



“We can’t control the direction of the winds, but we can adjust our sails.”

Anon

“The only time the average investor should stray outside the basic compounding system is when a given market offers outstanding value. I judge an investment to be a great value when it offers (a) safety; (b) an attractive return; and (c) a good chance of appreciating in price. At all other times, the compounding route is safer and probably a lot more profitable, at least in the long run.”

Richard Russell, Rich Man, Poor Man

“Compounding is the royal road to riches. Compounding is the safe road, the sure road, and fortunately, anybody can do it.”

Richard Russell, Rich Man, Poor Man

“In all affairs it’s a healthy thing now and then to hang a question mark on the things you have long taken for granted.”

Bertrand Russell

**“All the world’s a stage,
And all the men and women merely players;
They have their exits and their entrances,
And one man in his time plays many parts.”**

William Shakespeare, Much Ado About Nothing

“We actually put forth a theorem that received quite a bit of recognition in which we said that government debt accelerations ultimately lead to lower, not higher, interest rates. We’ve shown people, that the empirical evidence, not only for the United States, but for the other major economies of the world. And all you have to do is chart it. Chart government debt-to-GDP on the right axis, or the left axis, and then put the government bond yield on the other, and you’ll see that it’s an inverse correlation.”

Dr. Lacy Hunt

“There are a limited number of ways you can bring down your debt-to-GDP ratio, and inflation is probably the least painful, and that’s why it’s preferred. It’s preferred over default, it’s preferred over austerity, and that’s why it’s going to be inflation. And there’s a perfect model for this in post-World War II. We find ourselves, at least in the government sector, with similar debt-to-GDP ratios, and there is a model to how democracies dealt with it.”

Russell Napier

“There are things about signing on to a process over the long term that protect you from the buffeting winds of change.”

Chuck Close



THIS MONTH

Table of Contents

THINGS THAT MAKE YOU GO HMMM... 04

An empire of dying wells 24

The Great Acceleration25

China to outlaw all news outlets not funded by communist party27

Global supply-chain problems escalate, threatening economic recovery 28

Anyone seen Tether's billions? 30

Traders phone up gambling helplines as game-like broker apps spread32

France bets on more nuclear power in face of Europe's energy crisis 34

Federal judges or their brokers traded stocks of litigants during cases35

Is the world economy entering a wage-price spiral?37

The stench of corruption leads to Kurz's sudden resignation 38

CHARTS THAT MAKE YOU GO HMMM... 40

WORDS THAT MAKE YOU GO HMMM... 43

AND FINALLY... 44



p. 04



p. 04



THE WINDS OF CHANGE

After almost half a century of benign market conditions and the perfect set-up for asset prices to float higher almost continually, are we on the cusp of a directional change in the wind that's filled investors' sails since the early 1980s?



The matter at hand today may be the most important decision you'll all have to make in the coming months and so the factors which will impact that decision bear close examination.

As the anonymous sailor on the cover of this month's edition of *Things That Make You Go Hmmm...* so rightly said, we may not be able to control the winds, but we can adjust our sails.

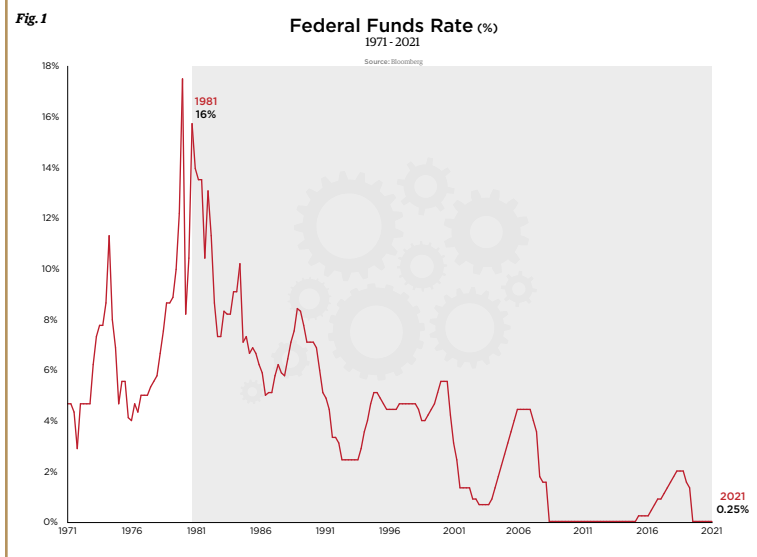
So, what sort of adjustments are going to be necessary? For some who read this, none at all – outside of the usual day-to day adjustments we all have to make based on market conditions but, for those among you who come down on one particular side of the argument I'm about to present, well you're going to have some BIG decisions to make.

For the last forty years, we've lived and, importantly, invested in what has essentially been a deflationary tailwind.

I call the deflationary forces at play a 'tailwind'

deliberately and, while that may seem counterintuitive because, let's face it, the last two great deflationary episodes in 1929 and 2008 have been anything but positive, an environment in which you have mild deflation *and* central banks determined to take extreme action to counter it, you have the best set up for asset prices imaginable.

For four decades, the world's central banks have been (and I apologize for the imagery) standing on the aft deck and peeing into that deflationary tailwind as they've dropped rates at not just the first sign of trouble, but *every* sign of trouble until, inevitably, they've reached the zero bound (Fig. 1).



The conditions their actions have fostered are well known to you all, but they bear laying out within the context of this discussion.

Commensurate with those falling rates, bond yields have also headed predictably towards zero (Fig. 2), creating a bond market bubble the likes of which we have only come close to seeing once before in 5000 years of recorded history – during the Great Depression.

One of the positives has been a benign inflationary environment – at least as far as government statistics go, with the CPI being massaged lower through a

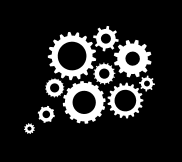


Fig. 2

U.S. 10-Year Treasury Yield (%)

1971 - 2021
Source: Bloomberg

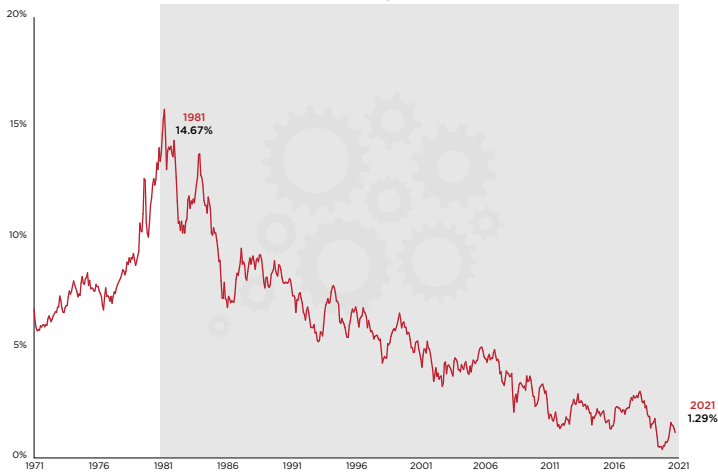
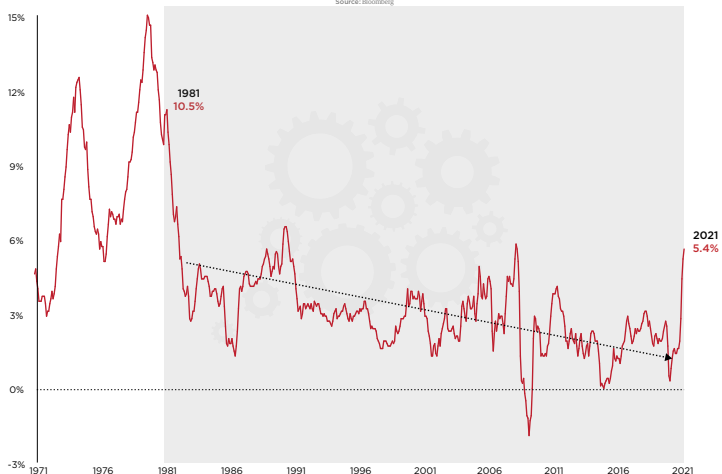


Fig. 3

United States CPI (YoY, %)

1971 - 2021
Source: Bloomberg



series of hedonic substitutions... but now, as you can see (Fig. 3), we have the fastest and most meaningful inflationary pulse we've seen in over 40 years.

"Transitory," they tell us. We'll see.

Of course, stock markets around the globe have been major beneficiaries of the policies of the period under discussion with the S&P500 rising 33-fold, despite two nasty shakeouts in 2000 and 2008, of course (Fig. 4).

Globally, stock market capitalization has exploded as four decades of declining rates spurred demand for the financialization (and listing) of just about any asset and company imaginable.

In 2021, total market cap of the world's stock markets

Fig. 4

S&P500 (YoY %)

1971 - 2021
Source: Bloomberg

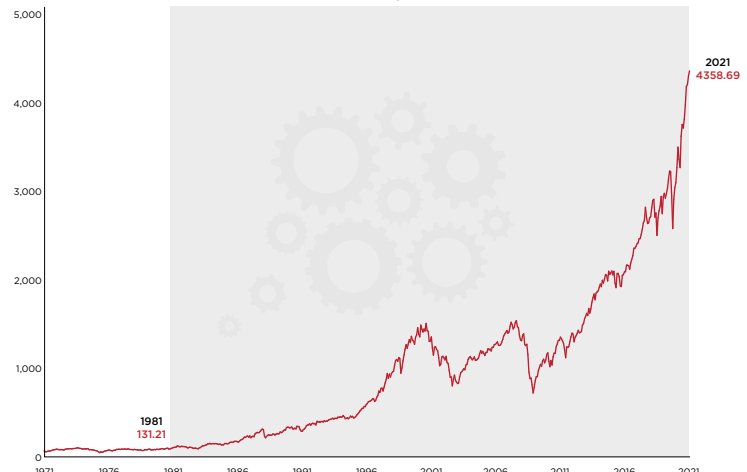
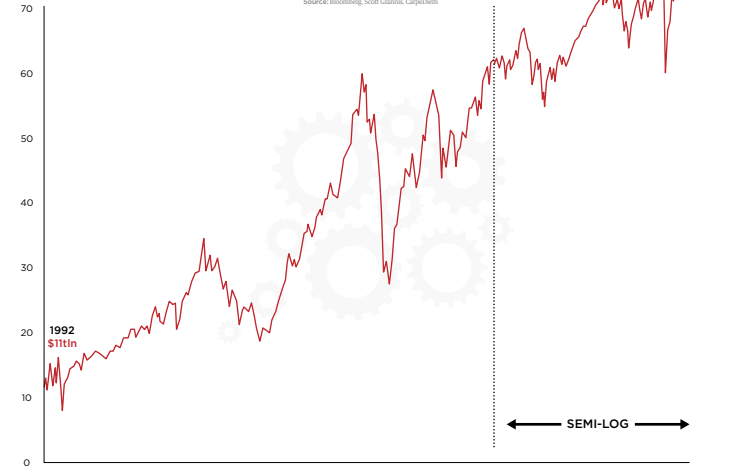


Fig. 5

Global Stock Market Capitalization (\$trn)

1992 - 2021
Source: Bloomberg, Scott Gurnea, Capitalism

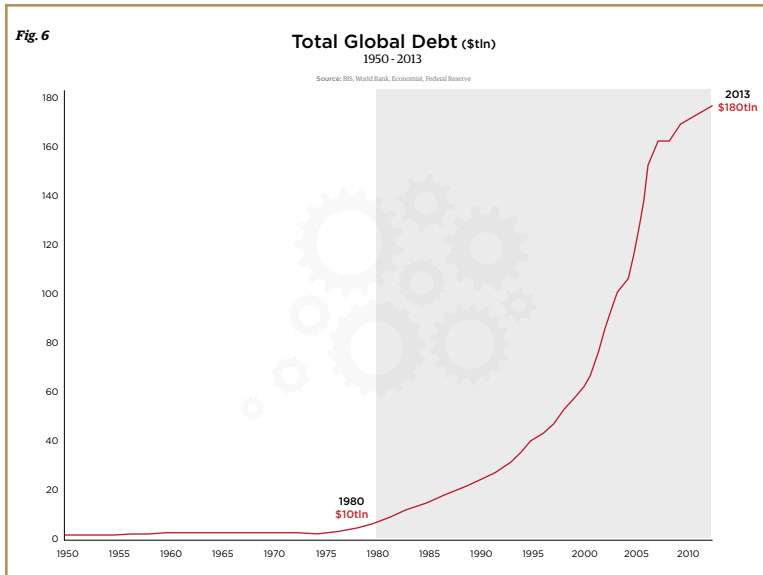
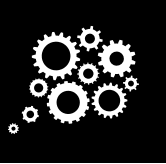


was an estimated \$97 trillion – up from \$11 trillion in 1992 (Fig. 5).

But by far the most important result of those steadily-declining rates has, of course, been the massive, yet entirely predictable increase in the amount of debt outstanding.

Global debt grew from \$10 trillion in 1980 to an eye-watering \$186 trillion in 2013 (Fig. 6). Since then, according to alternate research provided by the International Institute of Finance (IIF), the current number stands at \$296 trillion.

Give humans an incentive to borrow cheap money and it doesn't take a genius to figure out what happens next.



- Underpinning it all, however, was a quadrillion dollars (notional) of derivative contracts.

What, I wonder, could possibly go wrong?

Well, I can think of two things – inflation and a commensurate rise in interest rates. But hold that thought.

Before we get to the chances that either – or both – of those potential problems might surface, I want to cast a little sepia glow over the proceedings and recall a long-forgotten art I'm sure many of you will remember in a similarly wistful way to me.

It's something the dear departed Richard Russell referred to as the *Royal Road To Riches*: compounding.

Compounding has been the bedrock of investing since time began. The earliest signs of its existence date back to Babylonian times (c. 1600 BC) – a time when there really wasn't much for bitcoin to fix.

As Richard Russell pointed out, it's simple, safe and anybody can do it. All you need are what used to be called 'interest rates'

Here's the example Richard used when describing how compounding works and, even though I know the vast majority of you will be familiar with the concept, we are now far enough removed from the days when this was possible that a reminder might be in order – if not for ourselves, then for our kids.

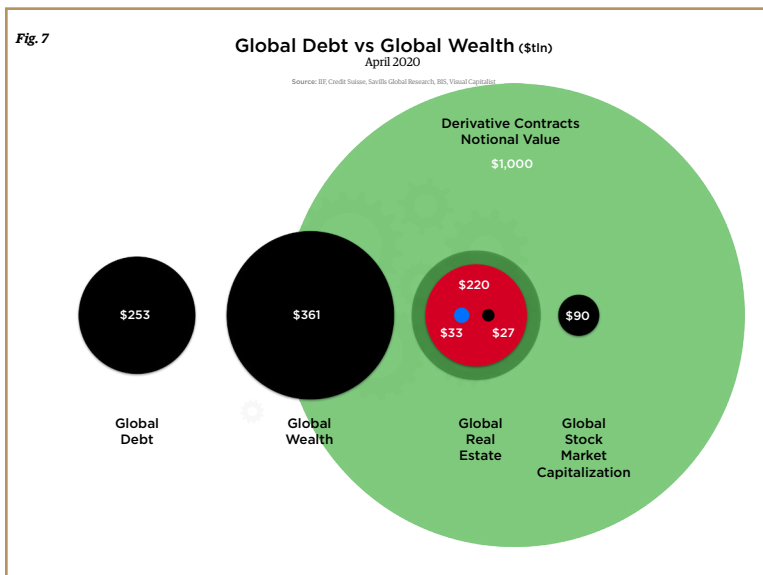
In Richard's example, which oh so quaintly assumes a convenient but lately preposterous 10% growth rate between interest and capital appreciation, Investor 1 contributes \$2000 every year between the ages of 19 and 25 and then stops.

Investor 2 then contributes the same \$2,000 every year from age 26 right through their retirement at 65.

As you can see, thanks to the miracle of compound interest (Table, next page), his net return never catches up to that of the earlier starter.

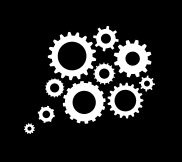
It really is a beautiful thing.

Richard offered his thoughts on when and why an investor might stray outside of this safe, simple way



So here's where we stood at the end of those 40 years of gentle tailwinds in April 2020 (Fig. 7):

- Global debt was somewhere around a quarter of a quadrillion dollars
- Global wealth had reached a little over \$350 trillion.
- Global real estate was valued at roughly \$280 trillion – \$220 of which was residential property, \$33 trillion commercial real estate and \$27 trillion agricultural land
- Lastly, global stock market capitalization was a wee bit shy of \$100 trillion.



Investor 1			Investor 2	
Age	Contribution	Year-end Value	Contribution	Year-End Value
19	\$2,000	\$2,200		
20	\$2,000	\$4,620		
21	\$2,000	\$7,282		
22	\$2,000	\$10,210		
23	\$2,000	\$13,431		
24	\$2,000	\$16,974		
25	\$2,000	\$20,872		
26		\$22,959	\$2,000	\$2,200
27		\$25,255	\$2,000	\$4,620
28		\$27,780	\$2,000	\$7,282
29		\$30,558	\$2,000	\$10,210
30		\$33,614	\$2,000	\$13,431
31		\$36,976	\$2,000	\$16,974
32		\$40,673	\$2,000	\$20,872
33		\$44,741	\$2,000	\$25,159
34		\$49,215	\$2,000	\$29,875
35		\$54,136	\$2,000	\$35,062
36		\$59,550	\$2,000	\$40,769
37		\$65,505	\$2,000	\$47,045
38		\$72,055	\$2,000	\$53,950
39		\$79,261	\$2,000	\$61,545
40		\$87,187	\$2,000	\$69,899
41		\$95,905	\$2,000	\$79,089
42		\$105,496	\$2,000	\$89,198
43		\$116,045	\$2,000	\$100,318
44		\$127,650	\$2,000	\$112,550
45		\$140,415	\$2,000	\$126,005
46		\$154,456	\$2,000	\$140,805
47		\$169,902	\$2,000	\$157,086
48		\$186,892	\$2,000	\$174,995
49		\$205,581	\$2,000	\$194,694
50		\$226,140	\$2,000	\$216,364
51		\$248,754	\$2,000	\$240,200
52		\$273,629	\$2,000	\$266,420
53		\$300,992	\$2,000	\$295,262
54		\$331,091	\$2,000	\$326,988
55		\$364,200	\$2,000	\$361,887
56		\$400,620	\$2,000	\$400,276
57		\$440,682	\$2,000	\$442,503
58		\$484,750	\$2,000	\$488,953
59		\$533,225	\$2,000	\$540,049
60		\$586,548	\$2,000	\$596,254
61		\$645,203	\$2,000	\$658,079
62		\$709,723	\$2,000	\$726,087
63		\$780,695	\$2,000	\$800,896
64		\$858,765	\$2,000	\$883,185
65		\$944,641	\$2,000	\$973,704
Less total invested		-\$14,000		\$80,000
Equals Net Earnings		\$930,641		\$893,704

to grow significant wealth over time:

"The only time the average investor should stray outside the basic compounding system is when a given market offers outstanding value."

I judge an investment to be a great value when it offers (a) safety; (b) an attractive return; and (c) a good chance of appreciating in price. At all other times, the compounding route is safer and probably a lot more profitable, at least in the long run."

Russell suggested the *only* time to forego the compounding route, was when a market offered what he called '*outstanding value*.'

To which we must sadly add one other caveat:

"...or when the central bank artificially suppresses the natural interest rate and removes the ability to safely compound over time in order to force investors out along the risk curve."

Sadly, the world's central banks have destroyed the ability to compound in order to promote risk-taking and so the modern-day investor is forced into imprudence.

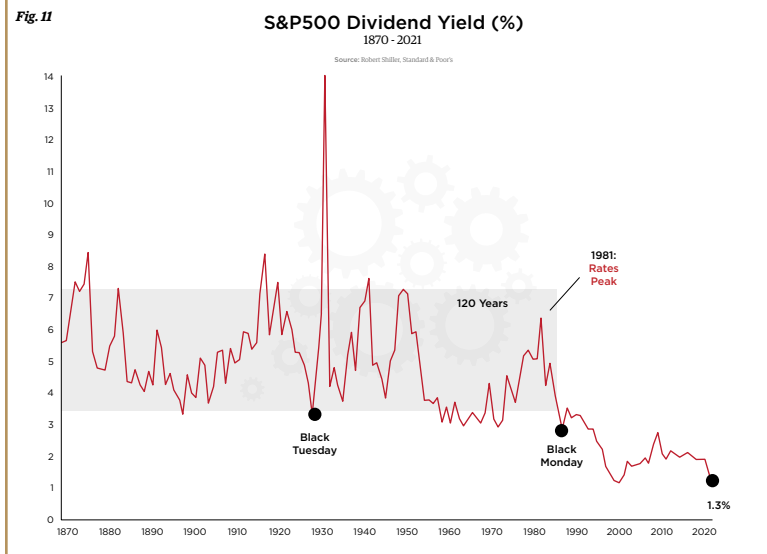
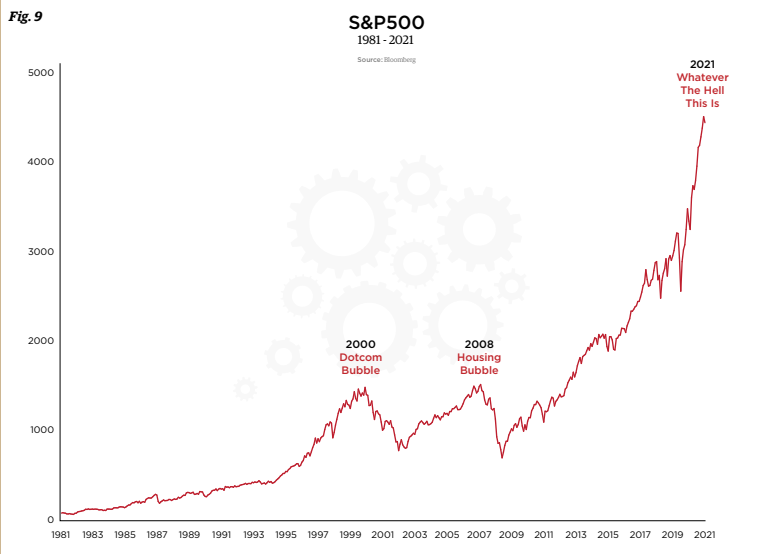
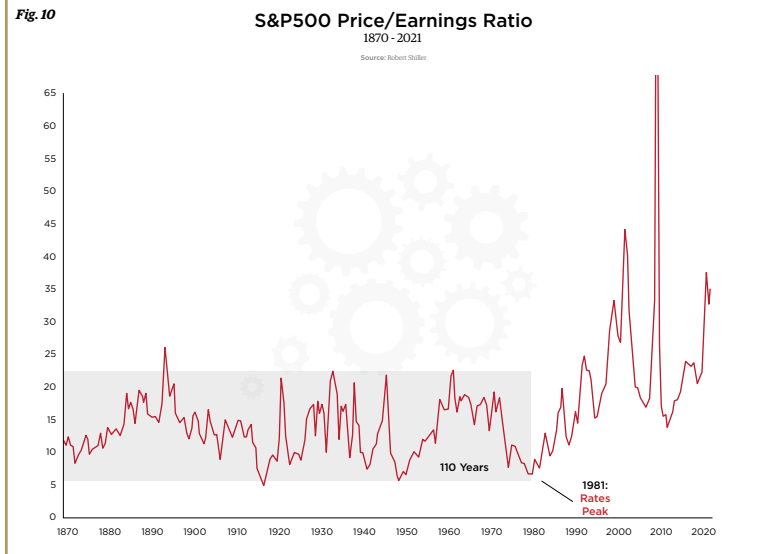
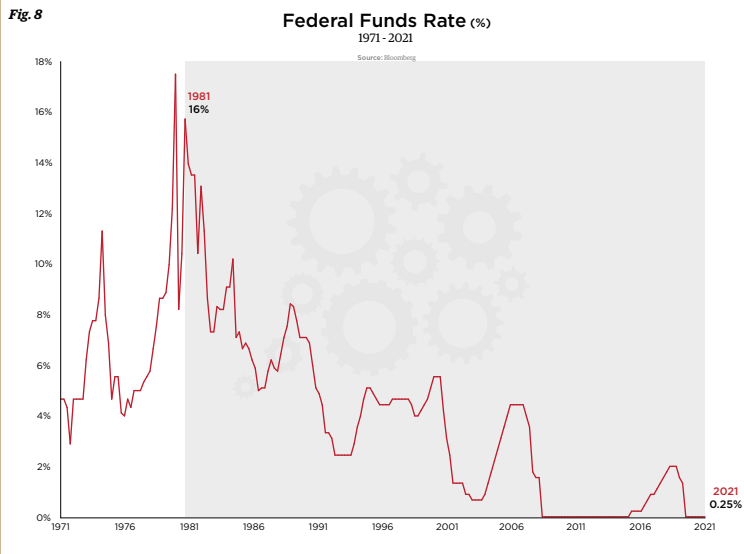
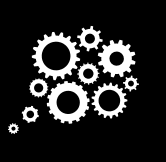
Richard Russell clarified the three things he required in order for an investment to offer good enough value to make straying off the road of compounding a sensible risk

- A margin of safety
- An attractive return
- A good chance of price appreciation.

It's hard to argue with any of that so, let's take a look, now that investors have been forced *away* from compounding, at what they're being forced *into*.

Well, obviously, the first order of business has been to consistently prop up an increasingly fragile economy and, more importantly, asset prices with lower and lower rates (Fig. 8).

That has taken equities into the stratosphere – leaving the two most recent equity market bubbles of our lifetimes in the dust (Fig. 9).



The P/E ratio of the S&P – which had been in a consistent range for over a century – began climbing precisely as rates peaked in 1981 and, unless one wants to make a strictly relative case based upon comparisons with the 2000 bubble, it requires a suspension of disbelief to believe in the prospect of it offering a potentially attractive return (Fig. 10).

Meanwhile, the dividend yield, which itself had oscillated between 3.5% and 7% over the course of a century has, since rates peaked in '81, dropped to 1.3% – again, hardly qualifying as 'attractive' unless one sticks exclusively to the last 20 years of extreme monetary policy as the comparison range. Even then, it's a stretch (Fig. 11).

Bonds? Well, it's hard to offer any sort of argument about their offering any kind of value, prospect of price appreciation or margin of safety when we have \$13 trillion trading with a negative yield (Fig 12).

What's more, as you'll see when you turn the page, fully 85% of the junk bond universe now offers a yield below U.S. CPI (Fig 13).

Seriously.

If that doesn't have you scratching your head at the absurdity of it all, perhaps nothing will.

What else can we take a look at?

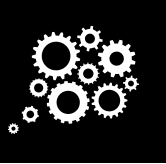


Fig. 12

Global Negative-Yielding Debt (\$tn)

2010 - 2021
Source: Barclays, Bloomberg

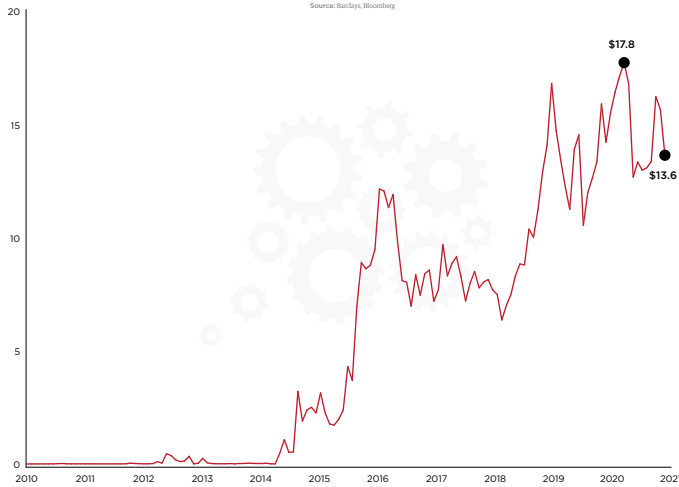
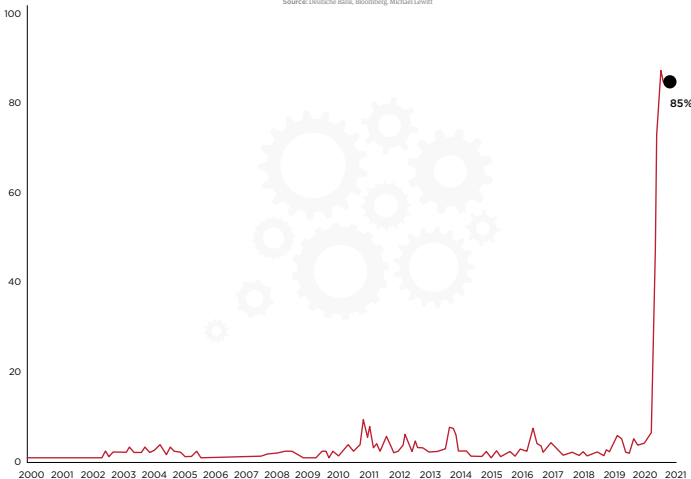


Fig. 13

Junk Bonds Yielding Below U.S. CPI (%)

2000 - 2021
Source: Deutsche Bank, Bloomberg, Michael Levitt



Real estate? Don't make me laugh. Rates at zero guarantee exactly what we've seen happen will happen – as the Fed well knows and as the Fed well needs (Fig. 14).

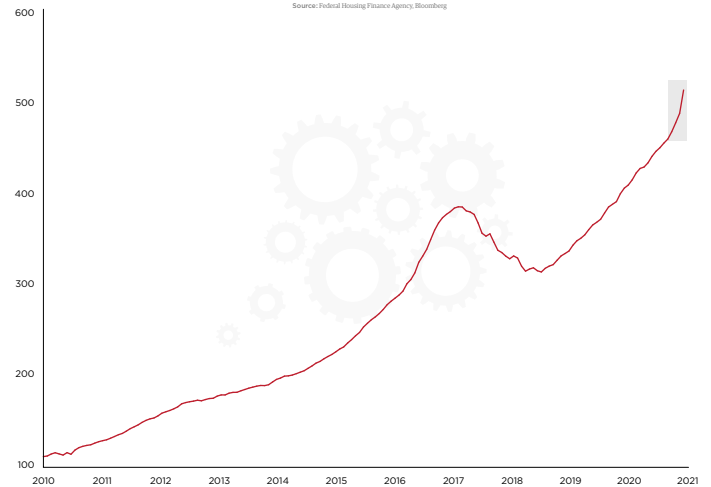
As you can see quite clearly in that chart, post-pandemic, the trajectory of price appreciation has just become even more parabolic.

So here we are. With no chance for so-called 'safe' investing via saving and compounding, with asset prices at nose-bleed levels across the investment spectrum and with rates at the zero bound – the culmination of a four decade-long journey which, while it's had its share of squalls, has, when we zoom out, been fairly plain-sailing.

Fig. 14

FHFA House Price Index

2020 - 2020
Source: Federal Housing Finance Agency, Bloomberg



But what happens next presents the possibility of a material change to the sailing conditions and, to help me handicap where we go from here, I'm going to enlist the help of two dear friends.

Lacy Hunt and Russell Napier are among the finest financial minds anywhere in the world and, for as long as I can remember, they've been on exactly the same page with regards all of the moving parts of the puzzle we all try to piece together on a daily basis.

However, late last year, Russell had a major change of heart about our likely future.

If he's right, we all have a set of profound decisions to make.

We'll get to Russell and that change of heart shortly, but first, I want to focus on Lacy Hunt – a man who's arguably been more consistently right about inflationary conditions for the last 40 years than any man alive – never wavering from his conviction that deflation is the 'X' for which we all have to solve.

Several months ago, in an episode of *The End Game*, Lacy laid out why he believes the status quo continues:

(Lacy Hunt): *Well, I think in the United States, this year we're going to hit a new peak in total public and private debt-to-GDP which will eclipse the peak that we reached in '08 and '09. The peak in '08 and '09 was the third secular peak since 1870. One occurred in the early 1870s, then 1929/1930, and 2008/2009 and now.*

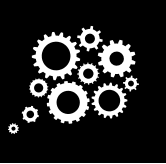
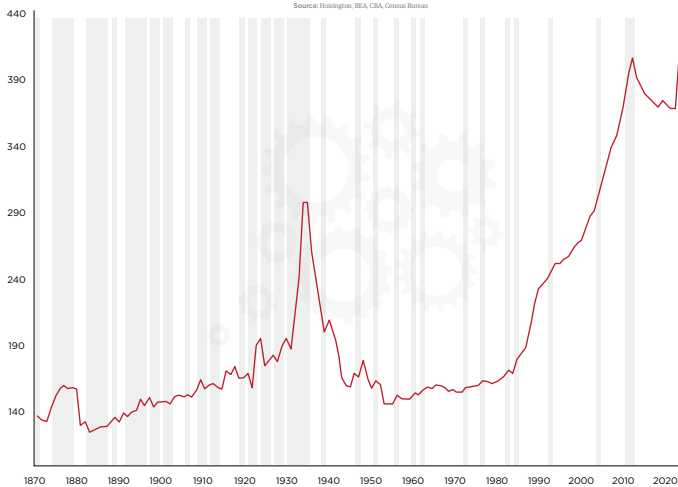


Fig. 15

Total U.S. Debt-to-GDP (% , public and private)
1870 - 2021

Source: Hoisington, BEA, CBA, Census Bureau



In each of those cases, we were all extremely over-indebted. The surge in the debt-to-GDP ratio reflected both the numerator and the denominator of the equation. The debt went up, the GDP went down. In each of the three earlier cases, the result was disinflation. The inflation rate came down, unequivocally.

In some of the instances, the fall in inflation was enough to cross the zero bound. In other words, we not only got a fall in the inflation rate but it took us into negative territory, no exceptions. Extreme over-indebtedness leads to weak economic activity.

It's hard to argue with any of that.

Lacy's case that extreme over-indebtedness leads to weak economic activity is a compelling one and, as Fig. 15 shows, we've never been this over-indebted before – and all the relative hard work done between 2010 and 2020 to make a dent in the problem has been undone at a stroke by the Covid pandemic.

Lacy continued:

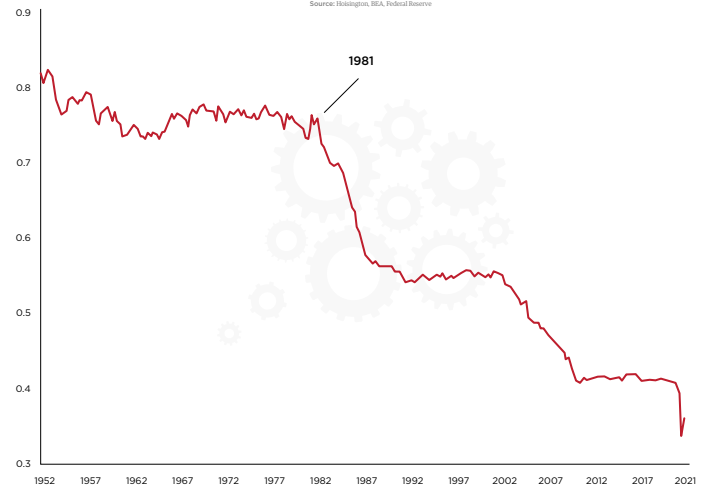
(Lacy Hunt): ...we have felt that, contrary to the conventional wisdom, debt accelerations do not lead to higher interest rates. They may lead to higher interest rates for some transitory period of time, but debt accelerations are nothing more than an increase in current spending in an exchange for a decline in future spending unless that debt is productive in the sense that it generates an income stream to repay principal and interest....

Again, as Lacy shows (Fig. 16), the debt acceleration in the U.S. has proven less and less effective over time – and there are no prizes for when the angle of descent of that chart begin to steepen: 1981. Of course.

Fig. 16

Marginal Product of U.S. Debt (GDP/\$ of non-financial debt)
1952 - 2021

Source: Hoisington, BEA, Federal Reserve



Another big part of Lacy's case over these last decades has been the importance of declining velocity:

(Lacy Hunt): We have felt that, in highly-indebted economies, the velocity of money declines. So, what happens when you become extremely over-indebted, monetary policy's capabilities become asymmetric.

If the Fed wishes to tighten conditions, the monetary policy still works. But in this circumstance such as we have today, where the economy is extremely over-indebted, the debt is highly unproductive, and we can have objective verification of that, the velocity of money falls. And so, since 1997, velocity peaked at \$2.20 and today it's around \$1.30 and a fraction...

Again, hard to argue with any of that. We've seen the economy has become more over indebted and we've seen that debt become increasingly unproductive and velocity has plummeted (Fig. 17).

Meanwhile, Lacy and his partner, Van Hoisington, formulated a theory which, while counter-intuitive, perhaps, has been borne out over the life of their deflationary call:

(Lacy Hunt): We actually put forth a theorem that received quite a bit of recognition in which we said that government debt accelerations ultimately lead to

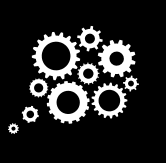
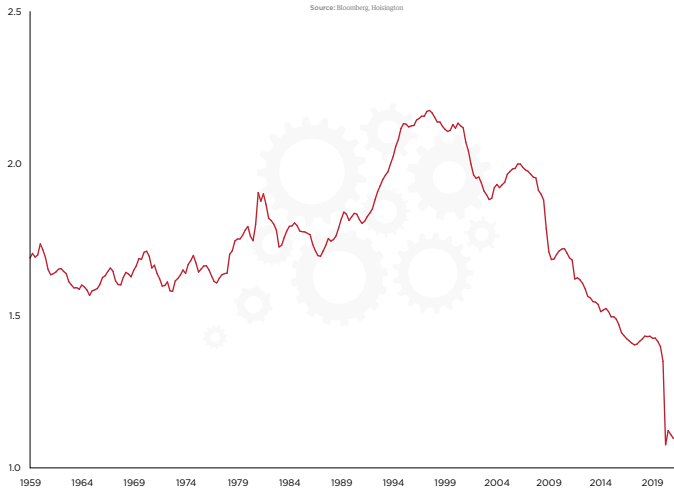


Fig. 17

U.S. M2 Money Velocity 1959 - 2021

Source: Bloomberg, Hologram



lower, not higher, interest rates. We've shown people the empirical evidence, not only for the United States, but for the other major economies of the world. And all you have to do is chart it. Chart government debt-to-GDP on the right axis, or the left axis, and then put the government bond yield on the other, and you'll see that it's an inverse correlation...."

I could have picked any over-indebted developed country's government bonds – Japan, Germany, France, the U.K. (pick your favourite) – and the charts were identical (Fig. 18).

So, given that over-indebtedness leads to lower rates, not higher rates, surely that means that the more we borrow, the lower rates will become and the higher asset prices will go. Forever.

Sounds marvellous, doesn't it?

However, unsurprisingly, there *is* a piper to be paid *somewhere* and, if a heavily-indebted country wishes to avoid default (less of a problem for the country in possession of the world's reserve currency, admittedly, but far more catastrophic were it to eventually happen), there's a way to do it.

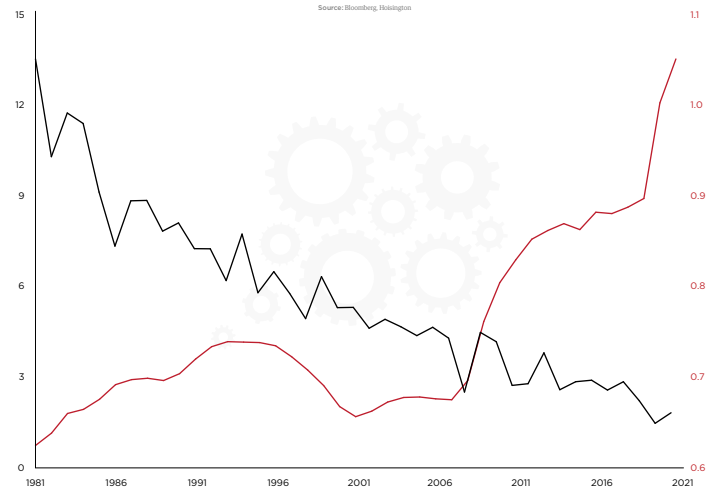
It's not a way that anybody *wants* to use, but it's still a way – and it's a proven way with a solid track record:

(Lacy Hunt): ...they looked at 24 advanced economies for the time, from 1900 through 2008, that became extremely over-indebted, and they followed the build-up in debt. And the solution, and what they

Fig. 18

US Debt-To-GDP Ratio vs 30-Year Treasury Yield (%) 1981 - 2021

Source: Bloomberg, Hologram



found, was in all 24 cases the over-indebtedness had to be solved by what they called austerity. That's their term, McKinsey's term, not mine. And they defined austerity as a multiple-year significant rise in the saving rate.

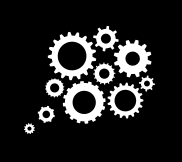
In other words, if you think of indebtedness as living beyond one's means, then you have to live inside your means. And what we have today, there's no political will to go to austerity. And so, currently we're trying to basically take on more debt to solve an indebtedness problem. There's an inherent fallacy in that concept. It's not working in China, it's not working in Japan, it's not working anywhere, nor has it ever worked.

So ultimately, there is some risk at some point in time that you, say, cross the Rubicon and instead of confining the central bank to lending operations, you allow them to begin spending, or they either usurp the power.

That last point is, according to Lacy, the *only* thing that would make him change the view he's held for the last 40-years.

If the Federal Reserve's balance sheet becomes 'weaponized' and they are allowed to spend instead of lend, Lacy expects high inflation to occur rapidly

So, in a nutshell, Lacy's case for a continuation of the conditions that have swaddled us all like a warm blanket for almost half a century looks something like this...



Soaring debt-to-GDP is not a problem, yet, and the buildup in unproductive debt doesn't lead to higher rates. Also, as long as velocity stays low (which, according to Lacy's research, it will), the path for rates to stay low (and possibly even go negative) remains.

BUT...

The *only* way out of this, according to a McKinsey study and Lacy's own research, is austerity and, if the Fed begins to spend instead of lend, it's game over.

Of course, there *is* another way out of this and that escape route is the reason why another staunch deflationist has crossed a Rubicon of his own, so to speak.

Russell Napier has stood firmly alongside Lacy for twenty years and hasn't wavered until last year when the policy response to the pandemic left him believing that his own personal Rubicon had been crossed.

(Russell Napier): Okay, well obviously for the last decade I've been arguing that we're going to have deflation rather than inflation. And it wasn't an argument that there was too much debt. It was that there was too much debt, but not enough money.

So that's the equation? What's the relationship between debt and money, and debt-to-GDP has been edging up. We solve the problem of debt if we can just create more money. And it was thought that central bankers would achieve that, and they've absolutely failed to achieve it. So the difference now is not that there's any less debt – there's more debt than ever - but finally, they found a way of creating more money.

M2 money growth spiked in the US, Japan and Europe in the teeth of the pandemic and, even though the growth in the latter two has moderated somewhat, the US seems to have found a new lower bound. (Fig. 19).

But it wasn't the growth of M2 that caused Russell to call time on a twenty year view. It was something else.

(Russell Napier): I realized one afternoon that these bank credit guarantees are it. And obviously they didn't exist in February, but March, April, they existed. So suddenly it's there, it's sitting in front of you...

...for me actually, it was the mechanism, that bank credit guarantee was the thing.

Now, that's not to say you wouldn't also get modern monetary theory, which I'm sure would achieve the same thing, but I think our governments have found a different way of doing it, a more surreptitious way of doing it, and actually a more effective way of doing it in terms of where the money goes.

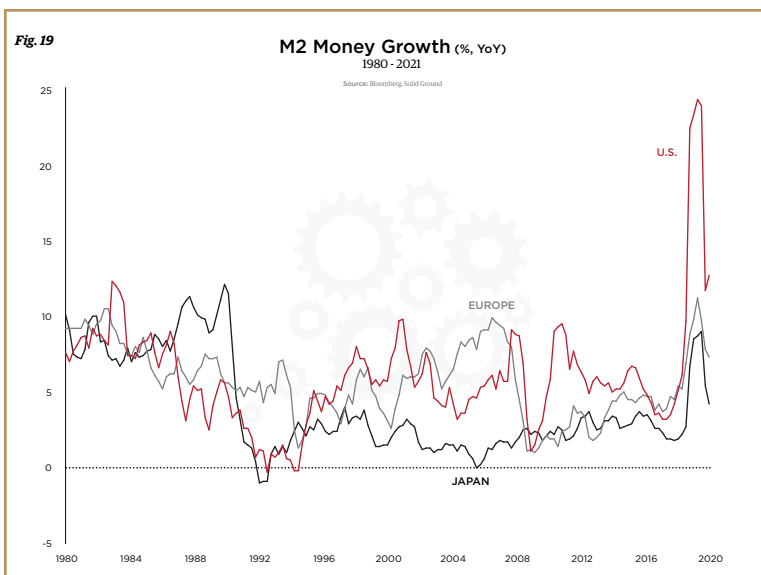
I didn't think it would come in this variety, but it came really quickly and kind of universally.

The response to Covid by numerous governments was to essentially bypass commercial banks by offering bank credit guarantees in the shape of forgivable loans directly to businesses – the CARES Act in the US or the UK's BounceBack Loans to name but two examples (Fig. 20).

This is akin to Lacy's fear that the Federal Reserve will turn to spending instead of lending.

In Russell's eyes, governments taking the steps they did is a game-changer, and the first step on the road to significant inflation.

Whether it's the bank credit guarantees or the inevitable potential appearance of MMT, Russell believes there will be necessary moves made by policymakers to balance out the scales – moves that have been made before:



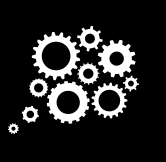
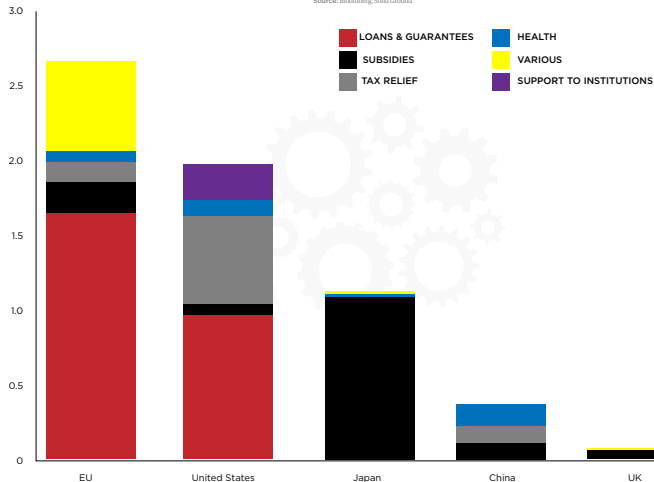


Fig. 20

Government Credit Guarantees (\$tn)
2020

Source: Bloomberg, Solid Ground



*(Russell Napier): We just recently read **The Deficit Myth**, which is just a remarkable piece of work. But in that, Stephanie Kelton points out that the Federal Reserve have indeed controlled the yield curve before, and that was from 1942 until 1951. And she says look, it can be done, obviously it's a wonderful thing because it was done before. What she failed to mention when she did that is that during that period, America had rationing, price controls, credit controls and capital controls, and forced purchases of government debt.*

Now against that background, of course you can manage the yield curve and have relatively low inflation. But believe me, if you lived in America from '41 to '45 and you were buying stuff in the black market, there was rampant inflation. So that excess money created in that process and whole environment created massive inflation, except for price controls and rationing.

Yep...Yield Curve Control (Fig. 21) – something which has been blithely talked about in recent months in an alarmingly benign fashion, comes with all kinds of problematic bells and whistles which investors need to both understand from an historical perspective, and have a plan for.

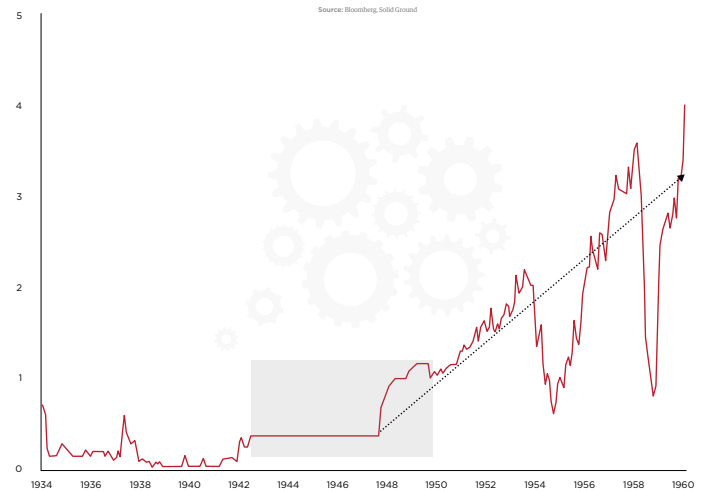
Now, this is where Russell brings us to the *other* alternative besides McKinsey's singular option of austerity. I'm talking, of course, about inflation.

(Russell Napier): There are a limited number of ways you can bring down your debt-to-GDP ratio,

Fig. 21

U.S. 3-Month T-Bill Yield (%)
1934 - 1960

Source: Bloomberg, Solid Ground



and inflation is probably the least painful, and that's why it's preferred. It's preferred over default, it's preferred over austerity, and that's why it's going to be inflation.

And there's a perfect model for this in post-World War II. We find ourselves, at least in the government sector, with similar debt-to-GDP ratios, and there is a model to how democracies dealt with it. So just because that's the way they did it last time doesn't guarantee that that's the way they do it next time, but there is at least a nice historical model of how all of this is done. So it's not a great surprise as to how you do it, because we've done it already.

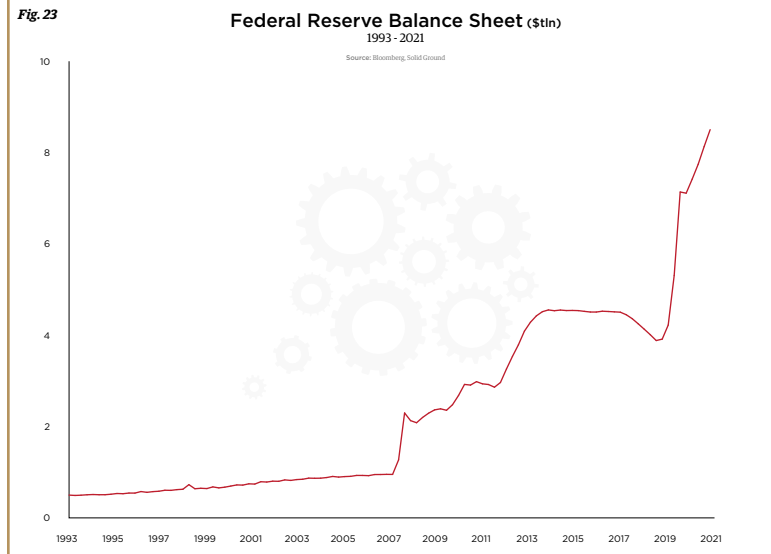
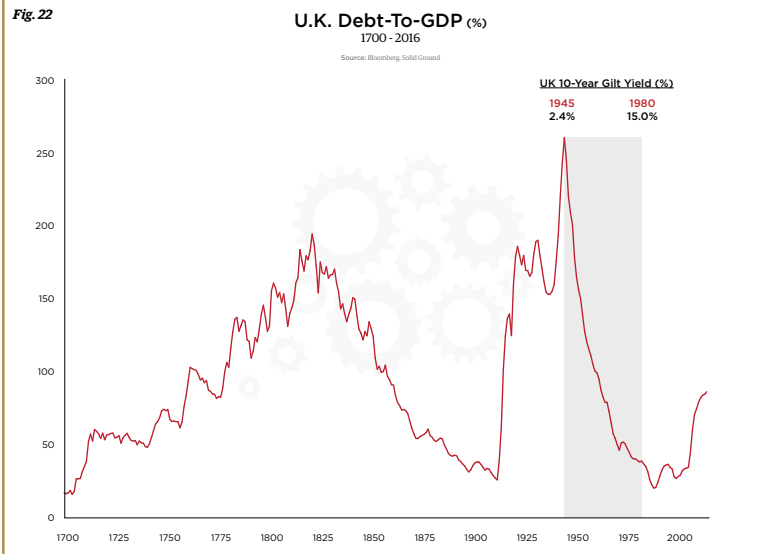
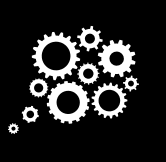
In fact, policymakers I speak to, and I don't speak to very many, point to the '45 to 1980 period as the triumph of government's ability to reduce debt-to-GDP.

What was that triumph like for savers? Well if you owned British government bonds, you lost 85% of your purchasing power.

There are modern policymakers who believe that to be one of the greatest success stories in history.

I'll let that last sentence sit for a second...

This little history lesson (Fig. 22) demonstrates just how pernicious inflation can be to bond holders. The perspective of policymakers on what transpired in the post-war period up until 1980 should send a chill down the spine of every investor.



When it comes time to square the books, governments are far more interested in the optics than the P&L of those who hold their debt.

The alternatives open to policymakers looking to navigate these treacherous seas are stark:

(Russell Napier): The biggest problem I have with people when I try to explain this, is none of them really understand the huge effort it takes to hold that yield curve down. It's like you wave a magic wand and it happens, because it cannot be done by the Federal Reserve.

Interest rates would start to rise because we're all worried about inflation. The last thing that can then happen is the central bank commits to an infinite rise in its balance sheet, to buy the treasuries and help the yield curve. So instead, what has to happen is they have to force savers to buy that stuff, and that is exactly what happened after World War II. It was the savers who were forced to hold that stuff while inflation was higher. And government bonds, particularly in Europe where it was a much bigger problem than America, were called Certificates of Confiscation.

Neither forcing savers to hold bonds guaranteed to decline in value or an infinite increase in the central bank balance sheet end well for investors but, as Russell points out, they've done this before and, from where policymakers stand, rather successfully (Fig. 23).

So here's Russell's roadmap:

Yield Curve control is a possibility but is far less benign than has been suggested in recent months as the subject has been increasingly discussed. It comes with a whole bunch of wrinkles – none of which will be any fun for the average investor.

Bank credit guarantees are the lighting of the inflationary blue touch paper and will lead to mandated government bond allocations and/or an infinite central bank balance sheet expansion.

Fun!

So, Here's a better look at what Russell thinks is the tipping point – the moment when governments took control of credit creation and guaranteeing loans made by the commercial banks (Fig. 24):

The US CARES Act was a game changer, and both the ECB and BoJ made similar moves, all of which is a huge clue as to what the next likely shoe to drop may be – and it's a clue which has been staring us all in the face for some considerable time:

Central Bank Digital Currencies.

Already, the major central banks of the world are moving down the path of implementing digital currencies and, if you take a moment to consider what both Lacy and Russell had to say about all this, CBDCs are where their two diametrically-opposed theses can finally come together in peace and harmony.

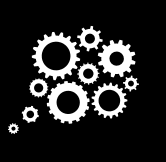
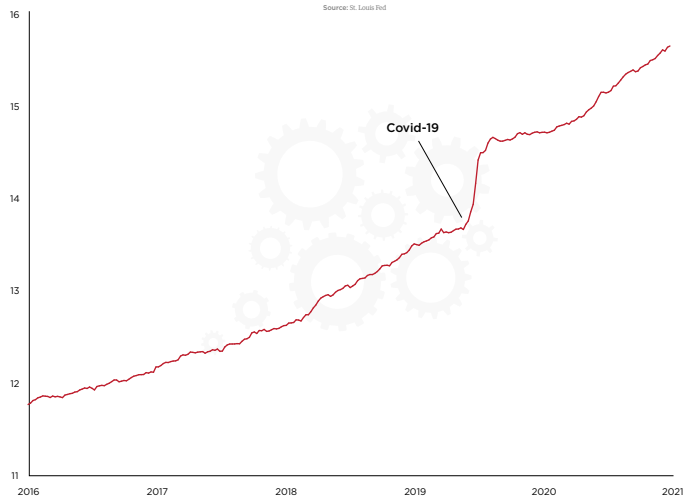


Fig. 24

U.S. Commercial Bank Credit (\$tn)

2016 - 2021

Source: St. Louis Fed



Central banks must 'roll up their sleeves' and urgently speed up their work on their own digital currencies before crypto upends the current financial system, the BIS says

Camomile Shumba

© Sep. 10, 2021, 07:41 AM



SHARE

Think about it for a second.

Russell's theory is that, thanks to the amount of debt outstanding, a degree of financial repression far more severe than that seen post-WWII will be needed in order to peg the yield curve and that mandated purchases of government debt and capital controls

will be required.

CBDCs fix this.

Meanwhile, Lacy's line in the sand for the onset of rapid inflation is for the Fed to begin to spend instead of lend.

CBDCs fix this.

Central Bank Digital Currencies provide policymakers with the tools they need to potentially deal with the fallout from a return to high inflation.

Well... except they don't, obviously, they just allow them to penalize savers and redistribute a significant chunk of the enormous wealth we've seen build up over the last 40 years 'for the greater good'

So, what's it to be? Continued deflation or, finally, the oft-predicted return of inflation after a 40-year absence?

I'm not going to ask you to pick a side – each of you will need to think this through carefully and no doubt have already begun that process – but what are the signs may help us handicap the likely outcome?

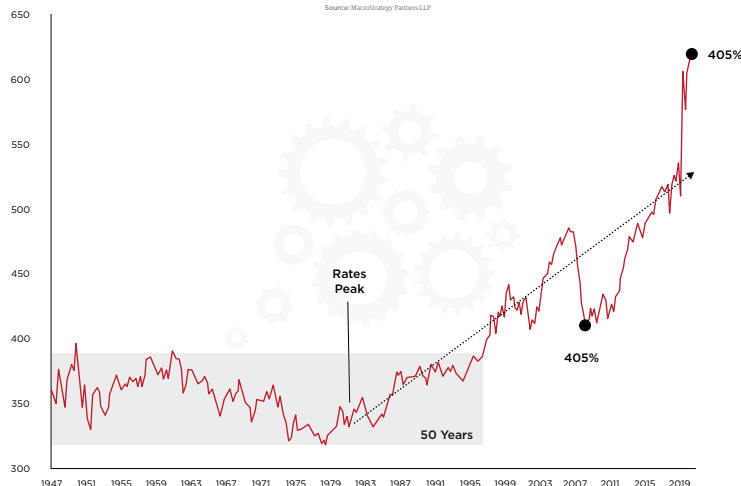
Over the course of the four decades about which we've been speaking today, the ratio of household wealth-to-GDP has skyrocketed with the move post-pandemic being particularly remarkable (Fig. 25).

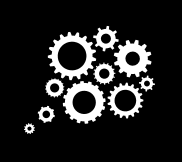
Fig. 25

U.S. Household Wealth-to-GDP Ratio (%)

1947 - 2021

Source: MacroStrategy Partners LLP





On the basis that the private sector (and, let's face it, a *very* small portion of the private sector) has benefited far more than the economy in general over the last half century and, on the basis the recent move was essentially entirely funded by money from public coffers, how do you think this might be expected to resolve itself?

Well, recent Fed minutes have shown something of a wavering commitment to the whole 'transitory' narrative but those from the September meeting were completely devoid of the T-word.

Use of the Word 'Transitory' in Fed Minutes	
MONTH	MENTIONS
March	6
April	9
June	2
July	6
September	0

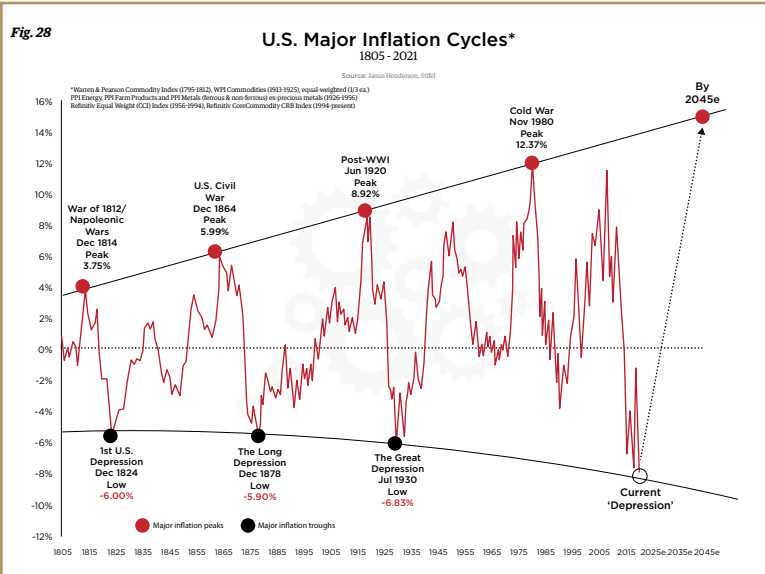
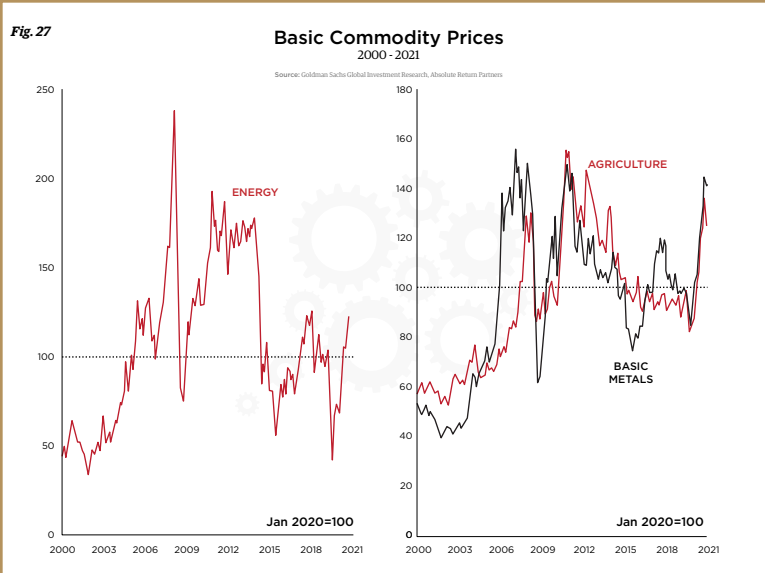
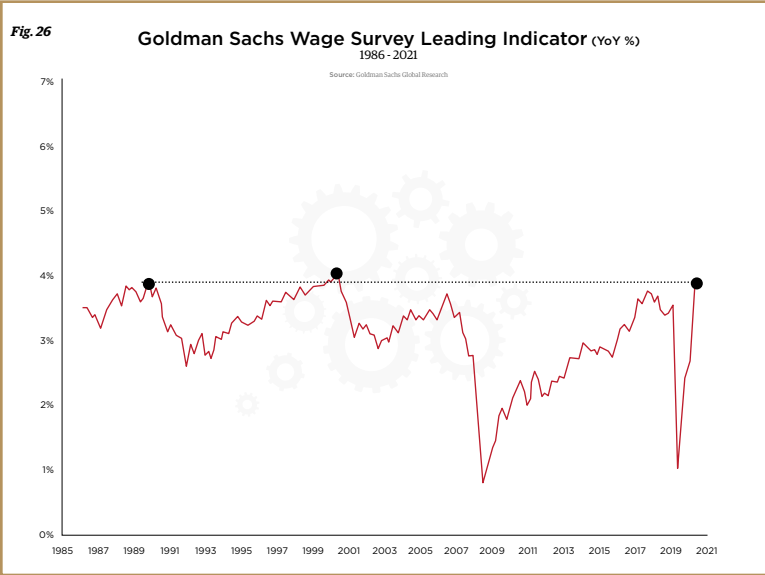
Not only that, but recent comments by Fed chair Bullard suggest the Fed is trying to gently suggest to their adoring public that inflation may actually turn out to be *'a little stronger than they forecast for a little longer than they forecast.'*

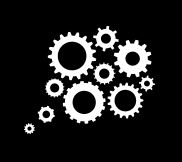
Sigh.

Meanwhile, wages – the one component of previous inflation scares that always stubbornly refused to join the party in recent decades – are accelerating at their fastest pace in almost 40 years (Fig. 26).

Basic commodity prices such as energy, agriculture and industrial metals are firmly back above their pre-pandemic levels (Fig. 27) and, in a broad sense, when we take a step back and look at longer-term inflationary cycles a worrying picture emerges.

This wonderful chart (Fig. 28) shows a blended inflation measure of agriculture, basic metals and broad commodities going back to the early 19th century and, it must be said, it provides a compelling look at one possible cycle-driven outcome.



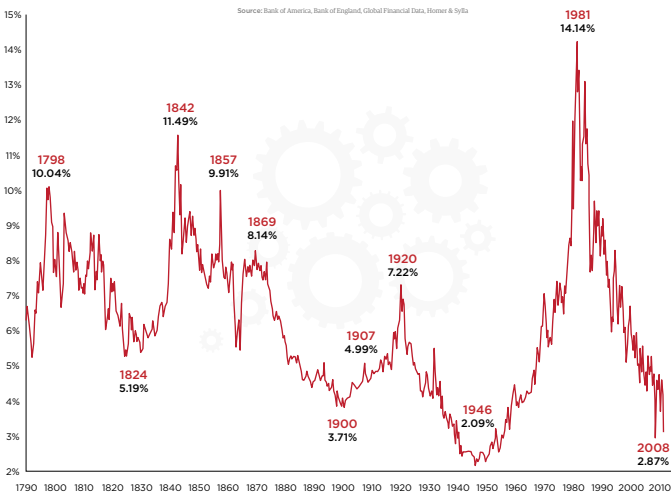


Obviously there's no guarantee this scenario plays out, but, were inflation to even make any kind of a meaningful move *towards* 15%, the sheer amount of debt overhanging the world would ensure either a series of cataclysmic market outcomes – or drastic financial repression.

Fig. 29

Long-Term Interest Rates 1790 - 2013

Source: Bank of America, Bank of England, Global Financial Data, Humes & Sylla



It's worth remembering that when inflation hit double-digits in the late 1970s, the world was less than a decade removed from being on an effective gold standard so the amount of debt at risk from rising rates was, relatively-speaking, negligible

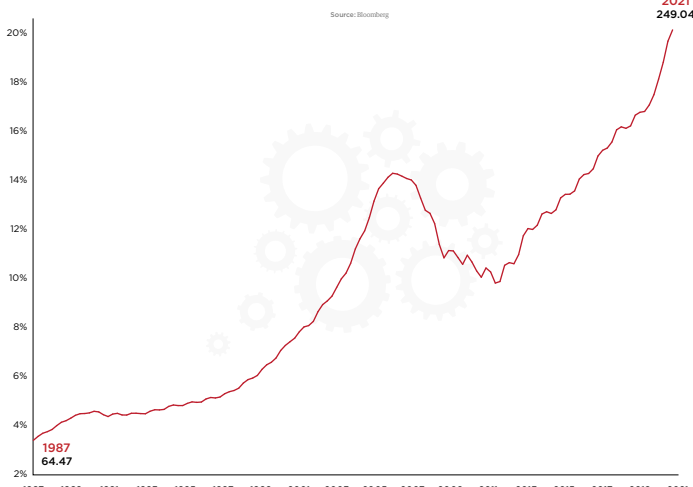
Those rising rates, however, happened FAST (Fig. 29), as they needed to in order to break the back of the severe inflation which had buckled the economy.

Today, we have a debt-fuelled economy in which

Fig. 30

Case-Shiller National House Price Index 1987 - 2021

Source: Bloomberg



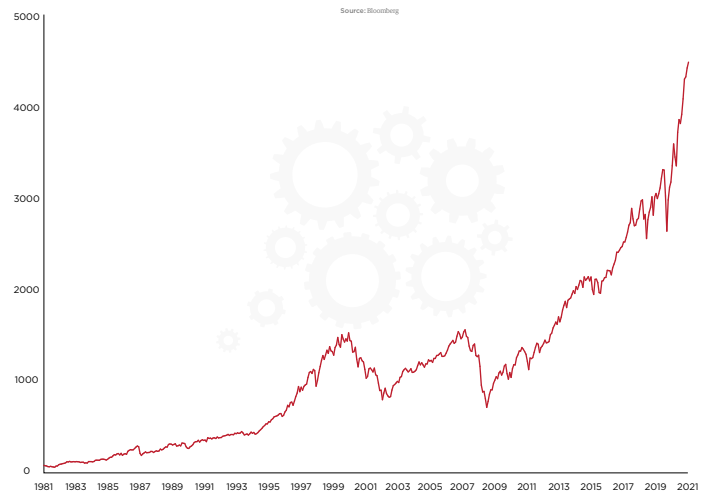
everything – and I mean *everything* – has become utterly dependent upon low rates, meaning the danger of being forced to raise borrowing costs in order to stymie inflation is enormous.

The housing market is at nosebleed levels (Fig. 30), with the excesses of 2007 a distant memory, and is utterly reliant upon rates staying low to sustain current prices.

Fig. 31

S&P500 1981 - 2021

Source: Bloomberg



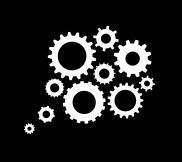
Equity markets have given us enough clues as to their sensitivity to any rise in rates over the last decade-plus (Fig. 31) and, even though the Fed has demonstrated on each occasion the S&P has wobbled that they're completely hostage to market tantrums, a significant rise in inflation will change their ability to react – at least in the way to which markets have become accustomed.

Fig. 32

NYSE Margin Debt vs S&P500 1997 - 2021

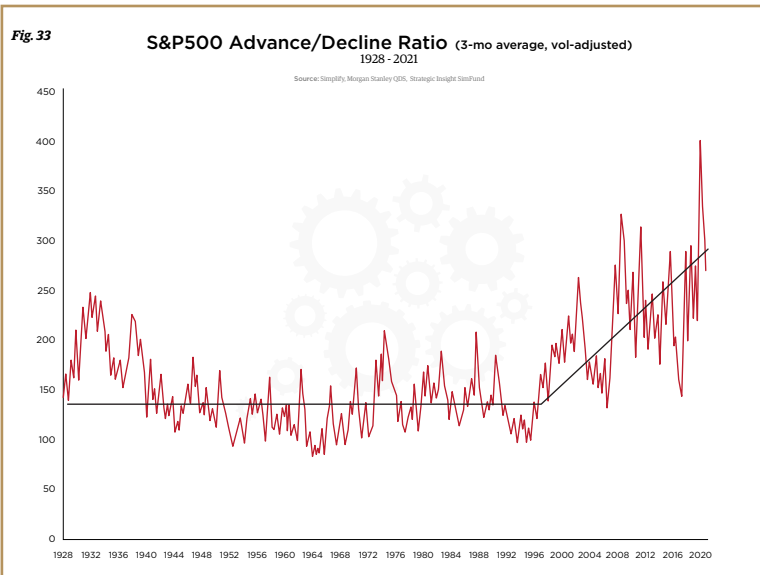
Source: Bloomberg, Advisor Perspectives



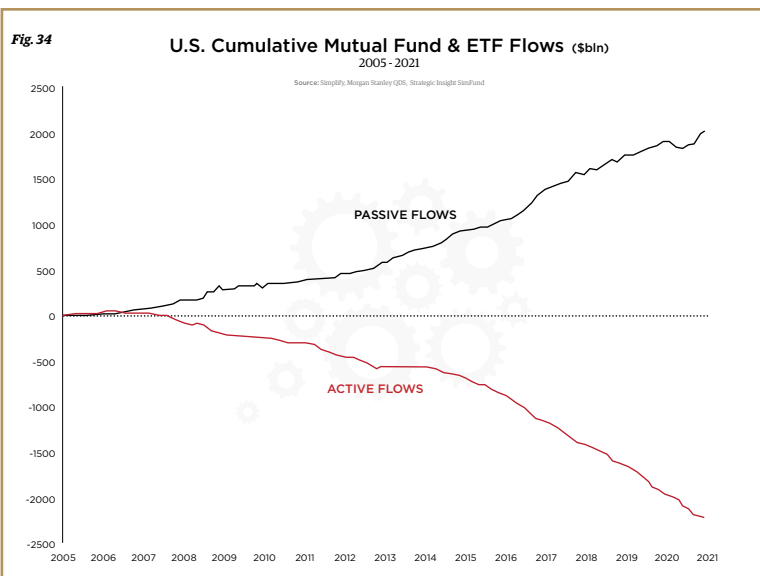


Zero rates have also encouraged a massive expansion in margin debt – again, to levels we’ve never witnessed before. A rise in rates will choke off margin debt and, as goes margin so go the markets (Fig. 32).

We also find ourselves in an era where, as passive investment has risen, correlation has increased dramatically – ramping up further the potential problems caused by any increase in rates (Fig. 33):

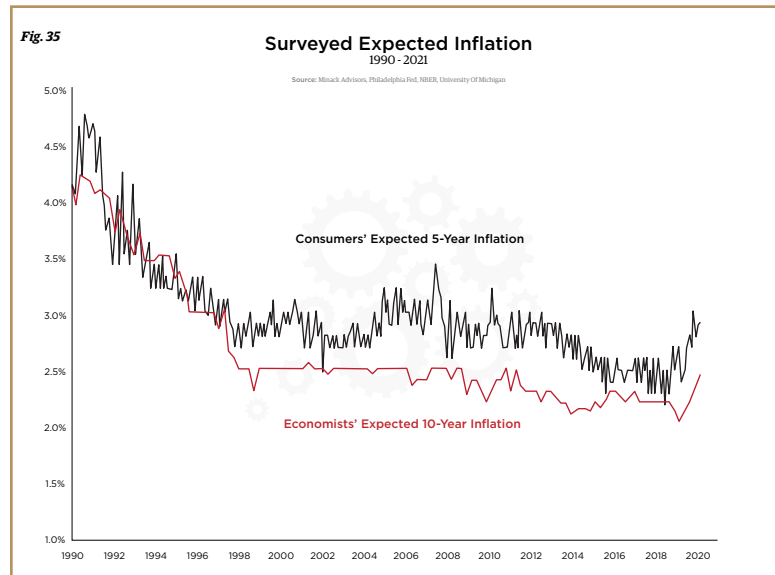


As you can see, the shift to passive over the last 15 years has been enormous – to the point where passive’s share of trading is now 40% and rising (Fig. 34). This has, of course, meant the existence of a permanent bid in a rising market but, if the market direction were to reverse... well, you know how that sentence ends.

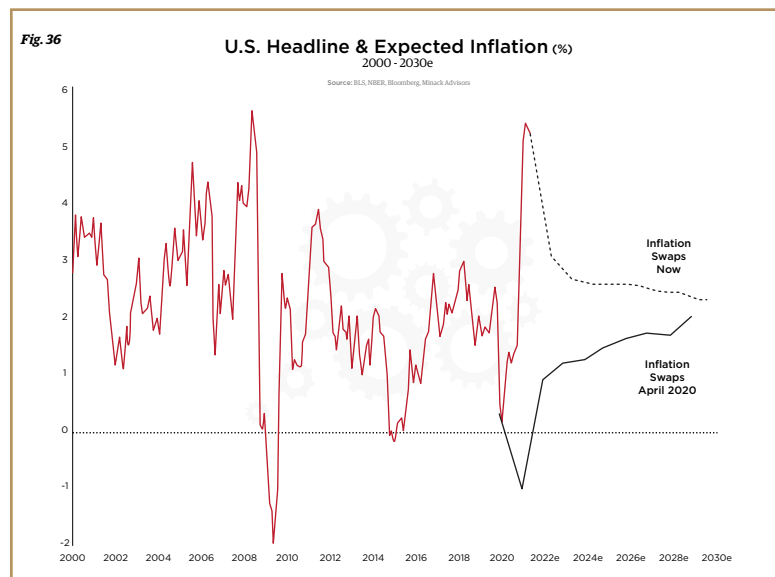


Interestingly, as my friend Gerard Minack points out in Fig. 35, while consumers and economists’ long-run expectations have lifted somewhat, they signal a certain degree of immediate concern over inflation, but no meaningful fear of a sustained rise.

Yet.

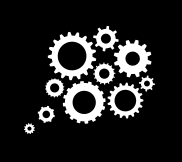


Financial markets are telling a very similar story with both mid-pandemic and post-pandemic swap prices converging conveniently once more at the Fed’s preferred 2% level (Fig. 36).



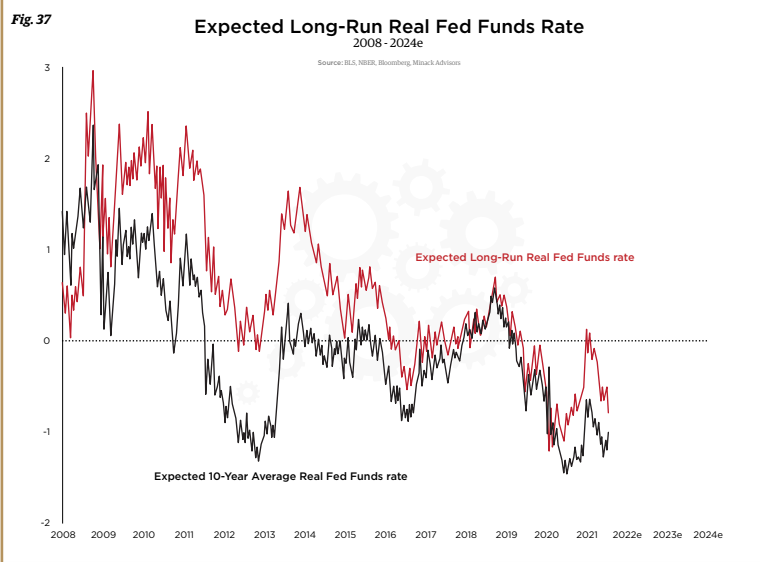
Ingrained behaviour can be difficult to shift but when the damn breaks, it shifts fast

Curiously, the reason for the seeming lack of any



concern over rising inflation has absolutely nothing to do with a belief that the Fed will turn hawkish and choke off any nascent inflation.

The two lines in Fig. 37 show the average real Fed fund rate expected over the next decade (black line) and the real Fed fund rate expected at the end of the decade (red line).



What's clear from this chart is the length of time it took markets to recognize the fact that, post-GFC, things had changed.

Post-2008, the assumption was that rates would return to normal and be positive in real terms and it really wasn't until the pandemic that expectations capitulated and real rate expectations for the end of the decade were reset to below zero.

Investors underestimated the downside of long-term rates for a decade.

Can we trust forward pricing to be an accurate estimate of future rates if inflation proves to be more than transitory?

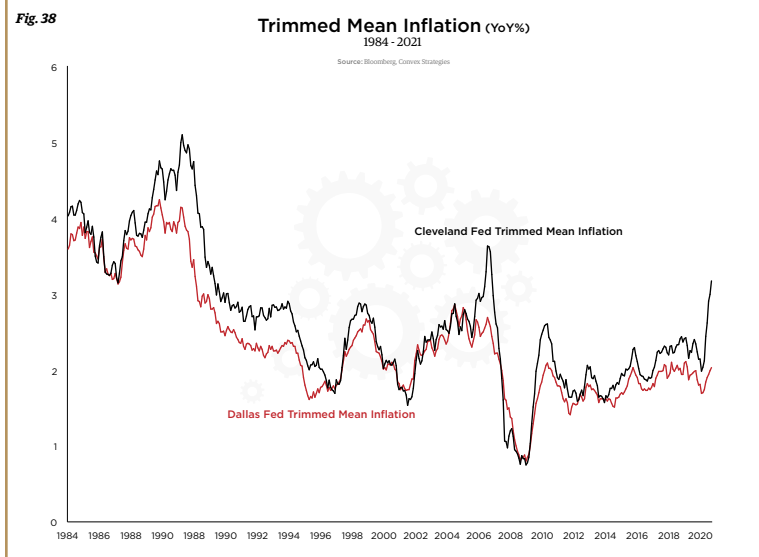
I strongly suspect not, particularly given the way in which the Federal Reserve has been trying to avoid scaring passengers as they try to maintain control of the inflation narrative.

A case in point was Jay Powell's Jackson Hole speech in August in which he laid out 5 reasons that, while *"inflation at these levels is, of course, a cause for*

concern" there are *"a number of factors that suggest that these elevated readings are likely to be temporary."*

So let's unscramble 'the thoughts of Chairman Pow' and see how he reached that conclusion.

The first measure he chose to make his point was trimmed mean inflation – specifically, the Dallas Fed's measure of trimmed mean inflation (Fig. 38).



Trimmed mean, of course, eliminates the fastest-rising prices (i.e. those putting the most stress on consumers) which is a useful tool if you're a central bank facing stronger-than-expected inflation pressure.

The Dallas Fed trimmed mean (black line) sure looks like there's nothing to worry about once you've stripped out expensive items.

Of course, if they wanted to stick with trimmed mean inflation, the Fed could have used the Cleveland Fed's calculation (red line), but they prefer that of the Dallas Fed.

For some reason.

Powell's next talking point was a moderation in what he called 'higher inflation items'. To do this, he referenced the rise in durable goods (Fig. 39) and explains that it's an anomaly because, basically, it's always *been* lower than service inflation so it's guaranteed to revert to that soon and is therefore nothing to worry about.

Next up is wages, with Powell stating that:

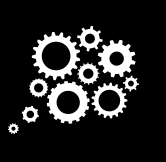


Fig. 39

Durable Goods vs Services Inflation (YoY%)
1994 - 2021

Source: BEA, Core Strategies

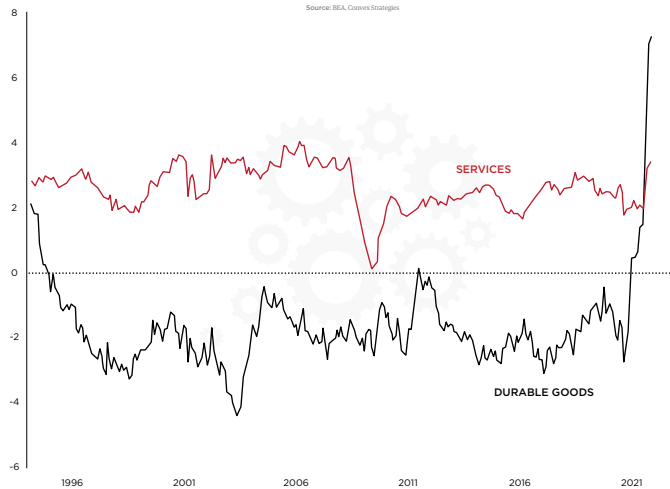


Fig. 40

U.S. Real Average Weekly Earnings (YoY%)
2007 - 2021

Source: Bloomberg, Core Strategies

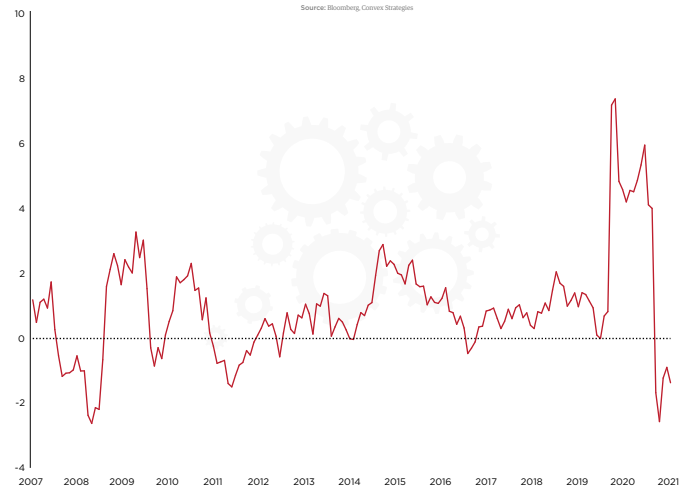


Fig. 41

U.S. Inflation Expectations (YoY%)
2013 - 2021

Source: Bloomberg, Core Strategies

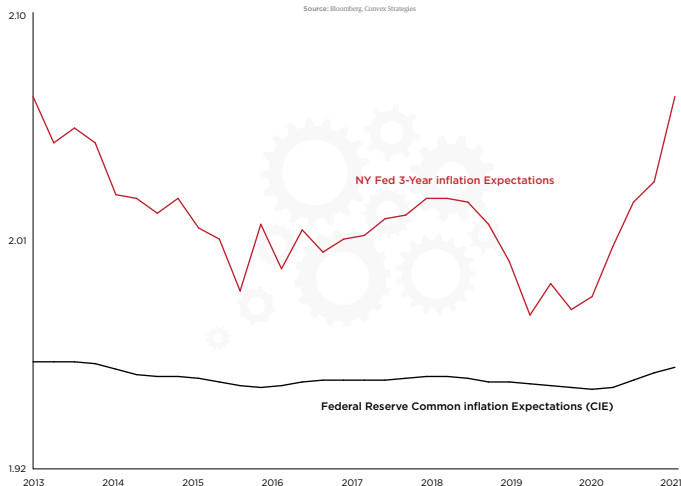
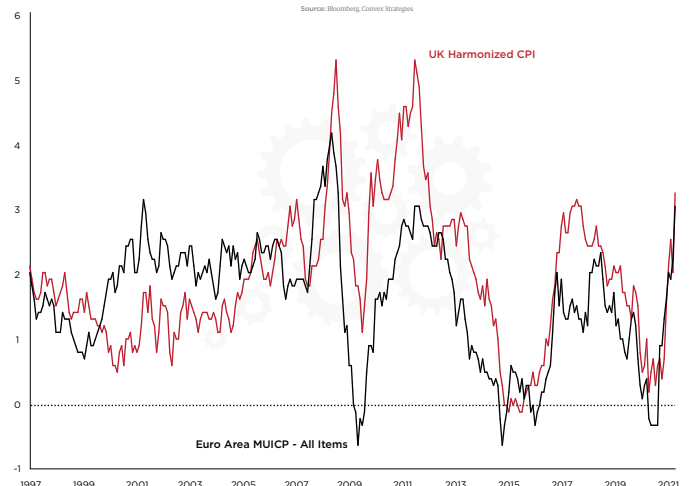


Fig. 42

Euro Area & U.K. CPI (YoY%)
1997 - 2021

Source: Bloomberg, Core Strategies



“Wage increases are essential to support a rising standard of living and are generally, of course, a welcome development”

What I'm sure he *means* is, of course, *real* wages (Fig. 40) which, as you can see, have plenty of catching up to do.

Probably an oversight on his part.

The fourth of his five talking points was inflation expectations which, using the Fed's preferred measure of something they call Common Inflation Expectations (CIE) are still moderate.

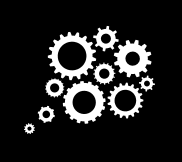
However, plotting the NY Fed's 3-year inflation

expectations against the CIE (on the same axis) demonstrates precisely why CIE is the Fed's preferred benchmark for the thing they fear the most.

The CIE just floats faithfully on either side of the Fed's 2% level.

Powell's final point is that global disinflationary forces have meant that inflation expectations have been and will continue to run low in many advanced economies and, therefore, they aren't about to reverse or abate (Fig. 42).

The evidence to the contrary is obvious to anyone prepared to look and not simply rely on the Chair's assertions.



Asset Class	Avg. Performance	YTD Performance
Oil	41%	43.2%
EM Stocks	18%	6.6%
Gold	16%	-6.8%
Cyclical Stocks	16%	17.9%
U.S. Small Cap Stocks	15%	22.1%
TIPs	13%	-0.1%
High-Quality Stocks	12%	12.3%
Growth Stocks	12%	8.4%
DM ex-US Stocks	12%	9.2%
Defensive Stocks	10%	10.9%
U.S. Large Cap Stocks	10%	13.0%
Value Stocks	8%	18.1%
High-Yield Fixed Income	5%	2.2%
Investment Grade Fixed Income	-5%	-2.8%
EM Fixed Income	-8%	-3.2%

Source: Wells Fargo

All of which brings us to the last piece of the puzzle.

If you *do* believe inflation is not only here to stay, but is likely to be more pernicious and sticky than forecasts currently suggest, how should you trim your sails?

Those of you who side with Lacy Hunt on this topic can probably stop reading now as, chances are, your portfolios will continue to do well as deflationary conditions persist.

We've already heard Russell Napier point us towards the financial repression of the 1940s as a guide for the kind of policy choices we may have to face should the yield curve need to be capped (which, let's face it, if it starts to rise it absolutely will) but what does inflationary investing look like?

Well, as luck would have it, Wells Fargo recently published a study that examined returns during a series of inflationary periods and this is what they found (Table, above).

Oil was by far the best inflation hedge, averaging a 41% rise (though its performance this year already

outpaces that).

Next up were EM stocks – which have underperformed significantly in 2021 compared to the Wells Fargo data.

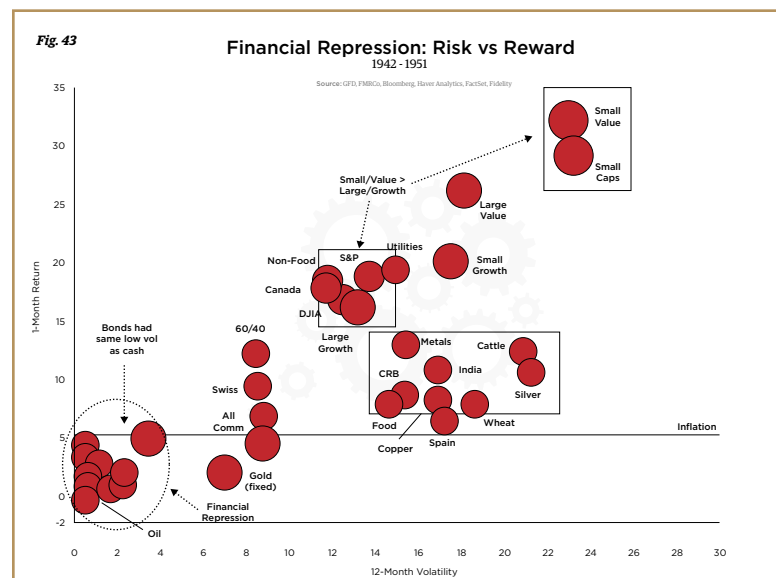
Gold was next up but, as you can see, gold has had a dreadful year (leaving it with plenty of room to run I guess)...and down the list we go.

However, there's one tiny problem with this survey I'm afraid. The data was gathered by Wells Fargo's research team during inflationary periods... since 2000.

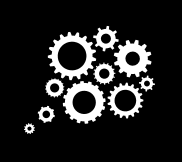
That says everything you need to know about the skewed perspectives today's investment generation have about what it means to invest during a genuinely inflationary environment.

So, instead of using the Wells Fargo data, let's take a look at something a little more useful, shall we?

The superb plot below (Fig. 43) shows how asset classes fared during the period Russell Napier highlighted (1942-1951), when the potential obstacles investors may have to face in the months to come were in evidence. It provides an excellent roadmap for how asset classes may perform under similar conditions in the years to come.



The key takeaway is that cluster in the bottom left-hand corner, a group of assets which offered consistently negative returns over the entire period with minimal volatility.



Those are government bonds. The government bonds of all the major countries and, interestingly, oil. All had the same low volatility and negative return as cash.

As Russell said, government bonds were a terrible place to be.

Certificates of confiscation.

The rest of the plot is interesting.

A basket of commodities nicely outpaced inflation over the course of the decade, and small caps (particularly value) fared much better than large caps.

EM was a losing proposition as were corporate bonds, gold was another loser – but only because the price was fixed to ensure that was the case. Its time would come later.

It's truly remarkable to see how things played out during that period post-WWII because, if we ARE going to get the kind of policy response suggested by not just Russell Napier, but also history, then nothing we've experienced in the last 40 years prepares us for the kind of environment we're about to enter and that's a thought exercise worth your time.

Adjusting to a completely new environment will take time, consideration and work – first in understanding the ramifications a switch to inflation will bring. But in the meantime, as you work through all that, there are a couple of interesting instruments which make playing the inflation narrative fairly straightforward, including INFL, the Horizon Kinetics Inflation Beneficiaries ETF (Fig. 44), (about which [I spoke with James Davolos on The Grant Williams Podcast](#) back in March 2021).

Since its launch in January, the actively-managed ETF has climbed 23% and, after plateauing for several months, recent data have given it another push, propelling the ETF to new highs.

The other vehicle which I think looks interesting is another ETF, this time offered by the good folks at Simplify (Mike Green & Harley Bassman's shop). PFIX (Fig. 45) hedges against a sharp rise in long-term interest rates and, as Russell Napier pointed out in *The End Game*, the long end is likely where rates will be allowed to rise as the short-end of the curve becomes the likely place where any interference may occur.

Fig. 44

Horizon Kinetics Inflation Beneficiaries ETF (INFL)

Jan 2021 - Oct 2021

Source: Bloomberg

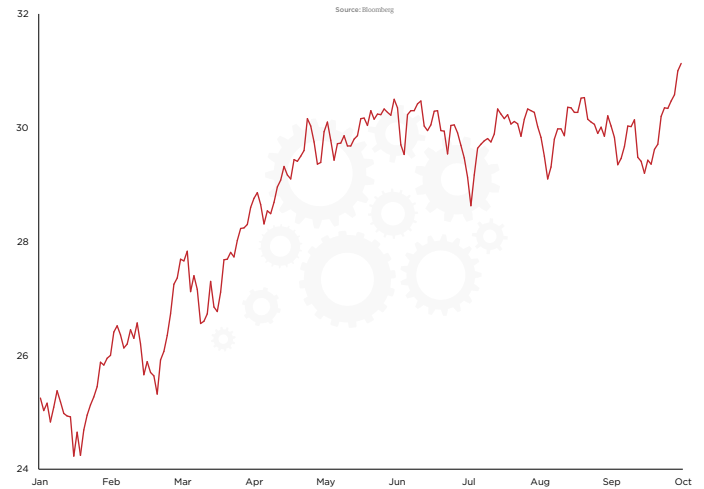


Fig. 45

Simplify Interest Rate Hedge ETF (PFIx)

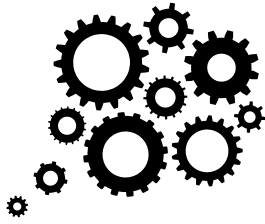
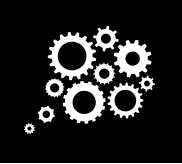
May 2021 - Oct 2021

Source: Bloomberg



This ETF looks worthy of your consideration as a useful hedge to put in place as we navigate our way through what could be increasingly choppy waters.

The side of the inflation/deflation debate upon which you come down is, in my humble opinion, the most important decision you have to make as investors and the actions any shift towards an inflationary bias will mandate differ in every portfolio but, knowing where the lifejackets are stowed and having an understanding that your sails may need well need adjusting for the first time in half a century will give you a much better chance of surviving any material change in the direction of the wind.



Alrighty Folks... after another little sailing trip to open this month's edition of Things That Make You Go Hmmm..., we return to dry land for a look at the dying wells of America's shale oil revolution, the outlawing of non-Communist Party-sponsored media outlets in China and the problems besetting the global supply chain.

Alexander Chartres offers us his thoughts on what he calls The Great Acceleration, the hunt continues for Tether's 'missing' billions, gambling helplines get a wave of new business thanks to broker apps and France makes a very sensible bet – one that is likely to cause a few problems, however.

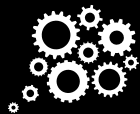
Meanwhile, in the U.S., a nascent wage price spiral looks to be a real concern finally, after the recent Fed Governors trading scandal, federal judges are making sure they get in on the Bezzle, and, talking of the Bezzle, Austria's Chancellor has this week fallen foul of a remarkable corruption investigation.

It's everywhere, folks.

Away from those stories, we have charts showing the dilemma facing the Fed as prices continue to surge, an alarming snapshot of the most trusted news sites and while we hear from a Murderers' Row of talent including Lacy Hunt, Russell Napier, Felix Zulauf and Neil Howe.

That's it from me for another edition. My thanks to you for reading.

Until next time...



Outside of hunting season, few people visit the Tri-Valley Wildlife Area in the rolling hills of southeast Ohio. When a couple of Bloomberg Green reporters showed up on a muggy June morning, the only sounds were birdsongs and the whirring of our infrared camera. We set out on foot and soon spotted the first of several rusty natural gas wells scattered across a broad meadow. Their storage tanks, half-covered with vines and brush, looked like the forgotten monuments of some lost civilization.

There are hundreds of thousands of such decrepit oil and gas wells across the U.S., and for a long time few people paid them much mind. That changed over the past decade as scientists discovered the surprisingly large role they play in the climate crisis. Old wells tend to leak, and raw natural gas consists mostly of methane, which has far more planet-warming power than carbon dioxide. That morning in Ohio we pointed our camera at busted pipes, rusted joints, and broken valves, and we saw the otherwise invisible greenhouse gas jetting out. A sour smell lingered in the air.

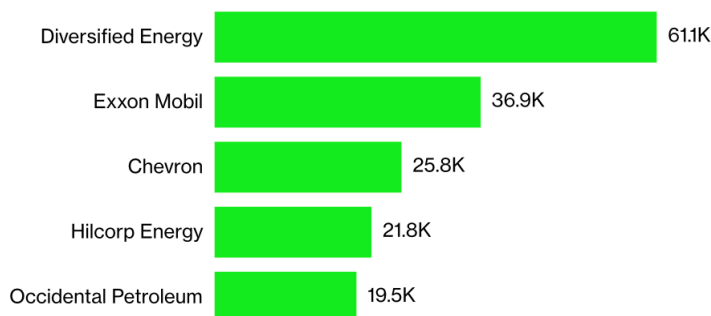
To Rusty Hutson, it smells like money.

Hutson is the founder and chief executive officer of one of the strangest companies ever to hit the American oil patch and the reason for our four-day visit to the Appalachian region. While other oilmen focus on drilling the next gusher, Hutson buys used wells that generate just a trickle or nothing at all. Over the past four years his Diversified Energy Co. has amassed about 69,000 wells, eclipsing Exxon Mobil Corp. to become the largest well owner in the country. Investors love him. Since listing shares in 2017, Hutson's company has outperformed almost every other U.S. oil and gas stock, swelling his personal stake to more than \$30 million.

But Diversified's breakneck growth has alarmed some regulators, landowner groups, and industry insiders, not to mention environmental advocates. State laws

U.S. Onshore Well Count

As of Dec. 31, 2020



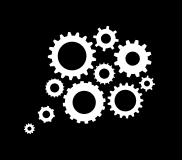
Source: Most recent company disclosures through U.S. Environmental Protection Agency Greenhouse Gas Reporting Program

require that every well be plugged with cement after it runs dry, an expensive and complicated chore. At the rate Diversified is paying dividends to shareholders, some worry there will be nothing left when the bills come due. If a company can't meet its plugging obligations, that burden falls to the state, which means Ohio, Pennsylvania, and West Virginia could be stuck with a billion-dollar mess. "The model seems like it's built on abandoning those assets," says Ted Boettner, who's studied abandoned wells at the Ohio River Valley Institute, a regional research organization. "It looks like a liability bomb that's destined to explode."

Hutson says there's no cause for worry. He claims to be able to squeeze more gas out of old wells than other companies can and keep them going longer. On average, he figures his wells have an additional 50 years in them, which means there's no hurry to start socking away money to plug them. It also means they could be spouting pollution long past 2050, the target date set by President Joe Biden for zeroing out emissions across the economy.

State regulators say Diversified hasn't broken any rules by building an empire of dying wells. Nor has it violated any restrictions on methane emissions, because none apply. Indeed, state and federal policies—from plugging regulations to tax subsidies—encourage companies to do exactly what Diversified is doing: Keep almost dead assets on life support as long as possible, no matter how much they may damage the planet.

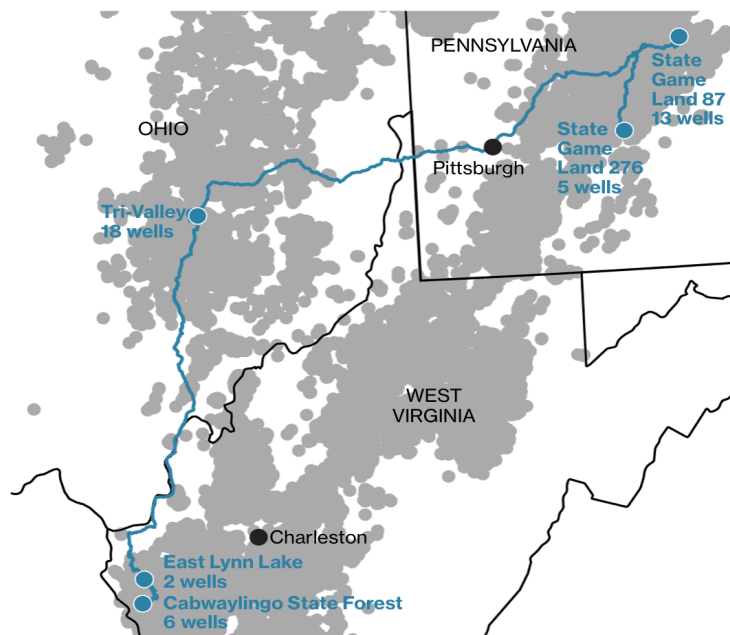
We decided to see for ourselves what Hutson's plans



might mean for the climate by visiting 44 well sites owned by Diversified. We used state databases to find accessible wells on public land in three states. Then we borrowed a \$100,000 industry standard GF320 camera—designed to spot methane—from its manufacturer, Teledyne FLIR. One of us got trained and certified to use it, and the other operated a handheld gas detector.

A Trip Through Appalachia on the Trail of Leaky Wells

- Diversified wells in Ohio, Pennsylvania, and West Virginia
- Sites visited



Data: Well locations from state oil and gas records

Advocates for natural gas call it a cleaner fossil fuel because it releases about half the carbon dioxide as coal when burned. But there's a catch: Left unburned, natural gas consists mostly of methane, which is much better at trapping heat. Released into the air, a ton of methane will cause at least 80 times more warming over the next 20 years than a ton of carbon dioxide. That's one reason controlling methane is among the cheapest and quickest ways to slow climate change and limit the wildfires, heat waves, rising seas, and droughts it's unleashing. According to one recent estimate, putting a lid on human-caused methane emissions could prevent as much as one-third of the warming expected in the next few decades.

Researchers around the world are racing to reexamine the world's energy supply chain, finding where gas is leaking and showing what can be done about it.

Scientists are training infrared cameras on methane emissions in Texas oil fields, using satellites to spot them in Turkmenistan, and driving sensor-laden vehicles around city streets in the Netherlands. One problem area they've identified: old wells that produce little or no salable gas...

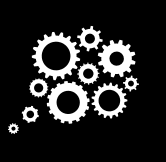


The coronavirus crisis has accelerated pre-existing tectonic shifts that are changing world order. Four interlinked areas deserve the attention of long-term investors: greater geopolitical instability; the digital revolution; domestic political changes in the advanced economies; and the rise of environmental, social and governance (ESG) considerations. Together, these make for a more volatile and inflation-prone regime, one that is less favourable to capital. In short, we're moving from a world where profit trumped politics, to one where politics trump profit.

The Ostrich Effect describes a refusal to engage with negative information. Pre-pandemic, much of the investment world was in denial about the reality of Cold War II and the geopolitical regime change it entails.

Little wonder. Several decades of Great Power peace supercharged globalisation and the integration of cheap Chinese workers with the world economy. Both have been key drivers of the falling inflation, interest rates and volatility which have underwritten a Golden Age for capital. But unfettered Sino-Western entanglement only made sense if history had died with the first Cold War. It hadn't, and a new East-West schism guarantees at least a partial unravelling of this profitable settlement.

With covid-19 fallout sending US-China relations to their lowest ebb since formal ties were established in 1979, a fundamental change in world order is now harder to ignore. Trade tensions quickly became a footnote as the tech war escalated, morphing into outright hostility and nakedly ideological competition.



Rhetoric and reality began to elide. US firms have been encouraged to de-couple their supply chains from China, especially those involving advanced technology. Or consider the pressure on Thrift, America's largest public-pension scheme, not to use investment benchmarks incorporating Chinese or Russian stocks. Or the ban on US entities holding shares in Chinese firms linked to the People's Liberation Army. These are merely amuse-bouches for greater capital conflict to come.

Von Clausewitz's oft-misunderstood formulation that "war is simply the continuation of policy... with other means" reflects an eternal truth about conflict: it is a dial, not a switch. This is truer today than ever before thanks to the proliferation of capital markets, cyberspace and globalised businesses. These novel battlefields place investors in the firing line. So the historic challenge of a twenty-first century Cold War - and the return of Great Power politics more broadly - is that there are well over 50 shades of grey between (hot) war and peace.

So where next? In Joe Biden, there's a new sheriff in town. The style has already changed materially, of course - less tweeting from the hip - but the substance is unlikely to. Democrats' traditionally tougher line on human rights and deep Sino-scepticism across the political spectrum will limit room for manoeuvre. Indeed, Biden may be able to exert more sustained pressure by refocusing on US alliances.

For Beijing's perspective, recall first that the 2008 financial crisis emboldened China's elite. It was the moment that many no longer assumed convergence with a Western model was inevitable. The events of 2020 reinforced this idea, with Xi Jinping declaring that "the pandemic once again proves the supremacy of the socialist system with Chinese characteristics."

Seen from Zhongnanhai - China's White House - America's botched pandemic response, civil unrest and turbulent election fallout provide further evidence of inexorable US decline whilst affirming China's gradual restoration to the pinnacle of world order as 'first under heaven'.

President Xi has already used covid-19 chaos as cover to advance China's interests in its near-abroad, from Hong Kong to the Himalayas. Lenin once opined that "you probe with bayonets: if you find mush, you

push. If you find steel, you withdraw." To date, Xi has found only mush in his periphery, and perceived US weakness may encourage Beijing to test the new administration sooner rather than later.

On Taiwan, for example, the 40-year-old status quo is crumbling fast and Xi has said that reunification issues "cannot be passed on from generation to generation." Markets should take him at his word. Beyond the obvious risk of direct conflict between the world's two largest economies, the global economy is extraordinarily dependent on Taiwan for the most advanced semiconductors. Any crisis there or over other disputed territories in the South China Sea threatens the significant proportion of global maritime trade sailing through it whilst potentially catalysing broader-based economic de-coupling.

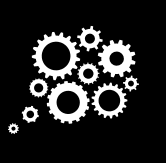
Cratered relations have accelerated China's efforts to wean itself off American tech, dollars and foreign oil. Beijing's renewed push on 'dual circulation' - a more autarkic domestic economy - runs alongside efforts to expand its sphere of influence using the Belt and Road Initiative and its newly-minted South and East Asian regional trade deal (RCEP). Meanwhile, the Sino-EU trade deal - purposefully consummated just before Biden beds in - aims to keep the West divided, and politics subservient to profits.

Geo-economic blocs with different trade, regulatory and currency ecosystems centred on China, America and the EU - where enthusiasm for 'strategic autonomy' has grown in parallel to US-China tensions - will be a defining feature of the new landscape. So will a more interventionist industrial policy in the West, as it tries to re-build its domestic production capacity.

So the impetus for further de-coupling is clear. It will become harder to run supply chains through strategic adversaries. Separate China and non-China supply chains will increase the cost of doing business. Market access will become more restrictive. And the more decisive the schism, the lower the bar to Chinese adventurism.

Taken together, tectonic geopolitical shifts will drive greater volatility, higher inflation and will privilege politics over profit.

In the zoological pantheon of market dangers, coronavirus was less a black swan - something



impossible to predict - and more a 'gray rhino'. Coined by Michele Wucker, gray rhinos are "highly obvious, highly probable, but still neglected" risks. Think of a black swan crossed with the elephant in the room.

Climate change is a classic gray rhino.

A warmer world promises more frequent and extreme weather events. With that comes crop failures, commodity price volatility and mass migration alongside wars over water and other resources. Geopolitics and economics become less stable. Compounded with existing weather super-cycles such as La Niña, the disruption will put more emphasis on security of supply, not simply the cost of supply. Again, higher prices are likely.

In recent years, growing climate consciousness has brought a greater focus on environmental, social and governance considerations within the investment and business communities. Known by the abbreviation ESG, these criteria aim to consider the wider impact of companies, looking beyond profitability. Considering greenhouse gas emissions, for example, or the treatment of workers.

Investors like to talk figuratively about the 'investable universe' of ideas. The reality, of course, is that there's only one investable planet open to us, so long-term stewardship of capital must ensure that economic activity is sustainable.

For investors (including Ruffer), ESG criteria are invaluable when considering extra dimensions of risk and opportunity. But they are also inherently more subjective than pure financial metrics: one man's terrorist is another's freedom fighter, yet both would recognise a profit.

Consequently, the greater long-term significance for markets of ESG measures may be to accelerate the dominance of politics over profit.

Take carbon border-adjustment taxes.

In theory, these are designed to adjust for the climate impact of goods - so that, for example, a lower-emission domestic producer of steel is not disadvantaged against steel imported from a high-emission mill overseas. In practice, these taxes can also be a disguised form of protectionism for domestic industry. This may be

politically, socially or environmentally desirable, but costs are going up whatever happens.

At the same time, geopolitical tension will draw more attention to the social and governance factors, the S and the G of ESG. Relative to carbon emissions, say, investors have focused little on China's human rights abuses, in Xinjiang and elsewhere. Running long supply chains through dubious regimes will become harder to justify, bringing reputational and financial risk. This will further encourage the post-credit crunch trend of de-globalisation in favour of regionalisation.

In time, governance considerations may come to include national security objectives. Stressed about the lack of truly independent non-executive directors on the board of a Western firm? Try investing in the corporate outriders of a one-party dictatorship...



China could ban all news media not funded directly by the Communist Party under new rules that will likely further limit freedom of speech.

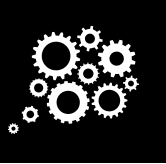
Beijing published a draft law stating that privately funded organisations "shall not engage in news-gathering, editing, and broadcasting".

Officials have not confirmed whether the new rules will apply to foreign news organisations operating in China, effectively making them illegal.

But the move nevertheless indicates that Beijing may be preparing to exercise even greater control over the news, much of which is already state-controlled, further shrinking the platform for public scrutiny.

The proposed new rules ban private media-related businesses as part of a "prohibited" list of industries.

"The 2021 list is a very broad ban on everything relating to the news media sector, while the 2020 list does allow non-public capital participation, subject to equity caps," said Henry Gao, an associate professor of law at Singapore Management University.



While it remains unclear if foreign news outlets like The Telegraph will be affected, local outlets are now likely to be facing an even more uncertain future.

Hong Kong newspaper South China Morning Post, owned by tech tycoon Jack Ma's Alibaba Group, could potentially be impacted by the law.

It has been rumoured for years that Mr Ma, one of China's richest people, was under pressure from authorities to offload his media assets due to concern he wields competing influence against the party.

Restrictions have been tightening for years, and government censors routinely scrub the internet for anything deemed by officials to be "sensitive".

Beijing has always held a tight grip over news and information in China, and virtually all media organisations are state-run, falling directly under government purview. Party directives are issued to state media newsrooms, instructing how coverage should be executed, including which topics are allowed to be reported on.

But the rise of the internet gave way to new platforms and methods of disseminating information. Some of these outlets have long existed in a grey area.

The draft document, which is open for public comment for a week, comes at a time when China has introduced a series of new regulations cracking down on numerous industries, affecting everything from e-commerce to after-school tutoring.

In 2016, Chinese President Xi Jinping visited the newsrooms of state media outlets and demanded "absolute loyalty", instructing them to "love the Party, protect the Party, and closely align themselves with the Party leadership in thought, politics and action".

Independent journalists who publish content online that goes against the official narrative are regularly removed and detained by the authorities.

Journalists who sought to disseminate information from Wuhan at the start of the coronavirus pandemic - such as Chen Qiushi, Zhang Zhan and Fang Bin - all remain missing or continue to be held by Chinese authorities.

The Chinese government has also ramped up its threats against foreign news outlets, with the foreign ministry and state media attacking specific journalists and outlets - including The Telegraph - paving the way for harassment and attacks...



Global supply-chain bottlenecks are feeding on one another, with shortages of components and surging prices of critical raw materials squeezing manufacturers around the world.

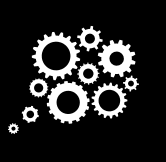
The supply shocks are already showing signs of choking off the recovery in some regions.

Part of the problem is a global economy that is out of sync on the pandemic, restrictions and recovery. Factories and retailers in Western economies that have largely emerged from lockdowns are eager for finished products, raw materials and components from longtime suppliers in Asia and elsewhere. But many countries in Asia are still in the throes of lockdowns and other coronavirus-related restrictions, constricting their ability to meet demand.

Meanwhile, global labor shortages, often the result of people leaving the workforce during the pandemic, are throwing further obstacles in the way of producers.

The bottlenecks are forecast to constrain manufacturing output well into next year, hurting a sector that had until recently powered the global recovery. Global industrial output rose above its precrisis level in early 2021 but has since stagnated, according to the Kiel Institute for the World Economy, a German think tank. It recently lowered its forecast for world economic growth this year to 5.9% from 6.7%, in part due to supply-chain issues.

Supply-chain knots have helped push inflation to multidecade highs in the U.S. and parts of Europe, weighing on consumer spending. Elevated inflation rates are already putting pressure on central banks, including the Federal Reserve, to start scaling back



their aggressive pandemic stimulus policies, a further headwind to global growth.

It is already too late to save all of the Christmas retail season in many cases, as overwhelmed world-wide transportation networks limit supply—down to the home décor. “If I can give one piece of advice to consumers right now, it is to find and buy your Christmas tree early,” said Jami Warner, executive director of the American Christmas Tree Association.

Change in freight rates, U.S. to China*



*U.S. Mississippi River to China's northern ports; through Sept. 30
Source: Wind Info

At the heart of the global gridlock is China, the world's largest trading nation.

Arriving ships often must quarantine for a week or more before they are allowed to dock. Disruptions to customs and port services add to delays. The more ships wait on the inbound side at Chinese ports, the longer it takes for them to start out again from China to the rest of the world, waiting for Chinese-made electronics, clothing and toys.

Earlier this year it cost more than five times as much to ship goods from China to South America compared with last year's pandemic low, according to U.N. Conference on Trade and Development data. Freight rates on the more heavily trafficked China-North America route more than doubled.

Beyond China, Covid-related factory closures in Malaysia have hit chip supplies to German car makers in a semiconductor market already hit by outages in Texas, Japan and Taiwan. A lockdown in Vietnam has created problems for Australian importers, say supply-chain specialists.

In Indonesia, mining companies want more trucks to feed the world's rising demand for coal and minerals. Yet the waiting list for new truck deliveries is nine months, producers say. Their own supply-chain problems make it harder to deliver the fuel and materials that would help resolve supply problems elsewhere, reinforcing the bottlenecks.

Strikes and Covid-19 cases among port workers in Australia have curtailed operations. Passenger flights to the country, which used to be an option for air cargo shippers, are still mostly halted.

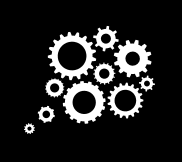
“If it wasn't on the water four weeks ago, it's not going to be here for Christmas,” said Marcus Carmont, executive director at TMX Global, a supply-chain consulting firm in Melbourne. “The get-out-of-jail card to use a plane is not really a lever you can pull.”

China has added to the stresses with limits on electricity usage triggered by efforts to address climate change. The northwestern province of Shaanxi is one of the world's largest producers of magnesium, a relatively low-cost mineral to which electric-vehicle battery makers have increasingly turned as demand for EVs rises.

Last month, the economic planner in one of Shaanxi's magnesium hubs ordered many producers to halt or reduce production to meet the region's 2021 targets for limiting energy usage, according to a trader and Chinese media accounts of a government notice. The domestic price of magnesium in China was more than 60% higher in August compared with January, according to industry data.

The magnesium shortage is one reason among many that may prevent consumers from finding the car they want around the world.

Noriyuki Umezawa, manager of a Mazda dealership in the Tokyo suburb of Kashiwa, said that he was telling customers they would have to wait at least four to five months for delivery of popular models such as the



CX-8 crossover sport-utility vehicle.

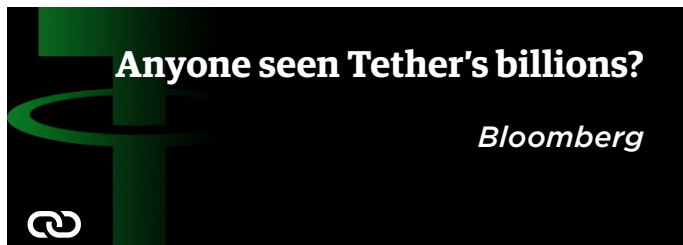
More people have shown an interest in buying a car since the country lifted a state of emergency on Oct. 1 thanks to a drop in Covid-19 cases, said Mr. Umezawa. "Now we don't have cars to sell," he said.

Rakuten Mobile, a unit of Japanese e-commerce company Rakuten Group Inc. that is trying to establish itself as a nationwide cellphone service carrier, had hoped to pitch improved service this fall. But 10,000 of its base stations that would deliver speedy data downloads can't be turned on because the company can't get the chips to attach to their antennas, said a spokeswoman.

Germany's auto industry, which accounts for a big part of the country's industrial output, has been furloughing workers on and off throughout the year as the supply of chips has ebbed and flowed. Auto makers have given priority to production of high-margin vehicles in a bid to soften the hit to earnings through lost sales.

AlixPartners, a global industry consultant, last month said the global auto industry would lose 7.7 million vehicles world-wide, nearly 10% of projected production in 2021, as a result of the chip shortage. The loss of production and sales is expected to cost the global auto industry \$210 billion in lost revenue this year, it said.

Car makers also face disruptions in supplies of resin and steel, says Mark Wakefield of AlixPartners' automotive and industrial practice...



In July, Treasury Secretary Janet Yellen summoned the chair of the Federal Reserve, the head of the Securities and Exchange Commission, and six other top officials for a meeting to discuss Tether. The absurdity of the situation couldn't have been lost on them: Inflation was spiking, a Covid surge threatened the economic recovery, and Yellen

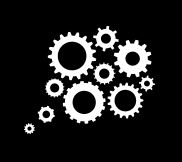
wanted to talk about a digital currency dreamed up by the former child actor who'd missed a penalty shot in The Mighty Ducks. But Tether had gotten so large that it threatened to put the U.S. financial system at risk. It was as if a playground snowball fight had escalated so wildly that the Joint Chiefs of Staff were being called in to avert a nuclear war.

Tether is what's come to be known in financial circles as a stablecoin—stable because one Tether is supposed to be backed by one dollar. But it's actually more like a bank. The company that issues the currency, Tether Holdings Ltd., takes in dollars from people who want to trade crypto and credits their digital wallets with an equal amount of Tethers in return. Once they have Tethers, people can send them to cryptocurrency exchanges and use them to bet on the price of Bitcoin, Ether, or any of the thousands of other coins. And at least in theory, Tether Holdings holds on to the dollars so it can return them to anyone who wants to send in their tokens and get their money back. The convoluted mechanism became popular because real banks didn't want to do business with crypto companies, especially foreign ones.

Exactly how Tether is backed, or if it's truly backed at all, has always been a mystery. For years a persistent group of critics has argued that, despite the company's assurances, Tether Holdings doesn't have enough assets to maintain the 1-to-1 exchange rate, meaning its coin is essentially a fraud. But in the crypto world, where joke coins with pictures of dogs can be worth billions of dollars and scammers periodically make fortunes with preposterous-sounding schemes, Tether seemed like just another curiosity.

Then, this year, Tether Holdings started putting out a huge amount of digital coins. There are now 69 billion Tethers in circulation, 48 billion of them issued this year. That means the company supposedly holds a corresponding \$69 billion in real money to back the coins—an amount that would make it one of the 50 largest banks in the U.S., if it were a U.S. bank and not an unregulated offshore company.

On Twitter, on business TV, and on hedge fund and investment bank trading floors, everyone started asking why Tether was minting so many coins and whether it really had the money it claimed to have. An anonymous anti-Tether blog post titled "The Bit Short: Inside Crypto's Doomsday Machine" went viral,



and CNBC host Jim Cramer told viewers to sell their crypto. "If Tether collapsed, well then, it's going to gut the whole crypto ecosystem," he warned.

As far as the regulators are concerned, the size of Tether's supposed dollar holdings is so big that it would be dangerous even assuming the dollars are real. If enough traders asked for their dollars back at once, the company could have to liquidate its assets at a loss, setting off a run on the not-bank. The losses could cascade into the regulated financial system by crashing credit markets. If the trolls are right, and Tether is a Ponzi scheme, it would be larger than Bernie Madoff's.

So earlier this year I set out to solve the mystery. The money trail led from Taiwan to Puerto Rico, the French Riviera, mainland China, and the Bahamas. One of Tether's former bankers told me that its top executive had been putting its reserves at risk by investing them to earn potentially hundreds of millions of dollars of profit for himself. "It's not a stablecoin, it's a high-risk offshore hedge fund," said John Betts, who ran a bank in Puerto Rico Tether used. "Even their own banking partners don't know the extent of their holdings, or if they exist."

The Bank of Crypto

A green pentagon emblazoned with a white T represents the Tether coin on the company's website, which promises "Digital money for a digital age." The logo doesn't look like much, but it's probably the most normal thing about Tether Holdings, which is weird in almost every way imaginable. Only a dozen employees are listed on LinkedIn, a tiny number for a company with \$69 billion under management.

Tether's website also touts a settlement with New York's attorney general, but the announcement of that settlement made it sound like the company had been up to some horrible stuff. Tether Holdings had been "operated by unlicensed and unregulated individuals and entities dealing in the darkest corners of the financial system," Letitia James, the attorney general, said in a statement.

Elsewhere on the website, there's a letter from an accounting firm stating that Tether has the reserves to back its coins, along with a pie chart showing that about \$30 billion of its dollar holdings are invested in

commercial paper—short-term loans to corporations. That would make Tether the seventh-largest holder of such debt, right up there with Charles Schwab and Vanguard Group.

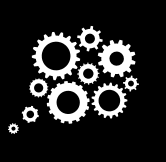
To fact-check this claim, a few colleagues and I canvassed Wall Street traders to see if any had seen Tether buying anything. No one had. "It's a small market with a lot of people who know each other," said Deborah Cunningham, chief investment officer of global money markets at Federated Hermes, an asset management company in Pittsburgh. "If there were a new entrant, it would be usually very obvious."

It wasn't clear which regulatory body is responsible for overseeing Tether. On a podcast, a company representative said it was registered with the British Virgin Islands Financial Investigation Agency. But the agency's director, Errol George, told me in an email that it doesn't oversee Tether. "We don't and never have."

The chief executive officer listed on Tether's website, J.L. Van der Velde, is a Dutchman who lives in Hong Kong and seems never to have given an interview or spoken at a conference. The chief financial officer is Giancarlo Devasini, a former plastic surgeon from Italy who was once described on Tether's website as the founder of a successful electronics business. The only reference to him that turned up in a search of Italian newspapers showed he was once fined for selling counterfeit Microsoft software. He didn't respond to emails or messages on Telegram, where he goes by Merlinthewizard.

Tether's lawyer, Stuart Hoegner, told me by phone that Van der Velde and Devasini prefer to avoid the limelight. He called Tether's critics "jihadists" set on the company's destruction. "We maintain a clear, comprehensive, and sophisticated risk management framework for safeguarding and investing the reserves," he said, adding that no customer had ever asked for money back and been refused.

But when I asked where Tether was keeping its money, he declined to say. Nor was I reassured when he told me the company had more than enough cash to cover the most money it had ever had to pay out in a single day. Bank runs can last longer than 24 hours. Hoegner later responded to follow-up questions with an emailed statement saying my reporting was



"nothing more than a compilation of innuendo and misinformation shared by disgruntled individuals with no involvement with or direct knowledge of the business's operations." He added: "Success speaks for itself."

It was hard to believe that people had sent \$69 billion in real U.S. dollars to a company that seemed to be practically quilted out of red flags. But every day, on cryptocurrency exchanges, traders buy and sell Tether coins as if they're just as good as dollars. Some days, more than \$100 billion in Tether changes hands. It seemed the people with the most at stake in the crypto markets trusted Tether, and I wanted to know why. Luckily, in June, 12,000 of them were gathering in Miami for what was billed as the biggest crypto conference ever.

At the Mana Wynwood Convention Center, I found the usual cringey crypto signifiers. Models walked the floor body-painted with Bitcoin's logo. A podcast host screamed, "F--- Elon." A dumpster full of Venezuelan bolivars was labeled "cash is trash." The place was full of people who held Tether. Sam Bankman-Fried, a 29-year-old billionaire who was in town to rename Miami's basketball arena after his cryptocurrency exchange, FTX, told me he'd bought billions of Tethers, using them to facilitate trading other coins. "If you're a crypto company, banks are nervous to work with you," he said.

His explanation doesn't make much sense if you still think of Bitcoin as a peer-to-peer currency, an ingenious way to transfer value without an intermediary. But most people aren't using cryptocurrencies to buy stuff. They're trading them on exchanges and betting on their value, hoping to make a real money score by picking the next Dogecoin, which spiked 4,191% this year after Elon Musk started tweeting about it, or Solana, up 9,801% in 2021 for seemingly no reason at all.

Think of crypto exchanges as giant casinos. Many of them, especially outside the U.S., can't handle dollars because banks won't open accounts for them, wary of inadvertently facilitating money laundering. So instead, when customers want to place a bet, they need to buy some Tethers first. It's as if all the poker rooms in Monte Carlo and the mahjong parlors in Macau sent gamblers to one central cashier to buy chips...



Helplines of gambling addiction recovery groups have been ringing with a new kind of caller: day traders.

The rise of mobile brokerage applications outfitted with prompts, animations, rewards and digital flourishes have brought the feel of investing platforms closer to online sports betting and gambling.

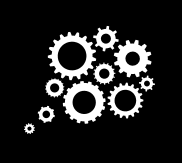
"The user experience is converging and the line between gambling and investing, which was already pretty fluid, has almost been completely erased," said Keith Whyte, executive director of the National Council on Problem Gambling, among the groups reporting more calls from stock traders to their help lines.

The US Securities and Exchange Commission is now examining the extent to which brokers' and investment advisers' "digital engagement practices" — including so-called gamification — assist or undermine small investors. A public comment period that closed on Friday drew more than 2,000 submissions.

The regulator has had to catch up with new ways for investors to buy and sell shares, derivatives and cryptocurrencies from their mobile phones on apps far flashier than traditional brokerage platforms.

Slot machine-style graphics, leader boards and lists of popular stocks are among the novel forms of digital engagement under study. The SEC is looking at how digital design itself could be construed as giving investment advice — a business that is subject to regulatory oversight.

Experts say that certain apps appear designed to encourage habits that are difficult to shake. "Gamification is about hooking and holding," said Natasha Schüll, professor at New York University and author of *Addiction by Design*, about machine gambling in Las Vegas.



Silicon Valley engineers first incorporated gamification into app design a little more than a decade ago. Engagement was measured by time spent on an app and design focused on monetising that time. Mark Pincus, the billionaire founder of the online game company Zynga, in 2011 predicted that “game mechanics will be the most valuable skill in the new economy”.

The fusion of stock trading with game-like features has gained attention as a new generation of investors flocked to the market during the pandemic. While gambling carries a cultural stigma, new investors on brokerage apps are vulnerable because they “don’t see themselves as gambling”, Whyte said.

Felicia Grondin, acting executive director of the Council on Compulsive Gambling of New Jersey, said the absence of other things to bet on, such as sports and horseracing, in the early days of the pandemic pushed some gamblers into stock trading platforms that can deliver the same thrill. Her group’s 1-800-Gambler helpline has received an almost 50 per cent increase in calls related to day trading since the start of the pandemic, she said, though she noted that the volume was small compared with calls about lotteries and sports betting.

Whyte views the increase in traders’ calls to the National Council on Problem Gambling as “the Robinhood effect” – a reference to Robinhood, the commission-free US broker. Robinhood has estimated that half of all new brokerage accounts opened from 2016 to 2021 were on its platform, and half of its own 22.5m funded accounts opened since 2015 were first-time investors.

Until earlier this year, Robinhood’s app greeted new users with a “scratch off” function that revealed a free share of stock for opening an account and rewarded customers with falling digital confetti when they executed trades.

Emoji stars and high-five symbols are still used in Robinhood customer communications, deposit confirmations and notifications. After a trade is completed, users are prompted by a sunglasses-wearing smiley face to consider placing another order.

Robinhood has argued that it provides information users want. “The efficiency of design that creates

a delightful customer experience should not be considered ‘gamification’ and does not indicate any intent to manipulate customers,” David Dusseault, president of its Robinhood Financial division, wrote in response to the SEC’s request for comment.

Vlad Tenev, Robinhood’s chief executive, wrote in a Wall Street Journal column last month that it was “offensive” to suggest that new investors were “uninformed gamblers”.

Reactions and reinforcement after a trade are borrowed from the gaming and gambling worlds, gamification experts said. They seem designed to make users feel positive about a decision and keep them engaged, regardless of whether they won or lost. Explosive moves in meme stocks and cryptocurrencies have strengthened the emotional punch.

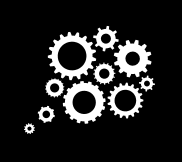
“When you’re reinforcing that activity, it starts to rewire a person’s brain, and translates to habit that for some leads to addiction,” Grondin said.

Robinhood has eliminated confetti but added a rising hot air balloon “celebration” to its new IPO Access feature, which enables customers to participate in certain initial public offerings. Still, “even the rising suggests something”, said Andrew Zimmerman, founder of Behavior Design Collective, a behavioural science consulting firm. “If it was a brick that fell from the top, you’d get less positive feedback.”

Bright colours and live prices that scroll up and down like slot machine wheels intensify user reactions to unexceptional numbers and drive action. “An animation or reaction makes you feel like you did something, and you get a release of dopamine without having to engage your conscious brain,” Zimmerman said.

Gamification does not change the options available to retail investors, as no one is forced to make a trade. But overly simplified, gamified interfaces on brokerage apps affect the way decisions are made, experts said.

“There is a difference between making a user platform easy to use and creating a user platform that feels like a video game, that doesn’t feel like I’m taking a lot of risk,” said Vicki Bogan, professor at Cornell University’s business school who studies the gamification of finance.



Hundreds of retail investors filed comments in response to the SEC's invitation. Commenters also included the North American Securities Administrators Association, a group of state investor-protection regulators.

"By using features such as confetti, scratch-off style graphics and awards systems, certain firms are encouraging investors to make trades that may not be in their best interests and would conversely serve the interests of the broker-dealer," the association wrote to the SEC.

Schüll said Robinhood's success in bringing people into the stock market was largely positive.

"But they're also taking advantage of a desert of regulation in this new digital terrain," she added. "We haven't put clear limits in areas where gamification could be problematic, like investment..."



President Emmanuel Macron has said France will invest €1bn in nuclear power by the end of this decade as Europe's energy crisis spurs renewed interest in the contentious source of power.

"The number one objective is to have innovative small-scale nuclear reactors in France by 2030 along with better waste management," he said while announcing a "France 2030" investment plan on Tuesday.

France is a bastion of nuclear power in Europe, with more than 70 per cent of its electricity derived from nuclear plants. However, after the disastrous 2011 explosion at a plant in Fukushima, Japan, and big cost overruns at a new plant in Flamanville, north-west France, national pride around France's nuclear capability eroded.

Early in his presidency Macron announced the intention to shut 14 reactors and cut nuclear's contribution to France's energy mix from 75 to 50 per cent by 2035.

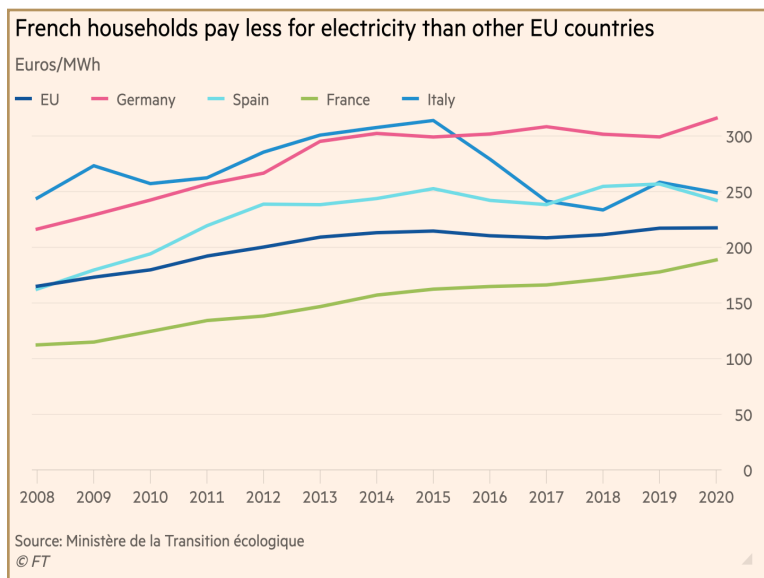
But the mood has now changed. Macron said on Tuesday he would begin investing in new nuclear projects "very quickly".

"We will continue to need this technology," he said.

Approval of nuclear plants is also a way for Macron to show his pro-nuclear credentials when a number of his most likely challengers in next year's presidential election are pushing for more investment.

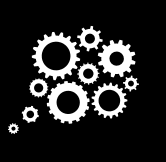
"Nuclear is coming [back] to the fulcrum of the energy debate in France and much faster than I ever thought it would," said Denis Florin, a partner at Lavoisier Conseil, an energy-focused management consultancy.

Advocates say nuclear power's availability and predictability has proved its worth at a time of soaring gas prices – while renewable energy remains volatile and difficult to store. Those advantages, which have protected French industrial companies and consumers from the most severe price hikes seen in other parts of Europe, have begun to outweigh lingering safety concerns.

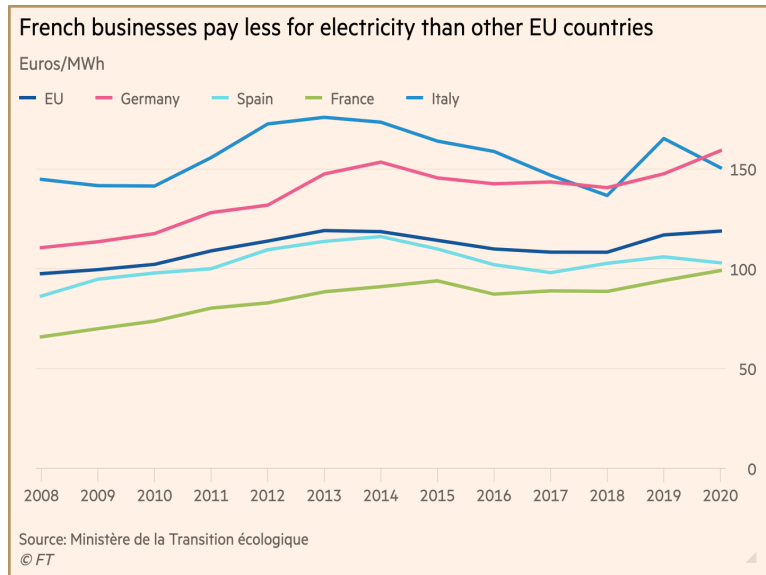


About 25 per cent of France's electricity is sold at a regulated price of €42 per megawatt hour (MWh). The rest is subject to wider market prices and, specifically, a European pricing mechanism that means countries pay for the last unit of energy consumed – normally gas – which has led to some frustration among French consumers.

Bruno Le Maire, France's finance minister, has



advocated a complete overhaul of Europe's electricity pricing mechanism, which he argues unfairly prevents French citizens from fully benefiting from the country's nuclear capability.



France also wants nuclear energy to be labelled as "green" in the evolving EU green finance taxonomy that determines which economic activities can benefit from a "sustainable finance" label. France and eastern European capitals want to show investors that nuclear energy is part of the EU's journey towards carbon neutrality, while Germany and others have resisted, pointing principally to the environmental impact of nuclear waste.

Many on the left of French politics remain wedded to the idea of reducing France's nuclear power supply, seeing it as a substitute for ambitious investment in renewable energy sources, such as wind and solar, at a crucial juncture in EU governments' ambitions to reach carbon neutrality by 2050.

But proponents of nuclear power argue that in recent weeks France has boasted much lower carbon emissions than Germany, which has been rapidly phasing out its nuclear fleet since 2011 and has invested heavily in renewable energy but has also become more reliant on coal.

Nicolas Goldberg, a senior energy analyst at Columbus Consulting, said Macron had now "firmly taken the path of seducing the right more than the left" with his nuclear policy, at a time when many rightwing presidential rivals promise that they would enhance

France's nuclear capability.

Centre-right candidate Valérie Pécresse said this month that she would halt the planned shutdown of 12 nuclear reactors and give the state-controlled energy company EDF the green light to produce six new nuclear power stations.

Eric Zemmour, who is rising quickly in polls after captivating the French public with his anti-immigration rhetoric, has also called for more nuclear investment and lambasted Macron's investment in wind energy. "I do not want our country to lose its energy sovereignty under the pretext of an absurd energy transition copied from Germany," he wrote in the magazine *Le Point* this month.

Such calls also reflect shifts in public opinion.

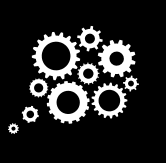
While a recent opinion poll by Odoxa found that the French public is still on the whole more favourable to wind power than nuclear, at 63 per cent compared with 51 per cent, French citizens' support for nuclear has increased 17 percentage points over the past two years, while positive perceptions of wind power have decreased by the same amount...



Mary Geiger Lewis acquired Walmart Inc. stock. Charles Norgle Sr. reported nearly a dozen buys and sells of Pfizer Inc. shares. Charles Siragusa had two accounts that bought Medtronic PLC stock.

None of that would be a problem, except for this: All are federal judges, and at the time of the trades, all were hearing cases involving those companies.

The Wall Street Journal discovered this trading in a broad investigation that identified 131 federal judges who heard hundreds of cases between 2010 and 2018 involving companies in which they or a family member owned stock—in violation of federal law and judicial-ethics rules.



Judges Lewis, Norgle and Siragusa were among 61 judges who didn't just own stocks of companies that were litigants in their courtrooms. Accounts held by the judges or their families traded shares as suits were progressing, the Journal's investigation found. Nearly half of the judges reported more than one trade while a case was in progress.

Federal law and ethics rules say judges must recuse themselves if they, their spouse or any minor children own even a single share of a company that is a plaintiff or defendant in a case before them.

Some judges, when contacted by the Journal, said they were unaware that brokers or advisers who managed accounts for them traded shares of the companies during the cases. But there is no exception for holdings in managed accounts. And federal law requires judges to inform themselves about their financial interests and make a reasonable effort to do the same regarding their spouse and any minor children.

Other judges said they failed to update their "recusal lists"—tallies that judges keep of parties they shouldn't have in their courtrooms—in the middle of hearing cases. Federal courts use software to identify such parties, but the software can't spot stocks judges buy unless the judges update their conflict lists.

Trading during a case "can happen only if the judge is recklessly indifferent to the conflict-of-interest rules in the statute and the Canons of Ethics," said Arthur Hellman, an ethics specialist and law professor at the University of Pittsburgh, who was briefed on the Journal's findings.

While Judge Walter Rice was hearing a case involving International Paper Co., his financial disclosure form shows, he sold between \$15,001 and \$50,000 of the company's stock in December 2015. The sale earned a profit of between \$15,001 and \$50,000, the form shows. Judge Rice said that later that month, he gave his remaining shares to five charities. International Paper doesn't appear on his later disclosure forms.

The case involved an effort to recoup cleanup costs from International Paper and other companies that operated a mill in Dayton, Ohio. During the case, which is pending, Judge Rice, an appointee of former President Jimmy Carter who serves in the Southern District of Ohio, has issued rulings both favorable and

unfavorable to International Paper.

After being contacted by the Journal, Judge Rice informed parties to the case of the appearance of the conflict. "In all candor, I am remiss at checking this as thoroughly as I should," he said.

Judge Rice said the stock was in an account whose manager "can buy or sell without getting my permission." He said he wasn't aware he owned International Paper shares, likely because he wasn't reading the statements.

A spokeswoman for International Paper declined to comment.

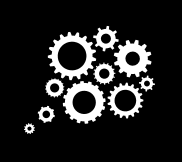
The Administrative Office of the U.S. Courts on Wednesday warned judges in a memo they are required to keep informed about their finances and maintain timely lists of parties that are off limits. Judge Roslynn Mauskopf, director of the office, wrote that judges may not rely on accounts managed by financial advisers to avoid their recusal obligations. "Up-to-date recusal lists are the most effective tool for conflict screening," she wrote.

In response to Journal articles on judges' recusal failures, lawmakers are proposing far-reaching changes. A bill being drafted by House Judiciary Chairman Jerrold Nadler (D., N.Y.) and Rep. Hank Johnson (D., Ga.), would require judges to report financial transactions, such as stock trades, within 90 days, a congressional aide said. Judges would also have to post their financial disclosures in a searchable database, and there would be civil penalties for recusal violations. The committee plans a hearing this month, the aide said.

Judge Lewis, who owned Walmart stock, reported on a disclosure form five purchases of the shares in a six-day span while she presided in a suit against the company in August 2017.

Walmart and the plaintiff, a former employee seeking short-term disability benefits, told the judge early in August of that year that they were exploring a settlement. Judge Lewis extended court deadlines to give them time to resolve the matter.

Her financial disclosure form recorded five purchases from three different accounts in quick succession. The



form shows Walmart stock bought on Aug. 25, Aug. 29 and Aug. 30, the day Judge Lewis dismissed the case.

At the time, her retirement account and a trust each held as much as \$15,000 of Walmart stock, and another trust held \$15,001 to \$50,000 worth, her disclosure form shows.

Judge Lewis, who is based in Columbia, S.C., and was named to the court by former President Barack Obama, declined requests for comment. After the Journal contacted her, the court clerk notified parties to the suit about her stock ownership, saying it “neither affected nor impacted” her court decisions but would have required her to recuse herself.

The clerk’s letter invited the parties to respond and said a different judge would consider any response they filed. The parties didn’t reply by an Aug. 9 deadline the letter set. Walmart didn’t respond to requests for comment.

Judge Norgle’s 2010 financial disclosure form shows 11 purchases or sales of Pfizer shares while he oversaw a suit against the pharmaceutical company.

Before the suit, he acquired Pfizer shares worth between \$15,001 and \$50,000 on Feb. 3, 2010, and made three smaller purchases that month, the last on Feb. 17. Less than a week later, Judge Norgle was assigned to hear a lawsuit alleging that Pfizer falsely marketed an expired patent on packaging of Advil products.

His disclosure form shows trading continued in March with four more purchases and one sale of Pfizer stock—three of the purchases valued at up to \$15,000 each and one purchase and one sale valued at between \$15,001 and \$50,000. The form records six additional Pfizer trades in April and May, the last a sale of \$15,001 to \$50,000 of Pfizer stock on May 20.

Judge Norgle rejected Pfizer’s motion to dismiss the case early the next year, and in May 2011 granted Pfizer’s motion to transfer it to New Jersey federal court.

Judge Norgle, a Ronald Reagan appointee based in Chicago, didn’t respond to requests for comment. The court clerk sent the lawsuit’s parties a notice this month saying that the judge’s stock ownership

didn’t affect his courtroom decisions but would have required his recusal. The parties hadn’t filed a response as of Tuesday. Pfizer declined to comment...

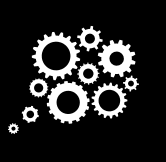


The rich world is used to wages and prices growing slowly. In the decade after the global financial crisis, inflation rarely exceeded central banks’ targets, and wages seemed unable to grow much faster. The spending power of average hourly pay in Britain, Italy and Japan was about the same at the start of the pandemic as it had been in the mid-2000s. The fact that American wage growth averaged 2.9% from 2015 to 2019 while average inflation stayed below 2% seemed a rare triumph.

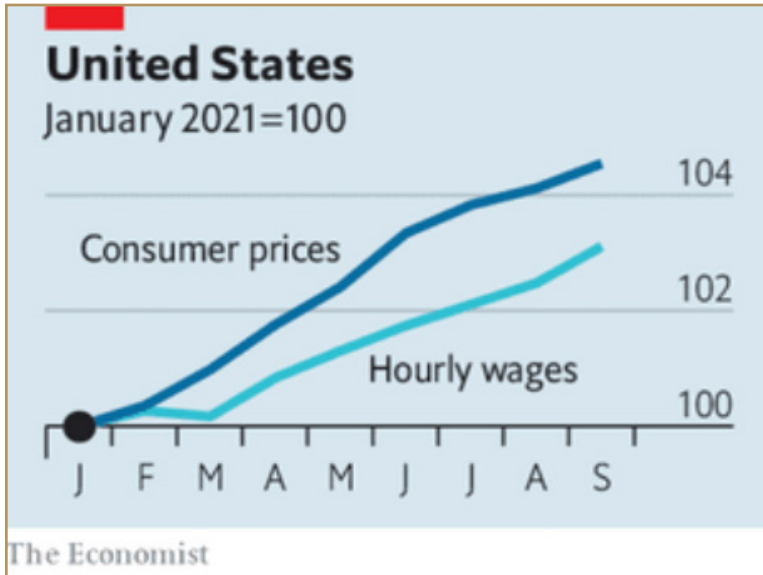
The recovery from the pandemic has brought about a startling change: prices and wages are both surging. American hourly pay rose by 4.6% in the year to September while consumer-price inflation of 5.4% is more than wiping out those gains. In Germany inflation has reached 4.1% and the main public-sector union is asking for a pay increase of 5%. Wages and prices have even picked up modestly in Japan.

The causes of higher prices are clear: rampant demand for goods has met bottlenecks in supply chains, and energy prices have soared. Wage growth is more mysterious. In most places employment is lower than it was before the pandemic. Yet workers seem unwilling or unable to take the abundant jobs that are on offer. The labour shortage may reflect how hard it is to move between professions and places as economies go through an unusual adjustment. Fear of the virus and the lingering effects of state support for household incomes could be keeping workers idle. The pandemic may even have led some people to put family and leisure above their careers.

A hazy understanding of what is driving wages up is making life harder for central banks. Most have argued that high inflation is temporary. But excessive wage growth could be the next factor to drive up prices, especially if workers demand higher pay in the expectation of future rises in the cost of living—an



insurance that exacerbates the very thing it seeks to offset.



To avoid enduring inflation, some combination of three things must happen. Firms could absorb higher wages in their margins rather than raising prices. Productivity growth could make higher increases in real-wages sustainable. Or idle workers could return to the labour force, dampening wage growth.

In the popular imagination workers' share of the economic pie has room to grow at the expense of profits. But recent research suggests that labour's share of the value created by firms has in fact been fairly stable in most rich countries during recent decades. We estimate that it has already risen by one percentage point on average in big rich countries during the pandemic. There may not be very much scope for further increases.

Higher productivity growth is a reasonable hope. Output per worker has risen in America since the start of the pandemic. The digitisation brought about by the pandemic should boost living standards, particularly if it reduces the need to live near expensive cities to get good jobs. The trouble is that time lags make it hard to base policy on productivity trends. They are hard to measure in real time and it takes about 18 months for central banks' decisions to fully feed through into the economy.

That means policymakers should focus on the labour supply. Its recovery has been disappointing so far. There is surprisingly little sign that the end of

emergency programmes, such as America's extended unemployment insurance and Britain's furlough scheme, has increased the number of people looking for work. Perhaps, though, as bank accounts run dry and the pandemic abates, some slack will reappear in 2022, causing wage growth to slow. Even more than usual, monetary policymakers should keep their eyes fixed on jobs...

The stench of corruption leads to Kurz's sudden resignation

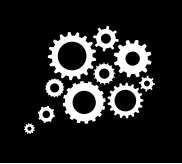
Der Spiegel



When the political bomb exploded in Vienna, Sebastian Kurz wasn't even 20 kilometers south of the Austrian border. And he was in surroundings where he feels most comfortable - among Europe's political leaders, including Angela Merkel, Emmanuel Macron and Mario Draghi. The Western Balkan Summit had brought the EU's most powerful together, and if Kurz has achieved one thing during his tenure, then it is giving off the impression that he and his country are among the heavyweights in Europe and not one of the smaller member states.

It was shortly after 10 a.m. on a Wednesday and the European heads of state and government were sitting in a plenary meeting when the news began spreading in Vienna and in Brdo, where the summit was being held: In the early morning hours, the authorities had searched the Austrian Chancellery, the headquarters of Kurz's Austrian People's Party (ÖVP), the Finance Ministry and one of the country's most important publishing houses. The search warrant, which DER SPIEGEL and the Austrian daily Der Standard have seen, granted the authorities permission to confiscate "electronic data and data storage devices, servers, laptops, mobile phones and thumb drives."

It is nothing short of a political earthquake which has shaken the Austrian capital. And over the weekend, it looked as though it could ultimately mark the ignominious end of the meteoric political career of 35-year-old Kurz. "My country is more important to my than my person," he said on Saturday in his resignation statement, handing over the reigns to erstwhile Foreign Minister Alexander Schallenberg.



Given the loyalty of the ÖVP party to Kurz, it is presumed that much of the power will remain in his hands. Still, it is a blow to the executive branch the likes of which hasn't been seen in postwar Austria. On that Wednesday morning, information quickly spread that the Kurz and nine other suspects were under investigation. The focus of the probe: Suspicions of infidelity and abetment of corruption, while two media executives are under suspicion of infidelity and bribery. In addition, the media group Österreich is under suspicion as is the federal organization of the ÖVP.

Austria, in short, is facing an affair of state. At stake is whether the dazzling success story of Sebastian Kurz must be rewritten and whether his climb to the top of his party and to the pinnacle of state power was actually rooted in a corrupt system involving those surrounding him, his party and the most powerful media moguls in the country. That, at least, is the clear message of the search warrant obtained by state prosecutors from the office in charge of investigating white collar crime and corruption, WKStA for short.

Chance discoveries on mobile telephones that had been confiscated in a different case led investigators to conclude that they had sufficient evidence to go after the Kurz and his inner circle. At the heart of the investigation are suspicions that Kurz - earlier as foreign minister and then as chancellor - prompted his close confidant Thomas Schmid, general secretary in the Finance Ministry, to buy favorable coverage in outlets belonging to the media group Österreich. The publishing house is under the control of the brothers Wolfgang and Helmuth Fellner. The two brothers are thought to have been compensated in the form of 1.33 million euros worth of ads purchased by the Finance Ministry over the course of two years.

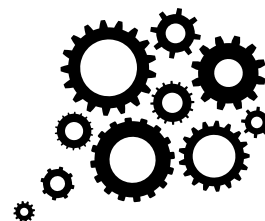
All of those under suspicion have denied the accusations leveled against them. But WKStA investigators seem rather sure of themselves. They say that with the help of "manipulated and thus falsified" public opinion polls, and with opinion polls that had allegedly been pre-formulated by Kurz's team and which mostly appeared in the free newspaper Österreich, an attempt was made to improve the electorate's opinion of an up-and-coming Sebastian Kurz. With the help of "faked invoices" for the sum of 144,000 euros, the costs for the image campaign on Kurz's behalf was paid for using Finance Ministry

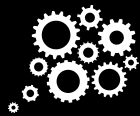
funds. Taxpayer money.

If the accusations are substantiated, it would mean that the Kurz team had used taxpayer money to purchase manipulated public opinion polls and flattering media coverage in order to gain power - and to remain there. It is a serious accusation, an affair that would be unprecedented even in Austria, a country that has grown accustomed to scandal and cronyism. Comparable offenses are a rarity in Western democracies.

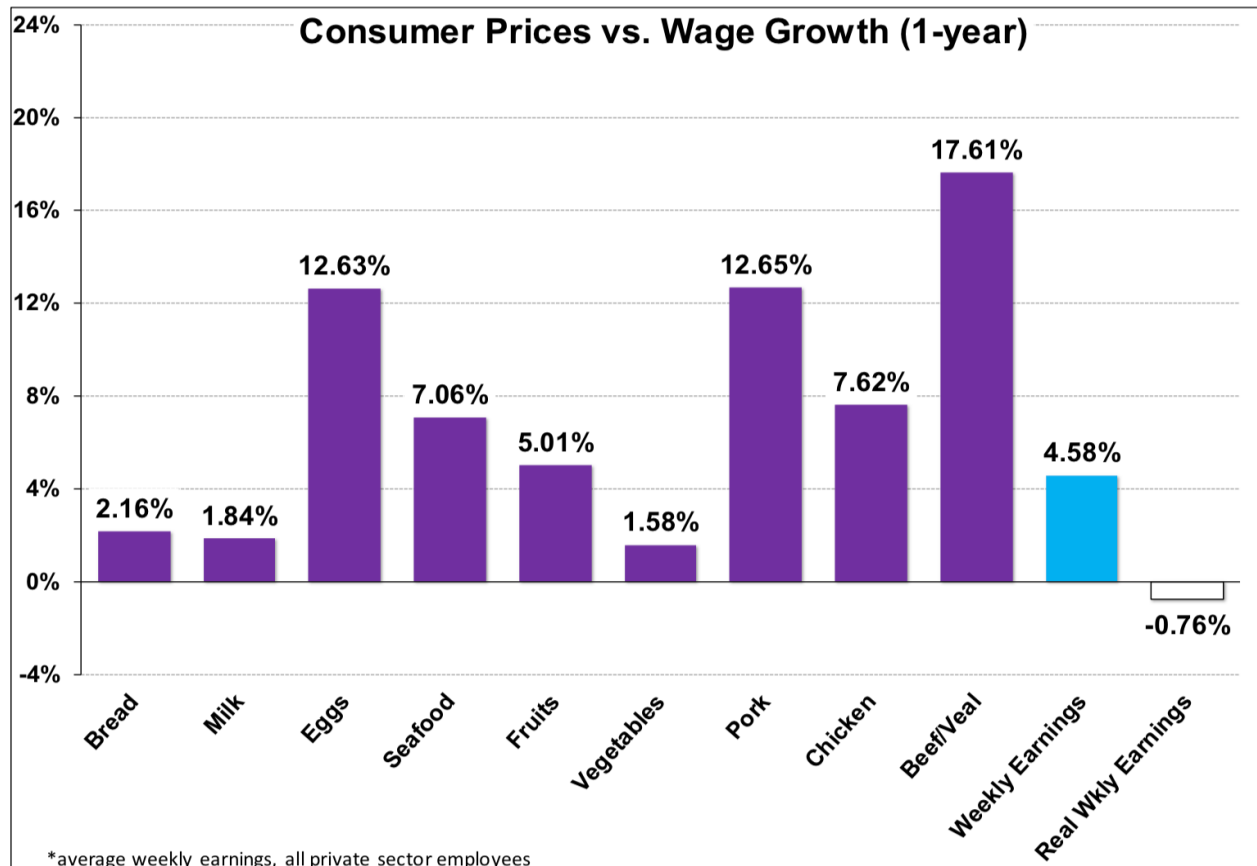
The investigators are accusing the 10 suspects of working closely together in the scheme. According to a WKStA statement, "everyone involved knew" that public money was being used "solely in the interest of Sebastian Kurz" and to promote his personal career. Because the sum involved is "certainly greater than 300,000 euros," a guilty verdict could mean up to 10 years in prison. Confessions, of course, could result in less severe penalties.

"If the accusations are true, then Ibiza is just a small island in the Mediterranean," says political scientist Peter Filzmaier, referring to the Ibiza Affair, which was uncovered by DER SPIEGEL and the Süddeutsche Zeitung in 2019. That affair centered around a secretly recorded video showing Heinz-Christian Strache - who was the head of the right-wing populist Freedom Party of Austria (FPÖ) and vice chancellor at the time - on the island of Ibiza apparently discussing influence peddling and the handing out of state contracts. It triggered an avalanche of investigations that will continue to occupy the country for many years to come. While Strache attempted to merely play off his ramblings as the product of a drunken evening on vacation, it produced a number of investigations that kept creeping closer and closer to Kurz's ÖVP.





CHARTS THAT MAKE YOU GO HMMM...



10/14/2021

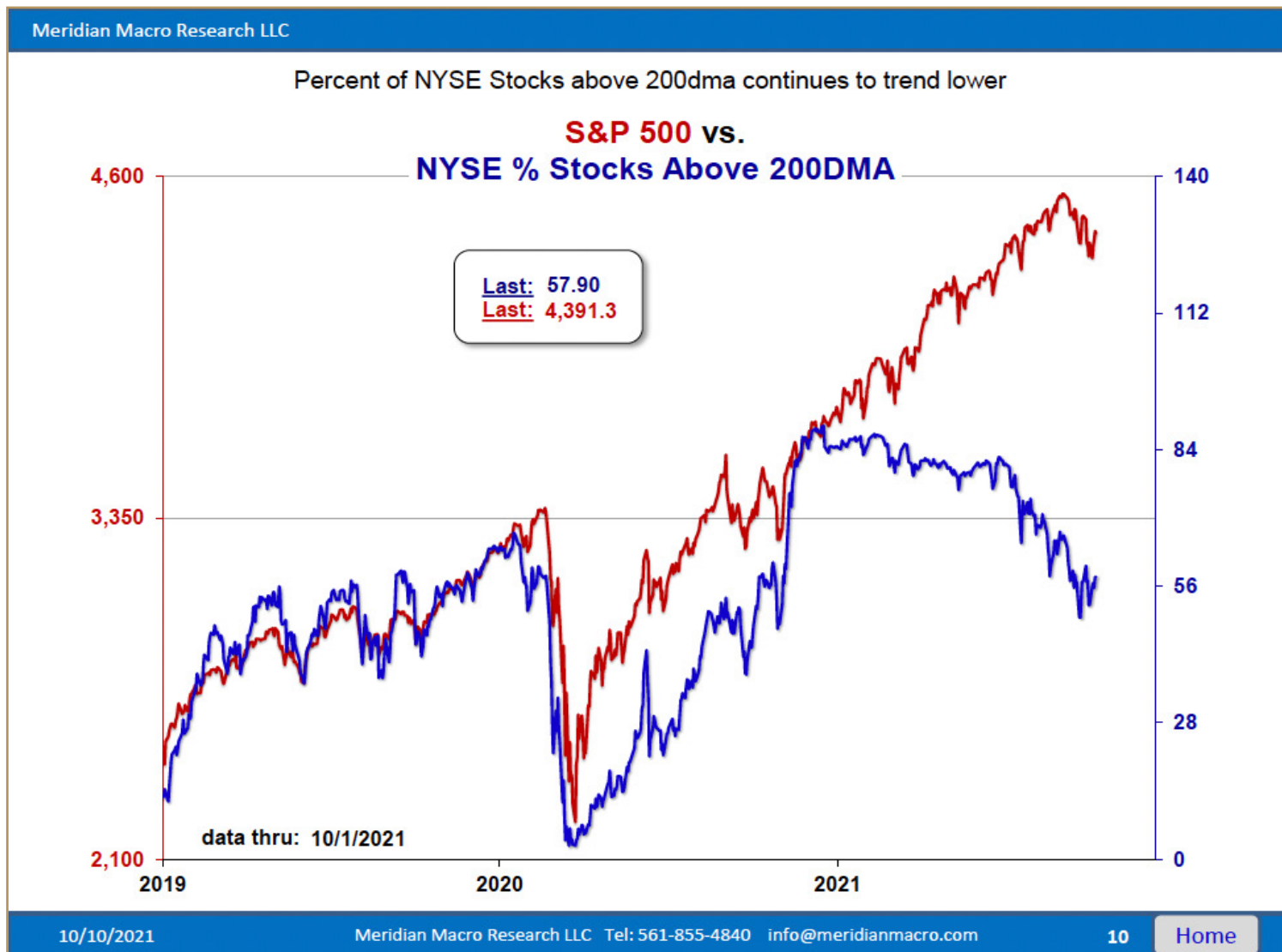
Prepared for MacroMavens by Meridian Macro Research info@meridianmacro.com

A great chart from the Dynamic Duo [Steph](#) and [Eric Pomboy](#) showing the fundamental problem with the current inflation impulse: food up across the board (mostly more than the increase in wages), but real wages are actually falling.

This had better be 'transitory' otherwise the Fed is going to be in a world of hurt...



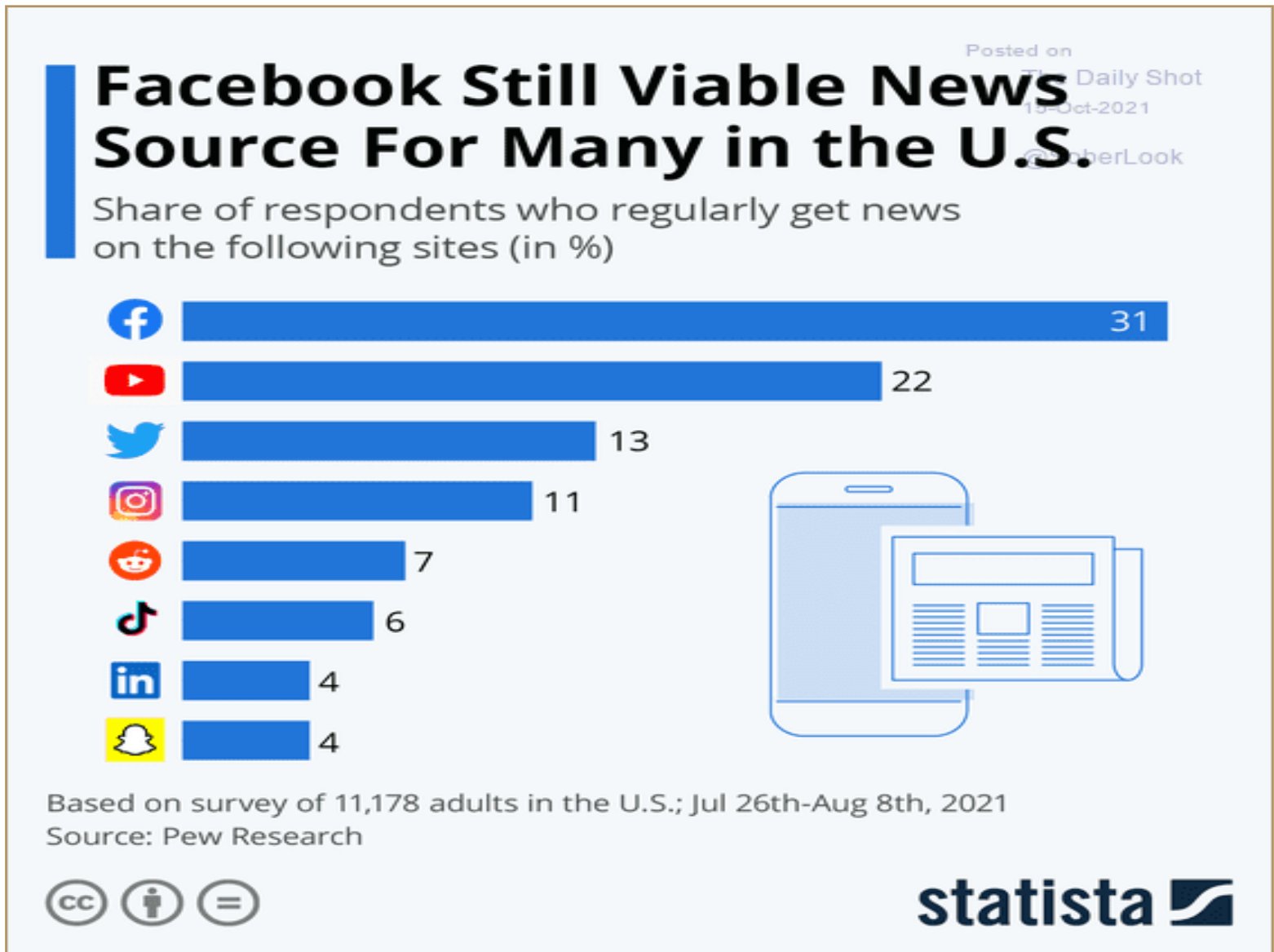
CHARTS THAT MAKE YOU GO HMMM...



Another fantastic chart from [Eric Pomboy's Macro Weekly](#) showing the relentless rise of the S&P500 versus the continued deterioration in the number of NYSE stocks trading below their 200-day moving averages...



CHARTS THAT MAKE YOU GO HMMM...



Not sure what there is to be said about the above graphic. It's kinda terrifying, frankly, that fully 50% of the 11,000 people surveyed got their news from Facebook and YouTube.

One can only hope this is a non-representative study...



WORDS THAT MAKE YOU GO HMMM...



RUSSELL NAPIER

With perfect timing, one of the protagonists of this month's edition of *Things That Make You Go Hmmm...*, Russell Napier, joined Erik & Patrick on MacroVoices to talk about inflation from just about every angle as well as the hows and whys of financial repression.

A truly excellent accompaniment to what you've just read...



LACY HUNT & FELIX ZULAUF

Last month I had the privilege of moderating a discussion between this week's other protagonist, Lacy Hunt, and my friend Felix Zulauf.

Again, inflation was front and centre along with a wealth of experience, insight and wisdom as two consummate pros picked the world apart and put it back together again...

(REGISTRATION REQUIRED)

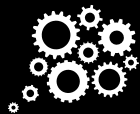


NEIL HOWE

Here's a great opportunity to eavesdrop on two good friends, Adam Taggart and Neil Howe talk about where we are in the Fourth Turning as things seem to deteriorate with each passing week.

Whether it's the ever-present corruption, the constant air of impending conflict between nation states or the turmoil engulfing societal interaction, everywhere we look, Neil and Bill' Strauss' epic work looks to be more prescient by the day...





AND FINALLY...



In honour of his trip into space this past week, I bring you this amazing 1978 video of William Shatner's 'interpretation' of Elton John & Bernie Taupin's Rocket Man.

Nothing (and I mean nothing) can prepare you for what you're about to see.

Godspeed, Captain Kirk...

(Thanks 'manda!)



THE AUTHOR

Grant Williams



Much to his chagrin, Grant Williams has reached 35 years in finance.

Over that period, he has held senior positions at a number of investment banks and brokers including Robert Fleming, UBS, Banc of America and Credit Suisse in locations as diverse as London, Tokyo, New York, Hong Kong, Sydney and Singapore.

From humble beginnings in 2009, *Things That Make You Go Hmmm...* has grown to become one of the most popular and widely-read financial publications in the world.

Grant is a senior advisor to Vulpes Investment Management in Singapore, an advisor to Matterhorn Asset Management in Switzerland and also one of the founders of Real Vision—an online, on-demand TV channel featuring in-depth interviews with the brightest minds in finance.

A regular speaker at investment conferences across the globe, Grant blends history and humour with keen financial insight to produce unique presentations which have been enthusiastically received by audiences wherever he has travelled.

To find out more about *Things That Make You Go Hmmm...* please visit:

www.grant-williams.com