Bill Blain: Consequences of Secular Inflation

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Erik: Joining me now is Bill Blain, strategist and head of alternative assets for Shard Capital, and probably better known as the author of Blain's Morning Porridge. One of the most intriguing investment blogs on the internet. Bill, it's great to have you on as a first time guests. I've been asking everybody about inflation. Janet says it is transitory. I think my favorite quote that I've heard so far is World War II was transitory. What do you make of this transitory argument? Is inflation here to stay? Is this a secular phenomenon? And what does it mean?

Bill: Yeah, I rather the opinion that inflation is not only here to stay, but the most significant thing that's going on is we have long term inflation is now being imported into the real world from distorted financial assets. Everybody tells me that there's no inflation out there. And what we're seeing is just a transitory spike caused by supply chains breaking down, and things like the chip shortage and people who are anticipating a faster recovery. But what we're really seeing is all the inflation that's been generated over the last 12 years of monetary experimentation, quantitative easing, and buying back bonds and keeping interest rates artificially low, that's generated tremendous inflation in financial assets. And that financial asset inflation is no creeping into the real world.

So you're going to see a whole series effects inflationary moves that occur as a result of that. Plus, I think we're also going into a very different world that is not going to be one where you can easily, simply brush off inflation effects as transitory. I mean, let's just think for one second about some real world events that have just occurred. Like all these climate disasters we've seen in the last month, they cause real costs. These costs have to be paid from somewhere. And that is going to be inflationary in its own right. So I think we really have moved into a new world where inflation is going to start really impacting bottom lines again.

Erik: Bill, you and I both know that nothing ever happens in a straight line in finance, and something I've been pondering is, boy, I really think as you do that this inflation is here to stay. But it's gone an awful ways, especially in assets like copper that had just been up so much since the bottom of the COVID crisis. And I've been thinking boy, it's awfully late to be coming into a market like that with new money. Now, I had Darrius Dale on last week. His perspective, he agrees with us on secular inflation. But he says all of his signals are saying look that disinflationary wave that wrong foots investors, at least in the intermediate term, that's here now and he's saying get ready for some disinflation before the bigger picture inflation resumes. What do you think of that view? Should we be thinking that maybe it's gone a little too far, and there's a pullback before this trend continues?

Bill: Okay. Well, that is a very interesting and intriguing perspective. And I think he's probably right, because, you know, we've got effectively a deflationary environment that is caused by ultra low interest rates. I was asked a question recently about, what do you think about Europe keeping interest rates lower for longer? And I turned around and said to answer that question you need to understand what's happened to Japan. For 20 years, they've had ultra low interest rates and what has been the effect, a deflationary economy. But we still have this inflationary backdrop to the global economy and you can't separate the two. Now, it's not necessarily a Japanese thing. But I think we are going to experience multiple different things going on. And the big word that scares me more than any other is stagnation. Now, I grew up in the 1970s and 80s, in the United Kingdom, where we suffered incredible stagflation during the 1970s that caused all kinds of social problems where you had massive inflation and jobs collapsing, it didn't matter what you did two interest rates, you couldn't change that.

And so although we're talking about an inflationary threat, you also have this secondary effect that could be deflationary in certain markets. I think copper is an interesting one to talk about there. Because we clearly saw copper prices getting bid up in anticipation of a very strong recovery to the pandemic. Everyone piled into copper expecting that copper as effectively a proxy for tech sales would work. Same thing happened in lumber, because of course, we saw the most incredible market in lumber. Again, people are anticipating recovery. And we will see inflation as a result of that it's occurring at the moment in the shops, you try and buy a fridge and it's temporary Sat higher because of the copper price spike, that copper is already down. What if we get a situation where you've got real inflation in prices, but you have a deflationary economy. That's a classic recipe for this stagflation threat.

Erik: Bill, you and I grew up in the 70s. But we were kids at the time. And frankly, the guys that were working in the industry, and were around in the late 60s, when the onset of secular inflation began, they're all retired. And one of the biggest things I think about is okay, who's going to be in charge of rounding up all the guys that have been through this before when this secular inflation really hits the tape? What's the finance industry gonna know what to do? Because I think everybody who knows is gone or retired.

Bill: This is one of the things that really scares me because the reason we're in this environment at the moment, is a game of consequences. Everything that happens, everything you do today will have a consequence tomorrow. And the big issue for central banks for it as they we are talking about. Central banks have been experimenting with monetary policy, since the great financial crisis began in 2007. And in 2009, they came up with this brilliant idea that they could kickstart the economy with ultra low interest rates. And they would get money to flow into the economy by buying back bonds, which means that investors would sell their bonds and then use that money to invest in the real economy. But that's not the way that trading works. We all know what investors did was a curse. They sold their bonds to central banks, and then bought more bonds to sell to central banks. And they used money from that to buy more bonds to sell to central banks. And this is what caused massive inflation.

In financial assets, the path of that happening was very simple. Interest rates started to fall. As a result, people saw that the yields and bonds were unsustainably low for their investment purposes. So they started going what we call yield tourism. And they started buying equity. Remember, equity is a much higher risk market. And they started buying so much equity, the equity market went up, and the dividend yields and equities also came down. That has been the consequence of ultra low interest rates, massive inflation, in financial assets. But here's the critical thing that started 12 years ago. Now, 12 years in financial markets is an incredibly long time. The result is there's practically nobody under the age of 35. In this city, in what we in the UK called the city but the world calls global finance, who understands investment markets, where it's not completely normal for central banks to be repressing interest rates and distorting yields through their monetary experimentation and quantitative easing.

So every single fund manager under the age of 35, thinks this is perfectly normal. And that's why when I'm out doing my job as an alternative asset investor, I see a great divide between those of us over 40 and those below 40, who've got completely different perspectives on what value propositions are. If you're younger, you tend to think that value is all about the price set by the market as in a distorted market for as anybody over 40, we're tearing our hair out, and we're going, what is going on here? How can we accept interest rates being so distorted? Look at the effects, look at the overvaluations, look at the crazy stories that are created. So that point you just made about where are all the old guys. Well, you know, those of us who are who've been around the block a few times and the first time I traded treasury bonds back in, I think 1986. I think we were talking then about the beginning of the big bull rally in bonds. Where the year before traders were frightening me with stories about how yields have been 18%. And they were dominant double digits still when I started trading, and now, where are we on the 10 year? 1.2 or something like that. This is a completely different world. And there are very few of us left who remember what it was like.

Erik: The theory that I've had about this is when we get runaway inflation and of course, a lot of people would say that's not even in the cards, that deflationary backdrop is just too strong. It's never gonna happen. I don't claim to be smart enough to know when it's going to happen. But my argument is this. If we have a runaway inflation, I think that suddenly the central bankers hands are tied because all of a sudden the norm of the new normal that you're talking about, which is hey, whatever goes wrong, they're just going to print money and that's going to fix it. When you get run out. inflation, you can't do that anymore. And if the central bankers hands are tied, I don't think the industry knows what to do. Am I crazy to think that? And how realistic is it that this eventually gets to a runaway inflation kind of scenario?

Bill: You know, it's a very interesting question to ask. What instruments are there for actually controlling inflation, the typical way you would control inflation would be select interest rates rise. But if you were to do that today, the effect would be a massive collapse in financial markets, which are now completely addicted to the opium of cheap money. So you would end up creating massive defaults, massive job losses, complete loss of confidence and trust in the economy. But then how do you stem inflation reverse screwing around? Well, you got to then think about what creates inflation. And you know, inflation is not just oil prices going up, as it happened in the 1970s. Inflation is not just a drought season putting up the price of bread. Inflation, this time is going to be a mix of very real inflation coming in from events like I described earlier, some of the costs we're going to have to bear now for extreme weather events, the wildfires in California, the flooding in Germany, and China, all these things. But also, we'll see inflation seeping in from financial assets. And the way that's happening, if you take a look at what hedge funds are doing today. Hedge funds are not buying treasury bonds, and they've stopped bothering buying things like, you know, stocks and shares, they're no buying real assets.

Just earlier today. I mean, the reason I'm up at Edinburgh, Scotland today is I'm visiting my mother. And I went and did the shopping for her this morning at Morrison's. Morrison's is one of the big UK supermarket chains. And you know what, it's just been acquired by a group of hedge funds, because it's a real asset. And it's been acquired at an incredibly high price that nobody thought Morrison's was worth, no one else was going to bid that for it. But that's an example of inflation in the real world, pushing up the price of real assets. Now, eventually, that gets down to the penny in people's pockets. And that's when we really start to see inflation occur. That starts to change the way that people behave in an economy. And I think that's already beginning. You've seen some incredible moves in house prices. In the USA and the UK. The US housing markets just had a bit of a blip from the last numbers. But here in the UK, house prices are now completely out with the scale that normal people can think about buying, all they can do is go and rent. And that's another example of inflation because that means the money they were going to spend on buying a house, and now they can't ever afford a house is just money they spend on consumption. And if people are consuming lots, well guess what that causes real inflation as well. And that's all driven by ultra low interest rates.

Erik: Bill, as we're recording this interview on Tuesday afternoon. The news that seems to be hitting the tape hardest beyond the Delta strain of COVID, which of course has been big news for several weeks. This week, it seems to be China talks and China negotiations are really starting to spook markets. Let's start with what's going on. But then after that, I want to move on to the bigger picture of what's the relationship with China and the future of China going to mean to the macro economy?

Bill: Well, that's an absolutely fascinating question. I mean, if we talk just for one second about what's the relationship between two big powers on the planet today, the USA and China. Well, people have described it and I'm not sure if I'm going to pronounce this as Thucydides trap, Thucydides and my apologies if I pronounced it wrong, was a famous Athenian politician, who very quickly realized that war between Sparta and Athens was absolutely inevitable. As Athens started to challenge Sparta's military dominance of the Greek city states. The result at the end of the day was they destroyed themselves. And within a few years, Rome had conquered over Greece. But there's a lot of people who do think that that's the way that we're going to see it play out between China and the USA. I'm not so sure of myself, I'm not going to paint myself as a predictor of global events. But I think it's far more likely that two very clever nations will find a way to live together. And that's what's causing the interest in financial markets at the moment.

When we talk about the USA today, after the events of the COVID pandemic and the way in which government has stepped in. And this is not just the Biden administration, but previously Trump's administration. Government has stepped in and supported the economy with massive bailouts and provided cash where required to keep companies open. We have a right wing government under Trump that acted in the most socialist way imaginable. In the UK, we currently have a conservative government, which has done exactly the same thing. And done pursued policies that put the socialist Labour Party and make them look extremely right wing, because they've provided so much support for the economy. In contrast, the Chinese government, a Communist Party, has done very little being really held back on supporting the economy but encouraged the economy through capital availability. Now, it's pretty clear to me if I step back and look, but both economies are effectively capitalist. At the bottom of the day, the success of the US is down to its entrepreneurship, its inventiveness, and its ability to innovate these inventions.

The success of China is being able to create capitalism with Chinese characteristics, which we all take to mean means that they're not terribly innovative, and they steal ideas from others. Well, you know, that may be or may not be true. But the fact is, they've created a very effective economy very quickly. And what we're seeing in the market just now is really, games being played, people trying to understand where this is going to go in the future. The Chinese economy is absolutely massive, we know that it's going to soon be the same size as the US economy and that's a massive investment opportunity. But the Chinese government takes a very different view, which is why we're seeing them clamp down, as they've done in the last few months. Just in the last few days, we've seen them declare the education companies, which we saw as a massive opportunity to profit from the Chinese market, have been told that they are no longer for profit companies, and they are there to serve the needs for the state. Well, to us that sounds, that's frightening.

We've invested all this money in all these free companies, which we expected would be able to harvest enormous returns from the Chinese population who are desperate to send their kids to cramming schools to make sure they get into universities. But from the Chinese perspective, the Chinese realized that they have a whole series of regulatory, and especially social problems to solve. And one of these is the success of one parent family rules that were introduced back in communist times. As a result, you could only have one child, which meant that the Chinese favored having sons who would keep the family name going and provide for the parents as they get older. But the result is China now faces an enormous demographic well, actually two demographic problems. The first is China is getting old before it gets rich and the second is they have a massive imbalance between males and females. They are far more young males then they are young females. So don't ask me how that occurred. But it was a form of selection that we would have not tolerated in the West. As a result, the Chinese have got to find ways of encouraging families to have more kids. And one of the ways that are going to do that is by removing the threat of ultra high costs of educating your kids by making education free, and at the same time being able to tell the population that hey, look, what we've done for you. Education is free, everyone has access.

So when you're looking at the divides between Chinese capitalism and Western capitalism, you got to try and put it into some form of context. And understand why is they've done these things. So I've just explained the thing by education, clamping down on FinTech, as they did with Alipay. And the problems we're now seeing with Tencent, you can explain these in similar ways. It's about the Chinese Communist Party, making sure they maintain their control and relevance. But for those of us in the West, we've got to say, you know, sit back and look and say, can we afford to be not invested in this economy. Now, there's lots of reasons not to be invested in China, from our sort of social and governance perspective. What they're doing in Hong Kong opposes what they're doing to the Uyghurs on the western fringes, POLSAs, their surveillance capitalism is something that doesn't fit here. But at the same time, there's lots of things we do that they don't like either. I suspect the future is we're going to find an accommodation for China. But it's a very difficult market, unless you're really prepared to take the time to understand what's going on to try and invest in. I hope that all makes sense to kind of gallop through about 400 different points in 400 seconds.

Erik: Longer term, some people seem to be very concerned that we have an escalating cold war that could take us to a US-China situation, which is very similar to the US-Soviet situation in the 19 60s say. Is it really that bad or are people just a little bit over concerned?

Bill: I think we actually face something very, very different this time. The Cold War with Soviet Russia was, on the Russian side, an awful lot of bluster. I actually studied Soviet economics when I was at university back in the early 80s. And there was an awful lot of bluster about the economic might of the USSR. Now, there clearly is economic and productive might in China. So that's a fundamental difference. It will really come down to which country innovates faster. But I think as I said earlier, both countries are far more anxious to find an accommodation because I don't think that the what's the right word, the basis between capitalism and Russian communism, which, you know, they were pulls apart. But the difference between modern communism, Chinese communism, and Western capitalism. That's not so far apart, I think what we're going to find is that the world will be in accommodation found.

Bill coming back to the inflation theme, You know, a lot of people, myself included, have really looked at gold as an inflation hedge. Frankly, there is a counter argument although I disagree with parts of it. You can't argue that gold is not performed as well as some of us thought it might and cryptocurrency seems to be at least the younger generations favored currency debasement and inflation hedge. Has gold become your grandfather's Oldsmobile, or is it more likely that the crypto guys just don't realize the risk they're taking?

And yeah, it's a fascinating question. I think there is definitely a behavioral link between the way that people understand gold and what they think about cryptos. And that's maybe worth talking for a second. Let me come straight up and say that I think cryptos are a complete and utter scam. I can see absolutely nothing that a cryptocurrency can do. The currencies don't already do better and gold doesn't already do better. And you know, it's dead easy to say, enjoy yourself, but you being poor. But, there's no real fundamentals behind it. When the pandemic started, and I immediately predicted a massive economic shock. Even before we started lockdowns, one of the first things I did was transfer a large portion of what I was doing into gold in the expectation that we would see gold not only as an inflation hedge because we expected supply change eruptions, but also because I could see it being a flight to safety hedge as well. So I put cash into portfolio cash into gold and into treasuries and UK Gilts, that's the UK government bond market.

And I've been kind of surprised at the way that gold has not performed better, because you've got two classic gold pluses going on, which is uncertainty and inflation. But yet people haven't gone for gold. And I sort of look at the crypto thing. And let's be honest, you know, cryptos, you know, for all the trillions, they talk about being invested in Coinbase, and all the other exchanges is still a fraction of the gold markets. Yet it has got people thinking, are there alternative ways to hedge? I thought it was very interesting that you mentioned your grandfather's Oldsmobile. I mean, one of the things I collect is art. And unfortunately, I bought all the wrong things. They haven't gone up in the kind of way you want, because you just don't know or understand how the fashion market for what is going to become big in art is going to develop. And I suspect that's also slightly true of what's going on in crypto because there are so many different choices now.

Erik: Bill, you run alternative assets for Shard Capital. Now, from everything that you've said, I'm assuming that you're focusing more on real assets, not just gold. But other things like real estate and so forth. You know, real estate is not exactly cheap. It's hard to be a value investor, and also focus on real assets right now. Where's the value or where is the hedge if you want to be in the real asset market? Seems like nothing's cheap.

Bill: Okay, well, the real asset markets are absolutely fascinating because they really began in the wake of the great financial crisis that began in 2007. If you remember back then, what we saw was banks under enormous pressure. And the regulators and central banks very quickly changing the rules on how banks could use their capital. And effectively over the next couple of years, we saw that banks stopped being lenders. Yeah, that's what I said, banks effectively, we're no longer lenders, they were simply brokers. And what would happen is the banks would go and originate an asset. And then they would find real money to invest in that asset to finance it. And you saw a number of the big pension funds, insurance funds, and particularly smart hedge funds, who saw the opportunities in private debt and private equity. And of course they want and while you're getting 1%, for investing in US Treasuries, you can be getting a very well constructed risk in private debt, yielding a proper interest rate, say, 6-7%, and often much higher.

So I now spend most of my and I spent my whole career in the bond market, before I got involved in developing the private asset, private debt, and private equity markets as the alternative asset sector. And what we look for is assets that are going to create really attractive yields, and are secured on these assets. And some of them we've learned some frightening lessons about aircraft is a great one for instance. Before the pandemic we assumed the aircraft would retain their value for years. And you could predict exactly what they will be worth in a few months time and a few years time. Therefore, you could create secondary markets. Therefore, you could create valuations, and you can sell them based on resale value, and even the scrap value down the line. That's all come to a crashing halt. But other assets, and you mentioned property. You know property is a fascinating market, especially here in the United Kingdom, where residential property has been on an upward curve since before America was even conceived. I mean, we're talking about 400 years of UK residential property history. And every time we have a crash, within two or three years, that crash will have been corrected, and the market will be slowly edging back up.

But what we've seen in the last couple of years, is again, people understanding that the returns that they get from distorted yields in the bond markets and other financial assets means that they need to buy real assets. And of course, property is the one they've gone for. So you've seen UK property not rising 2 or 3% per annum. But 9% was the number that we had yesterday. You know, 9% per annum just means property is running out of the affordability level for most people. But it's a great asset for those that have ready cash. And that money is still piling in, meaning the price is getting higher and higher. Now that has a number of knock on effects. It means that there's much greater demand for rental property, which again spells demand for people to buy rental properties, therefore pushing up the price again.

But it also means that people give up trying to afford. that changes their behavior, if they can't afford to ever buy their own home, why bother working so hard? Why not just take the government furlough scheme or just throw yourself in welfare for the rest of your life. So you know, you got to be careful. All these distortions, the consequences I talked earlier about, they have long term effects, and they're changing the behavior of populations. So I think it's very significant when you see house prices accelerate beyond the reach of the bulk of the population. And this would then lead us on to another of my favorite topics, which is the pernicious effects of wealth inequality. And that's something that I don't think is given enough attention, when you see the depth of opportunities available to many people now. And the fact that the world is increasingly becoming divided into haves and have nots. Now, that may not sound terribly capitalist, but you know, the history of Europe and tells you that when people don't get good opportunities, they tend to get rebellious and in France, they revolt.

Erik: Bill, I think wealth inequality is the biggest challenge that we face as a society and what scares me the most is uh, you know, I think everybody is talking about it. The problem is, people are talking the loudest about it have solutions that I don't think are really solutions. I don't think they really solve anything. I think they'll actually make it worse in the long run. But boy, they sell a heck of a lot better than my solutions do. What do you make of this whole populism trend and it seems to me at least in the United States, like this whole MMT phenomenon is really gaining a lot of steam. There's a lot of political support. There's a lot of public support for more nanny, state government handouts, and so forth. And it seems like Stephanie Kelton and the MMT crowd have the solution for how we're going to print up all that money without having to tax anybody and spend a lot of money and don't worry, it's not gonna be inflationary.

Bill: Okay, well, look, the only way to answer that question is to look at the bond markets and understand exactly what sovereign bond markets are, by sovereign bond markets. I mean, let's keep it to the US and the UK. Both are sovereign nations, and they have financial sovereignty over their money supply, or they have monetary sovereignty, let's put it that way. There is no way that the UK issuing Sterling Gilts or the USA, issuing dollar bonds, is going to go bust. Whatever happens, they can press the printing press, and they will repay in dollars or Sterling, the debt that they've issued. That is the basic premise of new monetary theory that you can go out and print as much money as you want. The problem then lies in foreign exchange. And if people lose confidence in the USA, and not in its ability to repay, and they know it will repay. But they lose confidence in the USA, because they're concerned about the political situation, or they're concerned that it's losing the war with China, whatever. Then they're going to start selling dollars, and that's going to be massively inflationary, again, coming back to our early chat about inflation.

And that's the big risk for any monetary sovereign nation, that although they can always repay their debt. If they lose confidence in the currency, then they will face massive inflation which damages the nation. That's the simple equation. At the moment, every single nation in the world is involved in a massive money printing binge, to afford the costs of the pandemic that's happening everywhere in Europe, in Asia, China, USA, UK, everyone's printing money, Latin America, everyone's printing money. When that stops, then people are going to start paying attention to which countries do you actually have confidence in. Now, what countries would you have confidence in? Would you have confidence in a country that is confident in itself in being able to continue printing money to support the growth of the economy or would you lend the money to an economy where the government has decided to embark on crushing austerity, where they're suddenly cutting the money that was supporting the economy, putting companies into bankruptcy causing massive social tensions.

Now, the conventional wisdom is that any responsible government will avoid overspending. But in that example, I've just quoted to you, it looks far better that the government continues to spend to even open the economy, rather than creating an austerity situation, which is likely to fuel further wealth inequality. Now, wealth inequality is very important, because what we've seen over the last 12 years of monetary experimentation is very, very simple. If you own financial assets, stocks and shares, you have gotten phenomenally richer, because that's where all the inflation has been. And if you didn't own these things, you've got much, much poorer.

And of course, financial assets are owned by the richest and society who have got far wealthier. And when you see that these people are the ones who tend to pay less of their total income and taxes, that causes massive resentment. Now, that is what's driving the populist agendas across the US and specially in Europe. Funnily enough, although we have the same problems in the UK, we're electing right wing governments. And the reason we're doing that is the sheer incompetence of the left. And you know, sometimes, despite being a Scotsman, which makes me naturally tending towards socialism, sometimes I wish that would continue. But this this threat of rising wealth inequality, and more and more wealth being in the hands of fewer and fewer people who can afford to take hold of the economies. That is bound to create resentment and that resentment will be far higher in any economy that tries to create confidence by embarking on austerity policies.

So it's not an easy thing to simply say invest in nations that look to be the ones that are most careful with their money and create confidence in their currency that way. You really need to be looking at the quality of government. Which governments are actually handling the process best. Now, the simple version of MMT that we can go and spend as much money as we work doesn't take that into account. And if it's going to work, it's going to have to, and it really goes back to the 1930s, when we first talked about the ability of nations to re-inflate through fiscal and monetary policy. And I think it's going to be fascinating as we come out with a pandemic. Which nations do it well, and which do it badly. And it's not just about social spending. And this is, I think, is the big question for the USA. How is the USA going to make its economy fit for purpose for the future, with the massive infrastructure spending. That's infrastructure and physical goods, but also in goods like education to make the US fit for purpose for the next 100 years. If you have political impasse, and I think it's that political impasse, that's the biggest threat to the USA in the coming decade.

Erik: I want to move on to another big trend in finance, which is ESG, or environmental, social, and corporate governance based investing. The idea of the owners of capital taking responsibility to invest in a way that benefits society. Now I want to go on record in saying that premise, I don't think there's anything more noble or better that I've ever heard in my life. So I'm all for the concept. But frankly, I think this whole ESG thing is a bunch of baloney. I think that what's going on here is it you know, it's very similar in my thinking to what we see in the whole race inequality thing, We absolutely do have a race inequality problem, we have racist issues. Still, it's amazing to me, we still have racism. But you know what? Burning stuff down is not a way to solve racism. And it seems like ESG has got the same anger in terms of a lot of people just want to do things to damage oil companies, rather than engaging in those extractive industries and figuring out how to invest in making them better and making them less damaging. What do you make of this and where is it headed?

Bill: Yeah, I, you know, as I've said earlier, I would probably count myself as the last living communist in the City of London, in the being a Scotsman. I am slightly left wing, but I do believe that this whole ESG nonsense is to use a quaint Anglo-Saxon word "bollocks" is just absolutely incredible how it's taken over the way of thinking. Now, back when I began in the markets in the 1980s, everything that ESG did, we did anyway. If you think about it, good corporate governance was always one of the reasons you're invested in a company. You invested in companies, because they were well run, and did what they said. And you invested in companies because they added to the sum of human wealth by not only paying your dividends, but made sure that they were going to be there next year to pay your dividends and pay your debt back. So that ticks the environmental box. And socially you invested in companies that treated their workers well, and made sure that everyone had the opportunities. And that's always been true in investment. You don't need to have a checklist to do it. But as soon as you create a checklist, you turn that into bureaucracy. And the fastest way to slow anything down is to bureaucratize the process. And that's very much what's happened.

Now I want to just share an example of recent deal that we've been trying to do here in the UK that illustrates where ESG has gone wrong. Now at the moment, the UK is doing phenomenally well building wind farms. But each wind farm that you stick out in the Thames Estuary requires 500 tons of steel. And to make that steel, the 500 tonnes of steel you need something like 250 tonnes of metallurgical coal, which you burn with the iron ore to create steel. Now, at the moment in the UK, we import all our metallurgical coal from Australia, which costs massive carbon miles. And we import most of our steel from China, which again, creates massive carbon miles and all you're doing is all the pollution that we create for our steel that we use here in the UK. All that carbon is still being made in China. So all you're doing is changing the place. So one of our clients had a brilliant idea. Some of the best quality metallurgical coal in the world is sitting in an area called Cumbria on the west coast of England. And it would be really cheap and easy to mine it and export it around Europe because the whole Europe is saying, this is crazy. We shouldn't be importing metallurgical coal all the way from Australia. Is there any we can use here?

And we managed to do that. We got the concept in place, we got the planning in place. But then of course, every single investor, including the UK National coal board pension scheme, which pays the pensions of over 300,000 former miners said, oh, no, we don't want to do that. It doesn't fit with our non-carbon ESG policy, tick box investment. Eventually, we did find investors and at that stage, the government took fright because we're hosting a big environmental conference in the UK this year, Cop 26. And the governor in charge of that did not want to be associated with it if the UK was seem to be opening coal mines. Yeah, I agree that coal, we've got to get away from coal. And we've got to build more renewable power to improve the climate. I completely buy climate change. And if there's anything we can do to ameliorate the fantastic costs that are coming, let's do it. But one of the ways to do it is certainly to reduce carbon miles. But the result of this whole story I've just told you, the coal mine never got financed because the bureaucracy that ESG has created, said no. And that to me, is a massive failure of financial markets.

Erik: Bill, I can't thank you enough for a terrific interview. But before I let you go, I want to ask you about what you do at Shard Capital. You're strategist and head of alternative assets. What is Shard Capital? We have primarily an institutional audience, but also for the benefit of our retail audience and I guess that the institutional as well. Please also tell us about Blain's Morning Porridge.

Bill: Okay, right! Well, there's quite a lot, there's quite of stories to tell there. Shard Capital is a fascinating firm. We started off 12 years ago as a small brokerage business, which was moderately successful. And we took on some Asset Management businesses, which were now focusing on in expanding. And for the benefit of your particular audience, I should mention a product that we have called Leaf Bridge. Now Leaf Bridge, which is named after Leif Erickson, and the bridge across the Atlantic that is in the middle of Iceland, the Atlantic gap is a fund that we've specially set up for American expatriates working in Europe. It solves all your investment tax issues for you. So it's worth thinking about. But otherwise, we have funds that invest in the credit markets funds that invest in disruptive technology. Yes, we do disruptive technology as well, we just don't lose as much money as some others do. And Shard Capital has become very successful in these spaces.

I was persuaded to come on a number of years ago, because I knew most of the guys who were involved in it from a previous business I'd set up. My own background, as I said, had been in credit markets, I'd been head of debt capital markets for financial institutions at Bear Stearns before joining HSBC. And then set off to try and set up a hedge fund just before the financial crisis began. And I found myself thinking this, we have mad time to invest in credit. But we quickly discovered that you could make loads of money broken credit, and the easiest thing to do was buy banks and sell it back to the banks that issue that at a discount, creating them capital. And we use the proceeds from that trade to create a number of new businesses, which was very interesting. But I found the whole process of what was going on to be absolutely fascinating. And clients would ask what do you think is happening knowing that I used to be a financial institutions banker. So I started writing a comment every morning, and I was looking for a name for it. I thought, well, I'm a Scotsman. I have porridge for breakfast every day. And porridge is a very healthy breakfast. So I'll call it The Morning Porridge. And that's how it started. started 12 years ago, going to all my clients and now it goes to over 7000 clients throughout Europe and the states.

Erik: Well Bill, I can't thank you enough and we look forward to getting you back on the show in the future for another update. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.