PLACE YOUR TRADES

KEY TAKEAWAYS

Special Guests: Gubb and Tim Price

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CHIGRL'S KEY TAKEAWAYS

Tim Price

1. On the severity of the oil challenge facing the global economy.

The essence of everything in the world of finance right now comes back to the world of debt, he believes we are at the end of a debt super cycle. Some form of monetary reset is now probably inevitable, central banks would like that to be central bank digital currencies and nobody other than central banks want anything to do with this mess. Investors have the decision of putting their faith in paper, fiat currency in politicians' promises, or in more tangible things like precious metals or energy.

2. On how his sector exposure is currently weighted.

If he were to run one standard model, the three assets that they typically allocate to now would include value equity/defense equity which would be about 30% of the clients portfolio. It would also include uncorrelated assets, specifically systematic trend following funds, also known as CTA's or commodity trading advisors type funds which would take up another 25-30% of the clients portfolio. The remaining 40% or so would consist of real assets that would include things such as gold and silver, monetary metals.

3. Thoughts on Gold and his investment thesis regarding it.

The argument he would make would be that we are at the end of a debt super cycle, and that all problems derive back to the world of debt. If you accept the argument that there is too much debt in the world, then you must accept the only three options that are now available to policy makers. First being that governments of the West engineer enough growth to keep that debt serviced. The second option is default/restructuring, essentially a renegotiating of debt which would be catastrophic for the banking and pension fund industries. Finally, the third option is inflation.

4. Thoughts on this endless bid in tech stocks with rising rates.

We are close to the end game now. The current market environment reminds him of the early 2000's, at the tail end of the first dot com bubble when the big tech sector was over the cliff edge. He doesn't believe we can trust many of the official statistics provided by governments.

5. On the effects of the green transition.

He believes we do not have a dog in the fight when it comes to the green transition, partly because he believes it is not valid as it does not stack up economically or morally. He believes it is a fad that many have happily clung to as it is a way of selling funds. The world will need industrial metals whether or not they are actually being dedicated to the green transition. The idea that you can mysteriously replace the installed hydrocarbon base of the world and the installed hydrocarbon infrastructure of the world with windmills and other green alternatives is being revealed as nonsense. Metals like silver are essential to so much tech production.

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6. On China selling US treasuries.

Refers back to Gubb on the whole dollar milkshake type thesis and the shortage of dollars moving in the system. The concern about China disinvesting its portfolio of treasuries is a valuable one. The sanctioning of Russia has inadvertently pushed Russia closer to China and solidified a block against US interests.The emerging markets of the world now count for more GDP than the so-called developed markets and we are seeing an active shift in global finance.

7. On emerging markets.

There is probably always a danger of contagion because we know how interlinked markets are and how quick global capital is to move when it starts to get freaked out by development. What strikes him about the uniquely challenging global environment, is that it argues for more diversification than before. The so-called developed world has caught up with the GDP expansion of the developed world so they are on a level playing field now. It then comes down to valuation. There are two metrics used, firstly we want meaningful cash flow generation by the companies we invest in. Secondly, we don't feel comfortable owning companies that have meaningful debt on their balance sheet. Whether it's a decision between emerging or developed really comes down to the debt and cash dynamics of the individual companies rather than the geography of where they happen to be based. This makes hard assets more attractive.

Gubb

1. On the US bond market and the yield curve inversion.

The bond market right now is flashing a signal, flagging that there are some major problems. He believes that we are on the cusp and that the recession is already here. We are seeing job losses and the bond yield starting to come down. He believes that we will continue to see more as news comes out.

2. On deflationests, inflationistas, and staglationistas where are we right now?

The original response of inflation for the pandemic has caused a lot of heat. He believes we will start to see things roll over. It is hard for him to imagine persistent inflation as it is crushing the consumer. He believes that in time we are going to get an economic sinkhole and begin to see the real nature of the economy.

3. On unrealized losses and how big of a problem this might be.

He believes it is more a function of timing, if the Fed responds and drops rates it may state a lot of these losses on side. If they do not do that, it will continue to break. The debt needs to be dealt with. We seem to be keen on trying to avoid a recession.

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4. On the Canadian housing sector.

The governments and central banks are trying to conflate the level of the stock market with the health of the economy and trying to snooker people into thinking things are better than they are. With regards to housing in Canada it has been a massive problem and source of debate. We are starting to see that there is an astronomical amount of money laundering going on in Canada, and a lot of that money is being poured into real estate. For Canada and specifically British Columbia we are seeing Chinese illicit funds and there were hundreds of billions of dollars of assets being bought up, basically concrete money market funds. His big question is, with the Chinese economy eroding there is a potential where they have to start blowing off those condos and homes in order to save themselves. This could be a real problem as the level of income needed to buy a home versus the prices of homes suggest massive losses. The Canadian government has decided to look the other way on this stuff as real estate is really the only thing keeping them afloat. He is hopeful that they will get a bit of correction in the upcoming recession, but it depends on when they decide to address the illicit funds issue.

5. On the 60/40 portfolio.

It has had a rough couple of years but he believes it will sort itself out. He believes the 60/40 portfolio still has value but it will take some time. We need to introduce a risk back into the scenario. Post interventionist Fed, the market tends to do quite well until the break of the recession, just a function of the market cottoning onto the idea that the Fed is going to defend it as long as possible. He believes this is the last kick at the long bond trade.

6. On the US labor market and why it remains so resilient.

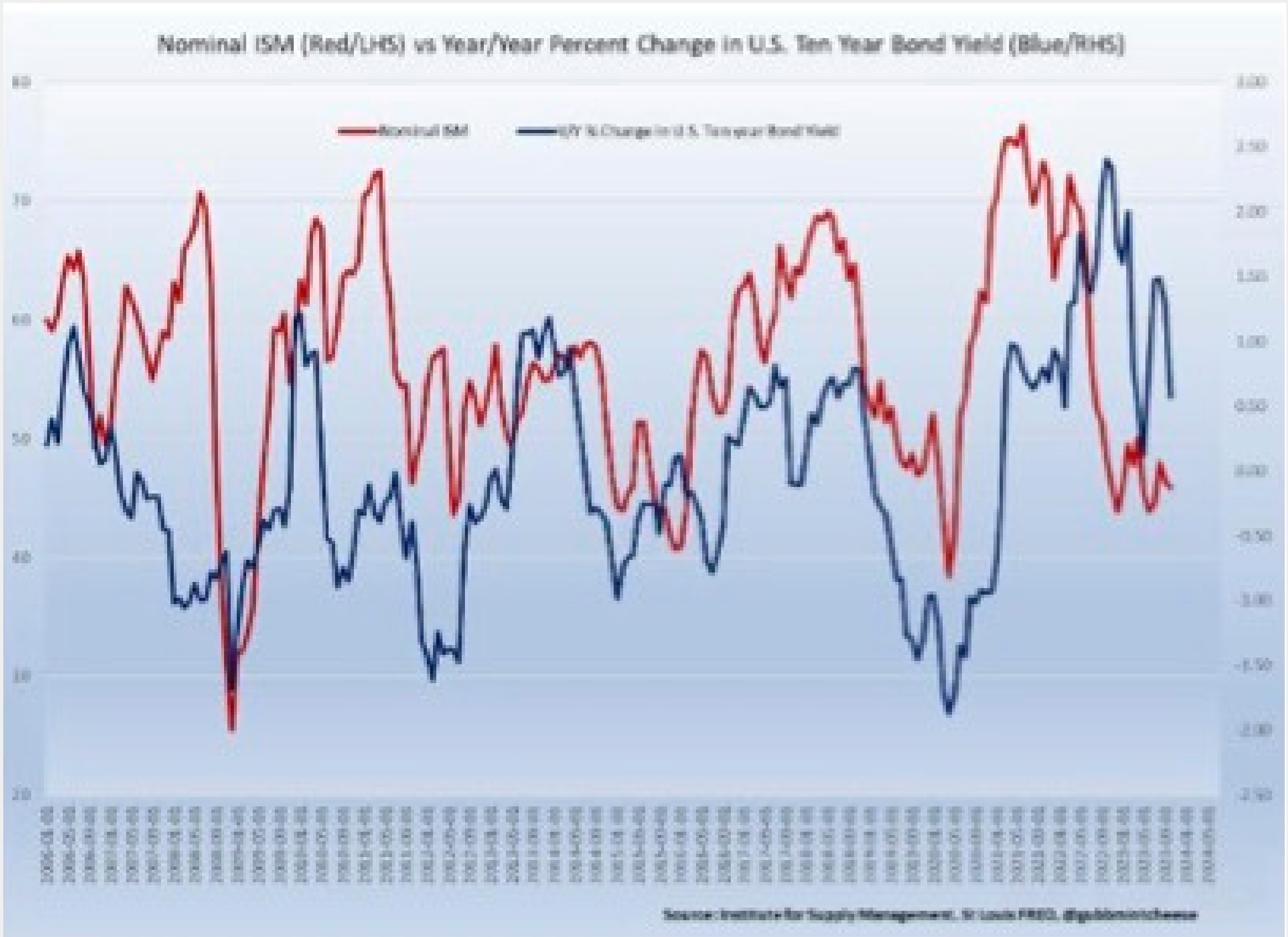
The labor market is a lagging indicator. There seems to be some weird things going on in the job market as we are hearing of layoffs that haven't really shown up yet. We are hearing of a tight market and yet there are many people who can't find jobs. He believes there is some labor hoarding going on. It is still early for jobs to start rolling over but he does think that it will roll over. Companies are fighting to keep people employed given the outcome of covid losses but he believes we will start seeing companies lay people off.

7. On China selling US treasuries.

A lot of people have been concerned that they are disinvesting and he expects that to continue. No one can really trust to take Chinese data at face value as there are people saying that they have been under-reporting their purchases of gold bullion over the last decade. Many things are happening behind the scenes and there are few people who really know the reality of what's going on. With the way the US is behaving, it shouldn't expect anybody outside America to earn its debt.


US PMI (Year over Year % Change) vs S&P 500 (Year over Year % Change)
Y/Y % Change US PMI
Y/Y % Change S&P 500


US Tax Receipts vs US Unemployment Rate (Inverted)
Y/Y percent Change
US Tax Receipts (Y/Y % chg)
US Unemployment Rate (inverted, Y/Y % chg)


Nominal ISM (Red/LHS) vs Year/Year Percent Change in U.S. Ten Year Bond Yield (Blue/RHS)

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