Our view on global investment markets:

November 2015 – "Searching the world for yield"

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You betcha!

Can it get any worse?

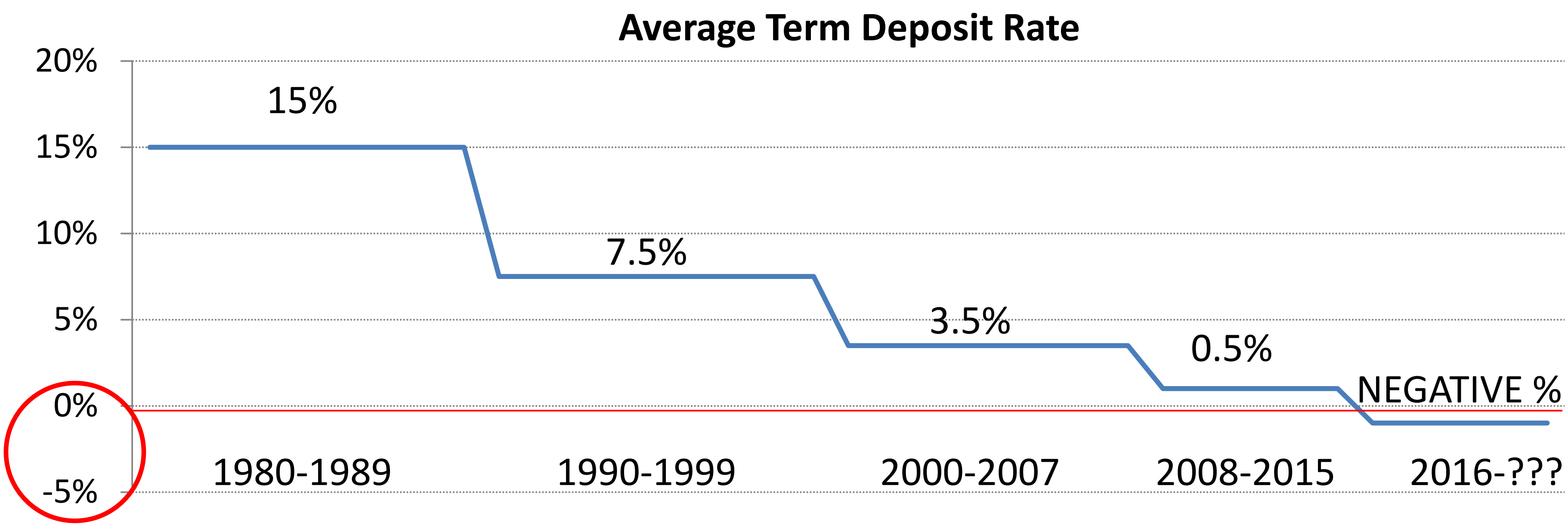
In the 1980s, term deposit investors routinely earned 15% and higher on their guaranteed savings. Yes, with inflation running sky high the real return was much lower. Yet, savers were accustomed to some pretty nice nominal returns.

The 1990s rolled around, and so too did interest rates. In fact interest rates rolled right on down to the 7.5% range. Suddenly all term deposit investors were receiving 50% less than they did a short 10 years earlier. In other words – these savers effectively took a 50% cut in their investment income. Still, 7.5% was better than nothing.

Then came the 2000s. And when considering the number of zero's, it is rather ironic in that by 2010, term deposit investors were earning pretty close to 0%, or nothing to be exact.

So, in a very short 30 years the world's central banks have completely destroyed any chance for savers to earn anything on a safe, bank deposit.

Can it get any worse? You betcha it can, and it already has.



Don't be discouraged

Understanding Interest Rates

We're the first to admit, the investment industry has done a horrible job of keeping things real simple. Yet, considering the industry is chalk full of some very big egos – maybe it's no wonder the industry makes everything so darn complicated.

Yet it shouldn't be. And, let's start with the often misunderstood concept of interest rates.

Everything you buy has a price. The new Volkswagen Diesel car has a price, as does the latest pair of Google Glasses, and so too does the latest Lionel Ritchie album.

Money also has a price, and it is priced as Interest Rates.

When you borrow money from a bank, you are effectively "buying" money and the price you pay the bank is the rate of interest on the loan.

Likewise, when you deposit money in a bank, the bank is effectively "buying" money from you and the price they pay you is the rate of interest on your cash balance or term deposit.

Unlike cars, glasses and music; the price of money isn't always dependent upon the laws of supply and demand.

Instead, the immediate price of money is established by the world's central banks such as the US Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan and the European Central Bank.

The key to understanding interest rates and where they are headed is being able to think like a central banker. Don't be discouraged by the difficulty of gaining this perspective. After all, becoming a central banker is rather difficult.

To begin with you spend roughly:
- 1/3 of your life studying at a university
- 1/3 of your life working for various government entities
- 1/3 of your life working for Goldman Sachs

Then, and only then would you even be considered for the job of telling people how much they should pay for money.

More importantly, behind the eyes of every central banker is the belief that by changing the price of money (interest rates), it will change the demand for money.

This thinking is really no different than The Gap clothing store. When they want more people to buy their shirts, trousers and belts – they simply lower the price.

Alternatively, when The Gap figures out a lot of people are buying their products, they'll raise the price.

Of course, similarities between The Gap and your central bank end at the mall.

Onward they march

While the CEO of The Gap believes he may be able to change the fortune of the company, central banks believe they can change the fortune of the entire planet.

Of course, if you believe no one can change the economic direction of the entire planet – you are correct. However, don't tell the central bankers.

If central banks are able to cure the economic world, then cutting interest rates from 15% in the 1980s to 7.50% in the 1990s would have cured all economic ills.

Instead the world witnessed:

- 1987 crash
- Savings & Loans crash
- Mexican Peso crash
- Asian currency crash
- Long-term Capital Management crash

And, if central banks are able to cure the economic world, then cutting interest rates from 7.50% in the 1990s to 3.50% in the 2000s would have cured all economic ills.

Instead the world witnessed:

- Tech market crash
- Housing market crash
- Portugal, Ireland, Italy, Greece, Spain government crash

Despite this brutal record, onward they march. Today, central banks have cut interest rates to 0% and today we are witnessing:

- Declining global growth
- investors and savers searching the world for income

We've discussed the lack of global growth before. Nothing has changed – the world continues to suffer from any acceleration in economic growth, and this is despite 0% interest rates. Investors and workers everywhere around the world need to grasp this all important fact.

Which brings us back to understanding interest rates and predicting where they are headed.

But first, we ask you to really think about the second point above:
– investors and savers searching the world for income.

When central banks set the price of money (setting interest rates), they do this from the perspective of the BUYER of money – not the SELLER of money. This is the key point in understanding interest rates.

Central banks believe that reducing the cost of money will encourage and incentivize people and companies to BUY money. And when they BUY money, they will then spend the money which will create economic growth.

This makes sense on paper and it is what universities, governments and Goldman Sachs have been telling everyone for over 30 years – therefore it MUST be true.

Are you buying or selling?

But it isn't.

If going from 15% to 7.5% created growth, and then going from 7.5% to 3.5% created growth, then surely going from 3.5% to 0% should definitely create growth.

That's what both logic and linear thinking tells you.

Now, this is the point where the main street advisors and banks stammer that things ARE improving. They whip out numerous charts and data points showing year-over-year improvements in employment, housing, real income, consumer sentiment, PE Ratios and credit spreads.

Yes, things MUST be getting better.

But, if things really are getting better, why have central banks all over the world continued to lower interest rates?

And worse still – why are many lowering interest rates straight through the illogical level of 0%?

Yes, today practically all of Europe have journeyed through this once fictional barrier and have now established NEGATIVE interest rates.

While central bankers cannot change the direction of the global economy, they can certainly identify when things are not quite going as well as it is hope for.

While central banks are hoping their 0% and now NEGATIVE% interest rates will stimulate a recovery; savers, and term deposit investors are hoping for something very different – a source of interest or income greater than 0%.

Recall that the price of money has 2 sides: those who are buying money and those who are selling money.

While central banks are hoping their 0% interest rate policies will encourage people and companies to buy money, they have simultaneously crushed the hopes of everyone who is selling money.

Yes, instead of earning 3.5%, 7.5% or 15% on their savings as they did decades before, today savers everywhere have to either accept 0% on their money or do something different, very different.

And in many ways, these "very different" things are creating trouble.

Most term deposit investors are risk-averse. They cannot tolerate losses. They want safety of capital and the ability to earn interest on their savings.

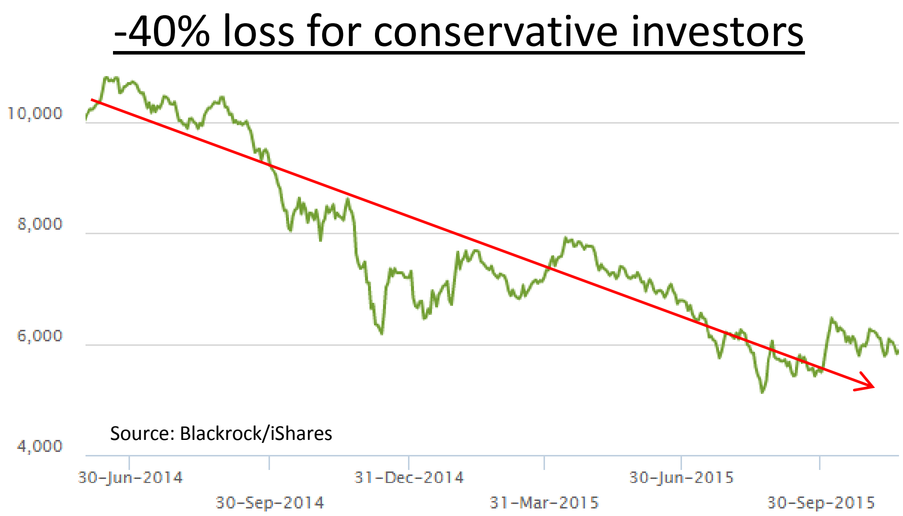
By creating 0% interest rates, central banks have thrown these savers to the wolves of wall street. And once savers enter the wolves' den, only bad things can happen.

And in the investment world, this means doing things you wouldn't ordinarily do – such as investing in markets you have historically avoided.

The Search for the Yield

For example just 2 short years ago, Canadians searching for more investment income were told to invest in Energy and Pipeline stocks. These companies paid out 8% in dividends and savers were told these companies were strong, their dividends were strong and the price of oil was strong.

Instead, the price of oil collapsed 60% which caused many of these companies to cut their dividends and the stocks fell over 40%:



Another favourite investment strategy for income seeking savers has been High Yield Bonds. We've been told that bonds are always safe, and that there's nothing to worry about. So load up and enjoy the 7% Interest payments and forever forget about 0% term deposits. Considering this group of investments has declined -3% over the last year, we wonder just how forgetful these investors really are.

We should ask the following:

Why are savers investing in energy stocks and high yield bonds?

When central banks reduced interest rates to 0%, they effectively forced savers to become the very thing they tried to avoid - aggressive investors.

Of course, the investment industry has to accept some of the blame as well. We see countless brochures, commercials and pop-up ads screaming at people to Search for Yield.

Yes, these investment companies are suddenly claiming to being experts in identifying stocks and bonds from around the world that pay a nice, and sleep easy dividend.

As investment managers ourselves, we can tell you with absolute certainty there are no free-investment meals in the world. If global interest rates are at 0%, it means every other dividend and interest rate significantly above 0% carries certain degrees of risk.

And if you want to know the next "income seeking" strategy that will produce significant losses for investors, look no further than emerging market bonds.

Faster, higher, stronger

Emerging market bonds are issued by countries who are still developing their economies. While "developing" may not be the most flattering word – it is the word used by the industry.

Emerging market countries include Mexico, Russia, Turkey, Indonesia, Philippines, Brazil, China and others. Truth be told, the back of the envelop numbers completely support the investment thesis for emerging market bonds.

Their economies are certainly growing faster than the USA, Europe and every other developed nation.

In addition, they have less debt outstanding as well as very little in the form of large and expensive social security systems.

In short, investments in these bonds make a whole lot of sense. And this is what the investment industry is selling to investors.

In long however, these investments are on the verge of becoming a disaster. What the back of the envelop doesn't tell you is that as global growth continues to slow, international investors begin to withdraw their capital from these markets – regardless of how fundamentally sound.

In addition, as we expect the US Dollar to surge versus all currencies, it will have a major negative impact on these countries. Most of these countries borrow money in US Dollars, while their economies use their local currency.

However, when the US Dollar appreciates strongly it means these countries have to use more of their local currency to pay back the US Dollar debt.

When you combine this with a slowing global economy, it means there will be even less local currency available to make the debt payments.

Of course, this deadly combination will only further frighten away foreign investors and therefore creating broad selling across the entire emerging market bond group.

If a stronger US Dollar does not materialize, then investments in emerging market bonds will be fine. However, as the world continues to grind lower, and central banks continue to experiment further with NEGATIVE interest rates the likelihood of a US Dollar surge is increasing by the day.

As such, kindly note our warning of emerging market bonds and the next time you hear about a manager searching the world for yield, be wary, very wary.

Mythical Creatures

Canada

Now that the election is over, the new government can quickly get down to work to missing all of their economic forecasts and budgets.

IceCap is apolitical – we support neither the left, the center or the right. Instead, we see the world with our global goggles and can confirm that despite any and all economic policies from the new (or old) government – the Canadian economy will continue it's downward trend.

This negative outlook for Canada isn't driven by an insular view or perspective. Rather, the global trend is downward. The economic and monetary foundation for the global economy has shifted and this is the reason for our downward view for the Great White North.

During the election campaign, we shared this view with the eventual winning party. The response was a slow yawn and disapproving look which suggested either we didn't know what we were talking about or they were not really interested in our answer to their question.

This lack of empathy for the escalating global government debt crisis is also shared by many in the financial sector as well. Yes, increasingly more and more investment managers are echoing concerns similar to ours – but make no mistake, the majority, and especially the really big investment and mutual fund companies continue to see a recovery right around the ole corner.

Of course, this mythical corner continues to be just as elusive as unicorns, trolls, elves and dragons.

In 2014, Canada's top Bay Street economists were all clamouring for the Bank of Canada to begin raising rates – after all, these economists had very big spreadsheets, with all kinds of neat formulas and corporate logos that predicted the Canadian economy was about to shoot to the moon.

Yes, the good times were back.

But they weren't.

At the time, IceCap stated that the global economy was beginning to roll over and that the Canadian economy would begin shooting in the opposite direction. As well, based upon our outlook for declining growth, we also expected the Bank of Canada to REDUCE interest rates, not INCREASE interest rates as predicted by Bay Street.

Naturally, our view meant that the Canadian Dollar would decline significantly relative to the US Dollar. This provided us with a great opportunity to add a significant USD currency strategy within every Canadian Dollar Client Portfolio.

Now here we are in 2015, and the Canadian Dollar (and other currencies) has in fact declined significantly, and the Bank of Canada has in fact REDUCED interest rates not once, but twice.

Think Global!

We share this investment success story for 2 reasons:

1 – Taking an <u>insular</u> view of your Country's economy will lead you to losing money.

2 – The <u>global</u> economy and financial markets continue to move in the direction which we expect. And this direction is going to produce outcomes that are being completely missed by many in the investment community.

Which brings us back to Canada. Currently, both the Bank of Canada and Bay Street economists predict the Canadian economy to recover in 2016, and then to accelerate in 2017.

The ONLY way for this to occur is if the global economy sheds it's government debt problem. IceCap places a 0% probability of this occurring.

Instead, everyone should expect:

1 – Canadian economy to be in recession in 2016

2 – Bank of Canada will be at 0% interest rates in 2016

3 – Bank of Canada will be at NEGATIVE interest rates in later 2016

4 – Bank of Canada will be PRINTING MONEY in later 2016

And for the Canadian Dollar? It's headed lower, a lot lower.

If you are not Canadian, just know that you are in a similar boat. And when it comes to boating, there is one simple rule – going against the flow is difficult, it's exhausting, and it can be humbling.

As such, anyone who ignores this super strengthening of the US Dollar will find their investment experience to be difficult, exhausting and very humbling.

Chart 1 next page shows the performance from various currencies over the last few years. Two obvious points:
1 – every currency has declined SIGNIFICANTLY vs the US Dollar
2 – the declining trend has been steady

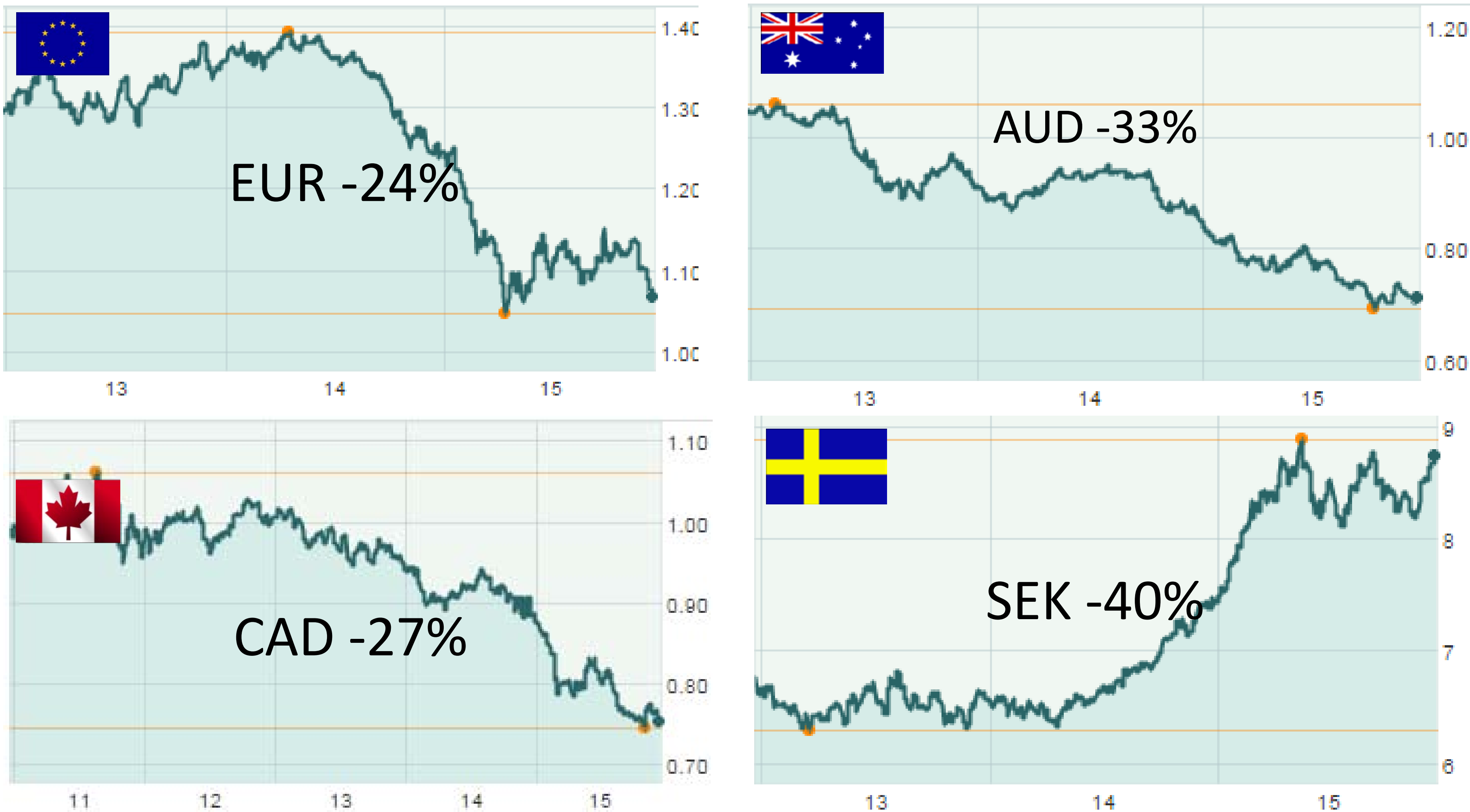
Many in the investing world have a myopic view about currencies. Some say they are too difficult to predict, while others claim that they have plenty of currency exposure through their stock portfolios.

In other words – just buy stocks and bonds, and don't worry about currency movements. It will work its way out.

We couldn't disagree more.

In actual fact during times of global stress, currency movements are actually rather easy to see and envision. From a simple perspective – money will always run away from trouble and towards safety.

Chart 1: US Dollar strength



Source: Marketwatch

Really big currency movements happen all the time

In 2008/09, money ran away from everywhere in the world and found comfort and safety in the US Dollar.

In 2000, money ran away from the USA, and landed in the Euro.

In 1998, money ran away from Russia and Asia, and landed in USD.

In 1990, money ran away from Japan, and landed in USD.

In 1987, money ran away the USA, and landed in Japan.

And going way back to the 1930s, money ran away from Europe and landed in US Dollars.

The point we make is that when really big movements are afoot, so too will money and the result will either see:
1) one currency decline significantly relative to everyone else, or
2) one currency increases significantly relative to everyone else.

Today, we are smack dab in the early stages of the latter.

At IceCap, we have been crystal clear about our view on currencies. As we finish off 2015, and enter 2016 we cannot stress enough how important currencies will be in the immediate and near-term future.

We cannot predict exactly when it will occur, however all evidence is pointing to an eventual blow-off for a major currency which will then spread across to other currencies.

We could be wrong, but the Euro is increasingly looking like the currency which will react explosively relative to the US Dollar.

Anything could trigger the avalanche – unexpected political change such as German Chancellor Merkel quitting office, or events leading to separatists movements in Portugal or Spain.

Another trigger could be an economic event – one that would see a sudden worsening of the economy or trouble for a major bank.

Any of these actions could be the spark that will change the gradual declining trend, into a rapidly, accelerating waterfall.

People need to understand that currencies act as a relief valve when investors lose confidence in a government or economy. And, considering the world continues to grind lower and lower, and central banks continue to push interest rates further and further into NEGATIVE territory – investor confidence is certainly waning across and within many countries around the world.

Now, there's a right way and a wrong way to establish currency strategies within your investment portfolio.

For private investors, the right way is fairly simple – invest in short-term bonds or paper in the currency you like.

This way, your investment experience will ebb and flow with the move in the currency which is exactly what you want.

Everyone leaves frustrated and confused

The wrong way to invest in currencies is to buy stocks or equities in the currency you like.

Unfortunately for investors, the investment industry's cultural beliefs have been cemented for years and investors routinely gain their currency exposure by doing it the wrong way.

In Canada, every time the Canadian Dollar declines relative to the US Dollar, the following conversation takes place:

Client: "I want USD in my portfolio"

Advisor: "You already have plenty of USD. You own shares of RBC, Manulife and Suncor Energy. All 3 firms have substantial business operations in the United States."

Client: "But the US Dollar has increased 20% and these stocks have declined. How is that investing in US Dollars?"

Advisor: "No one can predict currencies. Continue to buy and hold and everything will work out."

<Client leaves the meeting frustrated and confused>

<Advisor also leaves the meeting frustrated and confused>

As misery loves company, just know that this exchange also happens in Australia, Britain, Europe, Brazil and every other country as well.

As currency moves become increasingly stronger, it's crucial to identify the true source of your investment return.

Frequently, we hear investment managers claim stock-picking-powers of "crushing the market", or "killing it". Yes, the performance may very well have crushed or killed something, but quite often the source of this miraculous talent has come from currency.

Of course, there's nothing wrong with this. Yet, if you don't recognise where the return came from, you will very likely back into a stock or market for the wrong reason and then the only thing that will be crushed or killed, will be the negative effect from currency.

IceCap is a global macro investment manager. Or put another way, we will invest client assets in whatever market our research says is the best at that time. In other words, at any time we will love or hate any investment strategy including stocks, bonds, commodities and yes, currencies too.

This is important, as many managers are purely focused on the stock market and will ALWAYS be invested in the stock market. Other managers are purely focused in the bond market and will ALWAYS be invested in the bond market.

Nothing is constant. Everything is always changing and is always in motion. So too, should your investment strategies.

As we move along, it's absolutely critical to understand that currency

Great year for currency returns

movements are on the cusp of doing some very unexpected things. We'll continue to update our view on currencies and reflect them in client portfolios – *the right way*.

2015 – a tough year for returns

It's been a tough year for investors. For local investors, stock and bond markets haven't performed that well. American, Canadian and British investors have all seen their local stock and bond markets return close to 0%.

Don't despair – you're not alone. 2015's mainstream market struggles have also spilled over to many of the largest, brightest and most expensive hedge funds as well. Collectively, the average fund has declined -2% so far in 2015 – hardly the investment experience envisioned by those paying 2% annual fees PLUS 20% of all profits.

Worse still are hedge funds focused purely on commodity markets. Those funds that haven't closed are facing double digit negative returns.

Next up on the struggle list is Blackrock. Yes, even the world's largest investment manager has struggled. The $4.6 Billion Blackrock Global Ascent Fund has declined close to -10% and has announced the fund is closing.

And the cherry on the bad performance top award goes to everyone's favourite – Warren Buffett. Yes, even the legendary stock picker has had a down year. While his most ardent fans remain in denial, Buffett's fund has declined -11% in 2015. On an absolute return basis, negative numbers are never enjoyable. Yet, when you consider the broader US market has returned close to 0% this year, -11% is even harder to swallow.

Yet, despite this very obvious down year for all investment markets, many <u>non-US investors</u> are enjoying spectacular investment returns.

At IceCap, our Canadian Dollar portfolios have averaged around 10% thus far in 2015. And we can tell you that virtually most of that return has come from currency.

IceCap likely isn't alone. In fact, any non-USD base investor who invested in anything valued in US Dollars should have made a real nice return.

Nevertheless, it's important to <u>understand</u> where your return came from. Don't be fooled by the story of stock picking prowess, or the uncanny ability to select undervalued companies. This demonstrates a complete lack of understanding of not only investment markets, but worse still – the inherent risks within your portfolios.

Again, the point we make is that 2015 is the beginning of a period where currency will dominate all investment markets. Make sure you and your manager are aware – it will save you a few unpleasant future moments.

Outside the money world

Geopolitics

It seems like everywhere we go, investors everywhere continue to be focused on the traditional things that presumably drive the stock market higher.

The latest gizmo from San Francisco is always one to get technology stocks zooming higher. While, the latest layoff announcements combined with stock buybacks always seems to get the NY Stock Exchange humming higher.

Yes, higher and higher it goes.

BUT, nothing is constant in the investment world. Yes, there certainly are times when stocks are driven by the *traditional* drivers such as revenues, costs, profits and dividends.

Yet, there are also times when the world becomes a bigger place and company and industry specific celebrations are swatted off as if they a fruit fly hovering over your glass of pinot noir.

Regular readers are keenly aware of our view that the financial world and the economic world have been twisted and distorted into an unrecognisable shape – which is creating unrecognizable opportunities to both make and lose a lot of money.

Equally important is understanding when the non-money world has the potential to significantly affect the money world.

Today, there's no shortage of non-money world risks. Everywhere we turn, stories leap and bound over war in the Middle East, potential war in the Pacific, and sadly terrorism.

The recent attacks in Paris were shocking. Our condolences to all families and friends who were affected by this senseless attack.

From an economic and financial perspective, the Paris Attacks will only further add to the ongoing trend of a global slowdown.

- Increased defense & security spending will lead to wider budget deficits, and higher debt.

- Higher debt and deficits will then lead to higher taxes.

- Higher taxes means there will be less money to spend which leads to slower growth.

- Slower growth will cause central banks to reduce interest rates further into NEGATIVE territory.

- Deeper NEGATIVE interest rates will make the really rich people further question the economic sanity of our central bankers. This will cause the really rich people not to make investments – they'll withdraw further from the economy.

Follow the money

• Meanwhile, deeper NEGATIVE interest rates means there is even less interest income for savers – which inevitably means less aggregate income for spending which will produce even slower growth.

As you can see – the world remains trapped in this downward debt/deficit/interest rate environment. It is a not-so, merry-go-round.

The good news – there is a way out (hint: write-off bad debt).

The not so good news – those in charge are either unwilling to make the hard decisions, or worse still, they are not aware of the right decisions (hint: neither likely to happen).

As the Paris Attacks remain front page news around the world, it's important to know the economic background of the current crisis in the Middle East. After all, if you want to know the real story of anything – simply follow the money.

And when it comes to money in the middle east, it starts and ends with oil and natural gas.

Qatar is a small country that receives little airtime in the western media. But is has two really good friends – the **United States of America** and **Saudi Arabia**. And in the world of super powers and money, these are two really nice friends to have.

While it may be a media minnow, it is a whale in the world of natural gas. In fact, only two other countries in the entire world have more proven supplies of natural gas – **Russia** and **Iran**.

Natural gas is great – but only if you have a way to physically send it to buyers. And the best and fastest and easiest way to send natural gas is through a pipeline.

When it comes to buyers, one of the biggest buyers of natural gas in the world is Europe. The entire continent runs on natural gas which is really good for the one country who supplies the gas.

Enter Russia.

Russia has Europe in an economic head lock. It has a virtual monopoly on the natural gas pipelines to Europe and Europe would love nothing more than to have an alternate supplier.

Enter Qatar.

Qatar would also love nothing more than to have a pipeline to Europe. There's only one problem – **Syria**. For Qatar's pipeline to work, it would have to run smack dab through the middle of Syria.

Easy enough, except Syria also has two really good friends in the world.

Enter the dragon

Enter Russia and Iran.

Hence – the ONLY way for Qatar to provide natural gas to Europe is to establish a pipeline effectively through Russia's backyard.

Of course, no crisis in the middle east exists without the presence of the United States. And the United States would love nothing more than to weaken Russia, Iran and Syria.

Presently, the easiest way to do this would be to topple the current Syrian government. Of course, the only politically acceptable way to do this would be to have Syrian's topple their own government.

Enter the **Syrian Civil War**.

The civil war in Syria is effectively between the current government and the rebels. The government is being assisted by Russia and Iran, while the rebels are being supported by Qatar, Saudi Arabia and the United States.

While this all sounds neat and tidy – it isn't. The rebels in Syria, just so happen to be either a direct, or indirect offshoot of another group that has captured the world's attention.

Enter **ISIS**.

Everyone by now, is aware of the real life threat of ISIS. Seeing Paris attacked has certainly made the threat very real.

However, not only has the ISIS threat captured the attention of the western world – it has also directly contributed to the migrant crisis in Europe.

Millions of migrants didn't suddenly decide to relocate to Europe. War-like conditions in their own countries are the cause for the biggest movement of people since WWII.

From an investment perspective, one should set aside their feelings about ISIS, the migrant crisis, the USA, Russia or Qatar. Instead, consider the impact these actions and inactions are having on the world, especially within Europe.

To begin with, prior to the Paris Attacks a growing percentage of people in every European country were against allowing new migrants into their respective country. After the attacks, these numbers will only grow higher.

As well, prior to the attacks, economies and jobs were not doing well.

This resulted in incumbent political parties losing votes, and anti-Euro parties gaining votes.

The Paris Attacks have now only further increased political support for these anti-Euro parties.

Everyone wants to leave

In **France**, support for the National Front Party is soaring, and its leader, Marine Le Pen will likely become the next President. If this happens, France will leave the Eurozone and possibly the European Union.

In **Germany**, the Afd has reached its highest support ever at 10%. Considering the Afd party is less than 3 years old – this is considerable. As well, members of Merkel's own party are increasingly becoming less supportive of her pro-immigration policies.

While not directly to the Paris Attacks, the Catalonia region in **Spain** is preparing to leave the country next year. This is a big deal. For those unaware, it's the same as Texas leaving the United States.

Meanwhile in **Portugal**, the recent national election was very clear – the ruling, pro-EU party was out and the anti-EU coalition bloc was in. Well, it was until Brussels stepped in and said no.

Just as it did in Italy 2012, Brussels has directed Portugal to not instate the anti-EU coalition party. In fact, Portuguese President, Silva specifically stated "In 40 years of democracy, no government in Portugal has ever depended on the support of anti-European forces," he said. "This is the worst moment for a radical change to the foundations of our democracy."

Political nerves in Portugal are frayed. And in Brussels, they are becoming even more undone. If not for the Paris Attacks, the Portuguese political story would be front and center.

Poland – long the geographical pivot point between Europe and Russia has also voted against the EU. The anti-Euro/EU conservative party claimed a majority victory and it is now only a mater of time before action is taken.

Not to be out done, even **Finland** is starting to question any benefits of remaining in the Euro. In 2016, the Finnish parliament will be debating the merits, and then will decide whether a formal referendum will be held.

Considering a full 35% of Finns do not support the Euro and the fact that anthing can happen within the next few months, don't be surprised if one of the strongest, original supporters of the Euro is suddenly heading for the door.

In the **UK** – Prime Minister Cameron is desperately trying to say and do the right things. In the build up to the 2015 UK election – Cameron was forced to agree to a referendum on EU membership.

Believing his party wouldn't win the election – he had nothing to lose. Now, a mere 6 months later his EU quagmire grows by the day.

Safety of the US Dollar

The very big self-interest groups from government and business want to remain within the EU – after all, it's great business for all of them involved.

Yet, everyone else is completely fed up with the EU and want out. The Paris Attacks only further supports the anti-EU vote.

So, on one hand Cameron has those who provide financial support to his party urging a YES vote, while the other hand has those who actually casts votes urging for a NO vote.

Either way, Cameron loses and the UK will be rather upset regardless of the outcome

What does this mean for investors?

For starters, the free-open borders in the European Union are about to be closed. This is significant as the entire concept of the EU and the Eurozone was to eventually create one government. Fences being closed and walls going up immediately removes all hope (there's that word again) of creating a United States of Europe.

Investors everywhere should prepare for a significant dislocation of the Euro. The currency union and the political union is weakening by the day. We expect it to snap, and when it does it will create a wake felt around the world.

There is a way to avoid this drama – the Eurozone countries must become one country, with one government, with one tax structure and with one debt.

IceCap places a 0% probability of this occurring.

The snapping of the Euro will spread to other currencies as well. It doesn't matter if your currency, economy and government is strong – once a wave of currency crises begins, it will have to run its course.

All sellers will in turn seek safety in the US Dollar.

Every asset class will be affected with some in a positive way, and others in a negative way. We've written and presented on this outlook before, and we always state that as the facts change, so to will our view.

Yet, every morning we start our day combing for new data to convince us to change our mind. Sure there are pockets of good news, and even the odd ray of light. Still, the majority of the days end the same as it started – the global trend continues to trend downward. We wish it wasn't, but it is.

And that's why our investment view and strategy remains the same.

More Direction Needed

Need a Director?

Keith Dicker is the President & Chief Investment Officer of IceCap Asset Management Limited and is the author of the IceCap Global Outlook.

He is available as an independent director for your Board of Directors.

Whether you are a public or private company, an investment fund, a bank or investment firm, or a non-financial industry company, Mr. Dicker's experience and unique global perspective will provide your board with an infusion of dynamic thinking for this fast changing, financial world.

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Our Strategy

Since our last Global Outlook, most financial markets have stabilized. Stock markets have drifted a bit higher, while most currencies continued to drift a bit lower relative the US Dollar.

Economic data around the world has also remained static. There have been pockets of good news for those believing in the recovery, while there have also been pockets of bad news for those believing in the non-recovery.

Above everything else, THE most important development is the increasing likelihood of the US Federal Reserve raising overnight interest rates by 0.25% in December. We've always held the view that it is only a matter of when, not if, the Fed raises rates. And it looks like it will finally happen in a couple of weeks.

The good news is that all financial markets, oddly seem to have finally come to terms with this increase in rates. For now, all is quiet – for now. We strongly suspect markets to re-evaluate this position in the new year resulting in even stronger capital flows into the US Dollar.

Bonds

Our view on bonds hasn't changed. We will continue to avoid high yield and emerging market bond strategies. Our position has been very clear – significant downside risk exists within these strategies.

Long-term bond yields are on course to improve somewhat

Our strongest conviction is in currencies

compared to the weak returns over the last few weeks. Overall, we expect long-term interest rates to rise considerably. The beginning of the end for long-term bonds will occur as soon as one of the major currencies breaks against the US Dollar.

Stocks

Clearly, fundamentals for stock markets continue to deteriorate. Valuations are stretched, while both company revenues and earnings are hitting soft patches. As well, we expect a significant global slowdown is bearing down on the world in 2016.

Yet, the possibility of a surging stock market remains. We'll provide more details on this view in the next IceCap Global Market.

Currencies

US Dollar is king, and will remain King for a while longer. This remains our strongest conviction.

Commodities

No changes here either. Energy markets can easily see $30 oil and this will certainly create even more havoc for oil producing nations, oil companies and high yield bond strategies.

Gold remains incredibly weak. If the Paris Attacks & the shooting of a Russian fighter jet couldn't create a rally in gold, then we are not sure what will. Gold has significant air pockets and the possibility of it breaking through $900 are a lot higher than people think.

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

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

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

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