Our view on global investment markets:

October 2018 – "The Devil's Slide"

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It's a Ride

Talk about a slippery slope.

California's famous Highway 1 infamously squirrels its way up, down, and around the steep coast all to the delight of motorists from afar.

It's a thrilling ride until it is abruptly stopped dead in its tracks by none other than the Devil himself.

Despite being only one mile in length, a picturesque stretch known as the Devil's Slide, was supported by a foundation of quick draining, 50% gradient slopes which frequently did what all shoddy foundations eventually do – break away.

Yes, it was risky – but the risk was assumed away by studies, and models that would eventually prove to be not only wrong, but very wrong.

The first tragic landslide occurred in 1942. The damage was patched-up and the thrill ride continued.

Additional landslides rocked the road in 1951, 1952, 1977, 1982, 1983, 1995, and then the final straw that broke this back – 2006.

Finally, after numerous deaths, countless rescues, and excessive incalculable costs – the Devil's Slide was closed and replaced with a tunnel through the (ironically) very same hillside. Which of course, makes the Devil grin even more.

The experts at the time should have known better.

Physics and mathematics will always confirm that everything built upon a shoddy, weak, and inconsistent foundation eventually fails.

Failure is a certainty. It is illogical to expect anything else.

In the world today, the financial Devil is alive, well and grinning once again.

The Devil has watched patiently, as the world's central banks and political leaders built a financial debt and interest rate structure on a foundation consisting of theories, acronyms and worst of all – hope.

Since 1982, the financial world has enjoyed a thrilling ride – one zoomed around the world by 36 years of bailouts and declining long-term interest rates.

Over these years, the financial experts should have known better.

These experts should have known, the 1997 bailout of the LTCM Hedge Fund would create an unstable foundation eventually resulting in the 2000 Technology Bubble.

When the same experts were confronted with the 2000 Technology Bubble, they should have known their bailouts would create even more stress on the world's financial foundation, and eventually producing the 2008 Global Financial Crisis.

Ignore or Respect

And when these same experts were smacked in the head with the 2008 Global Financial Crisis, they should have finally learned their lesson and expected that another, larger land slide would soon emerge yet again.

But they haven't.

Predictably, just as the Devil's Slide deceived and disparaged the day's engineering experts, today's financial experts have also fallen prey.

Fortunately for the minority, the majority of consultants, big banks and media cannot comprehend the instability created by years of monetary mismanagement.

Losses from this mistake will overwhelm those from the Global Credit Crisis, dwarf those from the Tech Bubble and swamp those from the LTCM Crises.

While ignoring the financial Devil will create losses for the majority; respecting the financial Devil will be enormously profitable for the minority.

Cracks in the global financial foundation are occurring all around us. Financial landslides have begun across different currencies, bond and equity markets.

One thing is clear; the financial Devil is near – ignore him at your peril, or respect him and enjoy the ride.

Stock Market

It was swift. It was brutal.

As of writing, broad based equity markets around the world declined approximately -5%.

Now, a -5% market decline should not be unexpected – it happens.

But when it happens over 2 days, and it happens at a time when most investors are on edge to begin with – fear and contagion drives anxiety levels to levels that would normally not be associated with a -5% decline.

IceCap is asset class agnostic – meaning we are neither perpetual lovers or haters of any investment market, or asset class.

Therefore, while most managers are singing soothing, don't worry about the market songs – IceCap takes a pragmatic approach.

Our primary model for guiding us through allocations to stock markets has turned negative.

This means we are reducing our allocations to equities.

During the -10% market correction in January/February 2018, our model did not turn negative and kept us invested while others were selling.

Stay Objective

The current sell-off however, has produced a different result.

To be completely fair and transparent – there is a 100% probability of us changing our equity allocation again when our main model changes.

This could happen again next week, or maybe not until next year.

The point we make is that IceCap will never dig our heels in and refuse to understand and respect markets when they break key support levels.

As for the reason why markets corrected so swiftly?

Media and other talking heads are trying to identify fundamental reasons for the market correction.

This is a mistake.

Fundamentally, nothing has changed from one week to the next.

Instead, our view is that stresses across several fixed income and currency markets finally resulted in several (and then many) managers going offside and having to cover leveraged, margin positons.

Then, once the selling starts – it really starts.

As investors, remove your subjectivity and always stay objective.

The Financial Devil

Finally the best kept secret is out - the only game in town is the mighty US Dollar.

Increasingly, investors around the globe are beginning to realize and accept the fact that the key driving force today behind all asset classes is the US Dollar.

While every market cycle is driven by a narrow set of factors – this once in our lifetime factor is quite different than the others we've experienced in recent years.

It is very different than the 2000s, when commodities were the only game in town.

And very different again from the 1999-2000 period when technology stocks were the only game in town.

And very different (again) from the mid 1990s when emerging market stocks were all the rage.

The key difference between prior periods and today is that prior periods were driven by factors that existed on the PERIPHERY of the global financial system.

The US Dollar on the other hand, is not the periphery – it is the center. It is the FOUNDATION of the current global financial system.

And because it is the foundation of the global financial system,

Expect Differently

investors should understand, anticipate and expect capital movements unlike previous market driving themes from our lifetime.

To the disappointment of some, the foundation of the global financial system ISN'T the Euro. It isn't Japanese Yen, and it certainly isn't the Chinese Yuan, or a haphazard collection of petro-currencies.

In fact – it isn't even a combination of all of the above. Not even close.

Accepting this fact is the first step towards less confusion, less angst, and more investment happiness.

IceCap has consistently communicated that we expect a serious crisis to re-escalate across and within global bond markets.

Never before has any living person experienced a rock-the-world kind of crisis in bond markets.

And this is what will make it a very special crisis.

Sure, there's been a few bond spats in minor markets – the ones so small and immaterial that they never had a chance to move the elephant in the room.

Today, however – the elephant in the room has been nudged, pried, tickled and tortured enough so that he has finally started to stand up and move his enormous butt.

And whenever an animal this large, moves within a crowded room – everything is affected.

Of course, the elephant in today's financial market room is an industry that has always told investors that bonds are safe and an industry that is totally unprepared for a liquidity event in bond markets.

Clients and regular readers of IceCap will recognize a few of the following charts – and we're sharing these again on purpose.

To begin, the investment industry is simply unprepared – bond investors were completely blindsided by the 2016 US Election, when long-term interest rates increased +0.70% and caused a "meltdown."

Global Bonds Suffer Worst Monthly Meltdown as $1.7 Trillion Lost

by Garfield Clinton Reynolds and Anooja Debnath
November 30, 2016 — 10:16 PM EST Updated on December 1, 2016 — 11:18 AM EST

And as they are never proactive, big banks reacted by doing what they do best – tell all of their clients that no one saw it coming.

Of course, a mere 7 months later we see this hitting the news:

BUSINESS NEWS | Fri Jul 7, 2017 | 9:11am EDT

Bank of Japan offers to buy unlimited amount of bonds to calm markets

Minor Events = Major Event

Again, we don't hear peep from the fund companies and big box banks about serious trouble brewing in the bond world.

But then one month later it happened again:

BloombergMarkets How Funds Are Regrouping After Worst Canada Bond Rout Since 1994

How Funds Are Regrouping After Worst Canada Bond Rout Since 1994

By Maciej Onoszko
August 8, 2017, 1:00 AM GMT-3 *Updated on* August 8, 2017, 10:55 AM GMT-3

And yet again 7 months later:

Not a Single Japanese 10-Year Bond Traded Tuesday

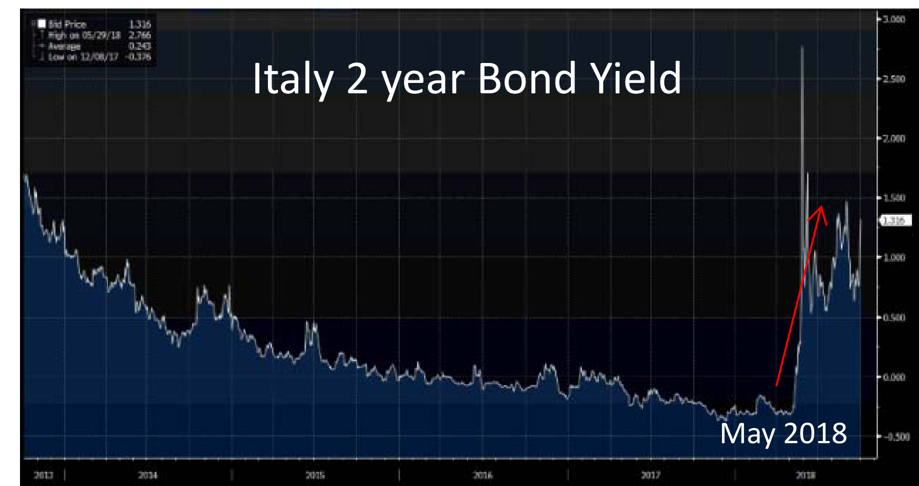
By Chris Anstey and Hidenori Yamanaka
March 13, 2018, 10:47 PM ADT *Updated on* March 14, 2018, 3:15 AM ADT

You're probably thinking, with greatest hits like this, there's no way the bond music can continue – and it won't.

The next mini-crisis has just occurred in the place where EVERYONE should expect - Italy.

In our February 2018 IceCap Global Outlook we told readers that the Italian election would produce a Euro-skeptic government and the result would see Italian interest rates surge higher.

Fast forward a few months, and it's crystal clear the bond market has once again been caught as a deer in headlights.



In the investment world, no extreme market event happens out of the blue.

Instead, there are ALWAYS small, minor events occurring before hand.

The trick of course is identifying these seemingly isolated minor events, and then piecing them together to help you understand what major event will ultimately be triggered.

When it is Needed Most

The common variable in all of these preceding bond market mini-events is the lack of liquidity during the very time when liquidity is needed most.

In any market, when there is a lack of liquidity, it really means there is a lack of buyers. And just to be clear – without a buyer, the true price of anything tumbles.

Of course, when bond prices tumble – interest rates/yields surge higher [**see Italy chart previous page**].

As we continue to see this bond market being tested for liquidity – everyone should realise that the bond market is a different animal all together.

For starters – most investors do not understand there is no bond market exchange.

Unlike stock exchanges around the world, there are no bond exchanges. They simply do not exist.

In the world of stocks, a company issues shares of ownership for its company and then these shares trade on a stock exchange.

Except for new companies issuing shares (IPOs), and other companies being acquired or delisted, the supply of stocks to trade on an exchange mostly remains the same. In other words, the supply is rather constant.

The bond market works a different way.

In the bond market, the supply of new bonds comes directly from companies and governments who need to borrow.

And since people, companies and governments have been borrowing at an exponential rate -– the supply of new bonds issued grows by the day.

What this means, is that every morning when a mutual fund or pension fund manager turns on their screen – they're able to see a plethora of new bonds available to buy.

For almost 40 years now, closing your eyes and taking a pick has always been the trick when it comes to fixed income management.

Truthfully, this act should have come to an end in 2008-09.

But it didn't.

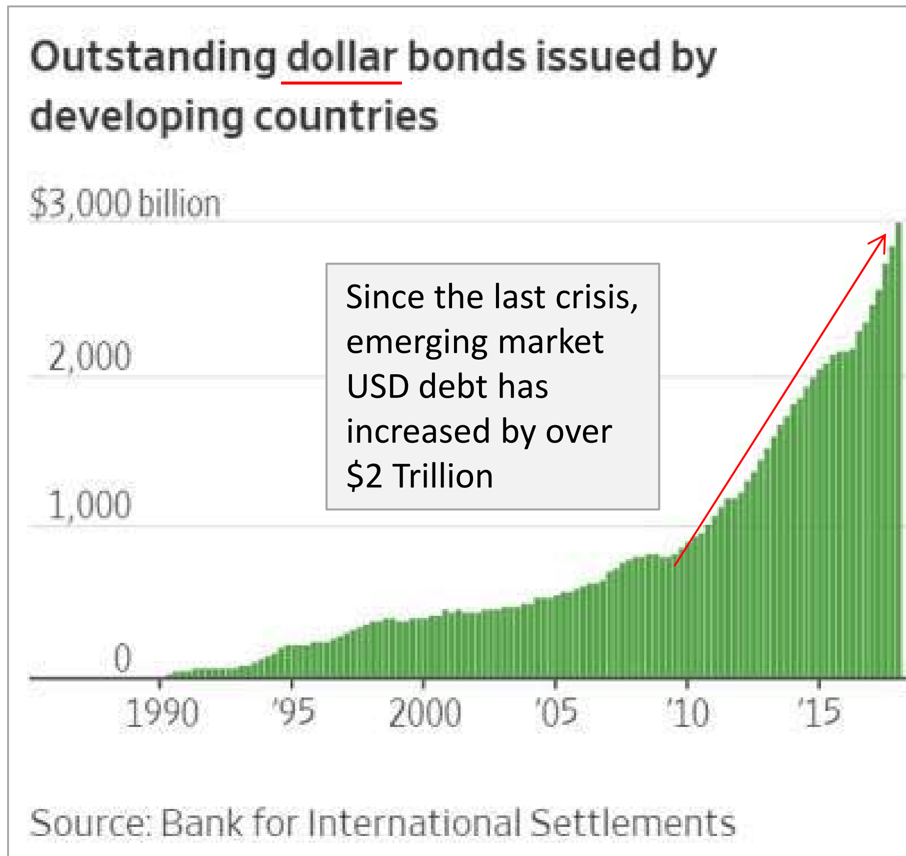
Instead, the coordinated global decision consisting of:

1) nearly 700 interest rate cuts,
2) over $15 Trillion in money printing,
3) zero % interest rate policies, and
4) negative % interest rate policies;

simply encouraged everyone to borrow, borrow more and then borrow even more.

The Foundation

To demonstrate the eye-popping growth in new debt, have a look at this chart from the Bank of International Settlements:



Two things about this data set – first, the only reason these countries could borrow this much is due to the world forcing 0% interest rates on everyone.

Two, the bulk of the borrowing has been in US Dollars.

Of course, to fully appreciate the enormity of this combination, investors must understand why the USD (as the foundation) will cause a tidal wave effect crisis across all bond markets.

The reason many countries and non-American entities have to borrow in USD is because these borrowers have to make their debt attractive to investors who are going to buy the debt.

It is fact, that the #1 fear for all bond investors is the fear of not getting back your principal.

A similar fear is having the lender pay you back in a currency that has declined in value.

For these reasons, emerging market countries have to borrow in USD – otherwise, investors would have very little interest in lending to a Sri Lanka if Sri Lanka promised to repay the investor in Rupees.

To really appreciate the enormity of USD borrowing by other countries, spend a few minutes on the **table next page**.

Here you'll see the extent of borrowing in USD by emerging market countries and the negative effect of a strengthening USD.

South Africa for example, has borrowed $183 Billion in USD which is equal to 46% of their economy.

Keep your Shirt on

Source: Michael Lebowitz
RIA Pro

	External USD Debt $bln	As % GDP	6mos decline in FX	Addl. Principal Owed $bln	Addl. Principal as % GDP
South Africa	183	46%	23%	41.72	10.49%
Argentina	254	40%	48%	121.87	19.19%
Mexico	454	37%	3%	14.35	1.17%
Indonesia	359	34%	8%	28.20	2.67%
Brazil	657	32%	22%	147.13	7.17%
Russia	486	31%	17%	84.82	5.41%
Turkey	467	50%	43%	201.04	21.52%

Their economy of course runs, and operates on the South African currency, the Rand.

In other words, when the South African government collects taxes, it receives Rand.

With this Rand, it must convert a portion of it into USD in order to pay interest on its USD debt and to pay back USD debt that is maturing.

Over the last 6 months, the Rand declined 23% versus the USD, which means the South African government and all of its tax paying residents now owe an additional $41.72 Billion USD.

In all of these countries, the market value of all of the government bonds issued have declined substantially.

In other words – if you have invested in emerging market bonds you are set-up to lose your shirt.

But why on earth would anyone invest in emerging market bonds in the first place?

The answer: because the industry tells you to do so.

Here at IceCap, we regularly share our views on investment MARKETS and the investment INDUSTRY.

Which to the unaware, are two completely different things.

Most investors are oblivious to the going ons behind the investment curtain.

Illusions of brainy analysts, brilliant strategists, and perceptive fund managers scouring the world for untapped investment opportunities are the stuff dreams are made of.

Instead, the majority of the industry simply creates copious new funds and sells them to you, the unsuspecting investor.

The funds that do well are then marketed, promoted and pushed through sales channels faster than a speeding macchiato.

The funds that don't do well? Well, they either just languish

Silence of the Lambs

on their own until the last investor leaves, or they are quickly renamed, washed, rinsed and then resold as something else.

Ever since the 2008-09 crisis, the most common investment theme amongst the investment INDUSTRY was the search for yield.

Put another way – since central banks and governments pulled the rug out from beneath all of the world's savers by cutting interest rates to 0%, investors the world over began starving for safe investments that returned 5%, 6%, 7% and higher.

All with no risk of course.

Astute managers in MARKETS however, could easily see how this would end.

And to see how it ends, one must first see how it begins.

In the investment world, we have this thing called the risk-free rate of return. Any return above this rate, can only be achieved by taking on risk.

Naturally, in a financial world created by Nobel Laureates and other academics, where the risk free rate was 0% - investors demanding 5%, 6%, 7% and higher (all with no risk) were naturally asking for something that was unrealistic.

In the investment INDUSTRY however, nothing is unrealistic.

Especially if it can produce management fees at 2% and higher.

The result was an INDUSTRY suddenly selling high yield bond funds, junk bond funds, preferred share funds, equity dividend focussed funds, and emerging market funds.

All being sold to the original risk-free investor.

Naturally, this latest strategy from the INDUSTRY would eventually [much to the delight of the financial devil] - go down in flames.

The first sign of trouble in this risk-free world happened when the industry sold European Bank stock funds to the lambs.

The rationale was 7% dividends supported by low price to book values was a deal every day of the week.

-40% later, risk-free investors discovered "bank" and "Euro" were indeed 4 letter words.

Next up, Canadian risk-free investors finally discovered why energy stocks and their 8% dividends could eventually keep them awake at night.

-40% later, these investors received their hard knocks lessons of the investment industry.

Better is Not Always Best

And now today, we are seeing the final stages of the next industry created disaster for risk-free investors, and they are called emerging market bond funds and sovereign bond funds.

In January 2018, we received several calls from the industry's leading mutual fund creation companies exhorting the advantages of us placing our client's hard earned savings in emerging market bonds.

Specifically, we were told emerging market countries have far better financial metrics (**see chart next page**) compared to the developed world.

And despite being in stronger financial positions, the bonds issued by these countries pay out higher interest, and it's in US Dollars!

And for these reasons – emerging market countries have a higher probability of repaying interest and principal on all of their debt issued.

And since, bond investors want to receive back interest and principal – investing in these funds is a no brainer.

Unless of course, you happen to use your brain.

It is true, most emerging market countries are in far superior financial shape compared to countries of the western world.

Their economies are growing faster.

Wages and salaries are growing faster.

Standards of living are growing faster.

And, debt – both government and individuals are significantly lower.

So, yes – the fundamental reasons for investing in emerging market countries are accurate.

Unless of course, the global financial system or global economy is on a downswing, or worse still – entering a financial crisis.

It is simple fact, when the world enters a financial crisis, investments leave the periphery, and seek safety in the core.

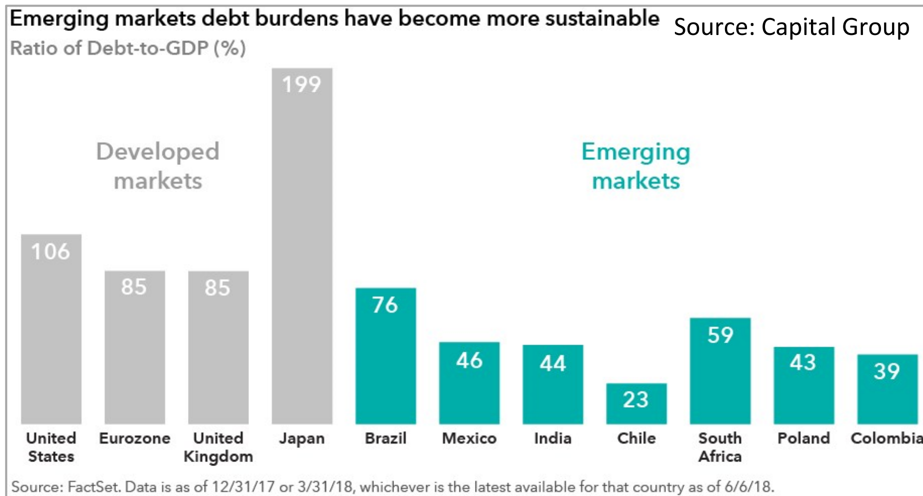
So far in 2018, these emerging market bond funds have declined -5% and more, this is where the industry completely fails the average investor.

The majority of the investment industry is either incapable, or unwilling to do its job – be forward looking and protect client capital from losses.

It isn't astonishing that the world is heading back, smack into the center of a crisis. This has been well documented by IceCap and many other firms.

Yet, it is astonishing that the industry continues to peddle bad products and funds to the unsuspecting public.

#KingDollar



Just yesterday (we kid you not), yet another sales person called touting the benefits of investing in emerging market bonds.

As you would expect – we passed again.

Granted, this is not to say there is never a good time to invest in this market.

Instead, we're simply saying right now is a horrible time to invest in these markets.

The good times will return, but not any time soon.

All it takes is a little common sense and a sense of how money flows.

How money flows

Understanding why the USD will eventually surge to the throne and be crowned KingDollar is quite a simple story.

And it goes like this.

Europe, Japan, China and Britain have all reduced rates to near 0% or negative%, AND they have all printed money.

Despite these ultra aggressive policies – growth in these economies is stagnant.

This stagnant growth cannot produce enough tax revenues to cover government spending.

Which means, these countries MUST borrow to cover the difference.

But the 0% interest rate policies are forcing traditional savers to seek investments outside of government bonds in their own countries.

Or put another way – real investors are refusing to buy bonds from these countries.

And since real investors are not buying these government bonds – who is buying these bonds?

Answer – central banks by printing money.

Soaking it Up

Chart next page, details this rather odd (and devilish) situation.

While the data clearly shows the European Central Bank and the Bank of Japan are the net lenders to their respectful governments, it also reveals something else that should scare the pants off of anyone who is sanguine about current bond market conditions;

- real investors are actually net sellers of European and Japanese government bonds.

In other words – the bond crisis train has left the station and the only holders of these piles of government bonds are the central banks, commercial banks, and pension funds.

In effect, all three groups will eventually be saying *au revoir, addio, auf wiedersehen*, and *sayonara* to these investments.

While this is happening in Europe and Japan, let's next turn our attention to the United States of America.

For 8 years, the Americans also had 0% interest rates AND printed money.

But no more – and this was the turning point to really kick-off the bond crisis.

While the Europeans and Japanese are experiencing the frustrations of muted economies; the American experience is very different.

A hot economy was caused by enormous tax cuts.

Rising interest rates was caused by the hot economy.

Accelerating deficits, is resulting in increased borrowing.

And increased borrowing, means increased supply of US Treasury bonds.

Recall our earlier discussion about bond supply-demand dynamics.

And, this is where it becomes interesting.

Bizarre interest rate policies and money printing in Europe and Japan are having two effects on real investors:
1) Forcing them to avoid local government bonds
2) Forcing them to seek other risk-free bonds that pay higher rates of interest.

Put another way – while European and Japanese central banks are flooding the world with liquidity, America is soaking up all of this liquidity.

And when this monetary environment is considered in context of the USD being the core, and emerging markets as being the periphery – it should be no wonder that capital is being drained from the periphery and finding a home in the core.

Buyers vs Sellers

3. Government Bond Issuance and Official Demand
(Billions of US dollars, 12-month moving sum)

Net issuance — Sovereign bond purchases

United States: 2,000; 1,500; 1,000; 500; 0; –500 — 2000 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17

Euro Area: 1,500; 1,000; 500; 0; –500 — 2000 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17

Japan: 800; 600; 400; 200; 0; –200 — 2000 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17

Real investors are net <u>BUYERS</u> of American government bonds

Real investors are net <u>SELLERS</u> of Eurozone government bonds

Real investors are net <u>SELLERS</u> of Japanese government bonds

True vs Artificial

To truly grasp the enormity of what is about to happen next, one simply has to once again, understand the relationship between supply-demand.

In the real world, the one without interference nor manipulation by governments and central banks – it is universally accepted that the dynamics between supply-demand of anything determines the price of everything.

The bond world is no different.

Just know two things:

1) Since 2009, global bond markets have received interference and manipulation from governments and central banks.

The result has been a bond market that has NOT been exposed to the laws of supply-demand.

Put another way, bond markets were never allowed to decline in price or alternatively, have interest rates surge higher.

2) The laws of supply-demand are starting to return. And as they return, long-term interest rates will surge higher which means bond prices will drop like a lead balloon.

Visually, the government bond world looks like this:

Country	Bond Supply	Source of Demand	Effect on Bond Prices
USA	Increasing	Real Investors	True market price
Eurozone	Increasing	Make Believe Investors	Artifical market price
Japan	Increasing	Make Believe Investors	Artifical market price

The only way real investors return to the European and Japanese bond markets is for the European Central Bank and the Bank of Japan to allow their bond markets to return to equilibrium.

Of course, a return to equilibrium means soaring long-term interest rates and significant lower bond prices.

It also means a severe crisis in government bonds.

AND, it also results in the break-up of the Eurozone and Japanese monetary structures.

Something both central banks are desperate to avoid.

Of course, when desperation is your strategy, and it is supported by a weak foundation – you better be prepared to dance with the devil.

Euro – the deal with the devil

IceCap has written, spoken and presented on the high probability of the Eurozone becoming the epicenter of the global bond crisis.

Initially, our view, logic and perspective was seen as being an outlier,

Euro is Very Different

a minority, and even eccentric. Today, things have changed:

First, here's a recent headline from one of London's premier media sources - The Telegraph:

Business

Italy on brink of banking crisis as debt costs spiral following battle with EU

Follow

AMBROSE EVANS-PRITCHARD

Next, when the usually US centric NY Times features this European centric story, one must finally admit something is up.

Specter of the Economic 'Doom Loop' Is Back as Italy Battles the E.U.

The Italian government has defied eurozone rules with a lavish spending plan and squandered credibility with bond investors. The turmoil could roc...

nytimes.com

We'll spare you of all the details as to why the bond crisis will escalate in Europe and then spread around the world – after all, we've consistently covered this in previous IceCap Global Outlooks and various media interviews.

Yet, we won't completely deprive you of such incredible and interesting information.

Instead we'll share with you a few major crisis points that not only continue to fester, but continue to snowball.

To start with, there is no Euro Federal Government Bond Market.

And this is why the entire Euro project unravels, breaks-up, or restructures.

If you want to buy a EUR bond – you have to choose amongst bonds issued by 19 different countries.

As a comparison, if you want to buy a USA bond – you have your choice of US Treasury Bonds that are issued by the US Department of Finance (Treasury) on behalf of the US Federal Government.

Same is true for Canada. Same is true for United Kingdom. Likewise for Australia and on and on and on.

Just to hammer home this point, if the Euro model was used in the United States, the only way you could buy a USD government bond would be by choosing across the 50 states.

Do you want a bond supported by the tax payers of Connecticut or Mississippi?

The Cord

Similarly – want a Canadian Dollar Bond, then you'd have to choose between a bond issued by Ontario or Alberta.

The following are financial characteristics of practically every major sovereign state in the world:

1. interest rate decisions controlled by one entity
2. federal government spending decisions controlled by one entity
3. federal government tax decisions controlled by one entity

The fatal decision behind the construction of the Euro currency was the failure or inability to have all 19 countries agree to all 3 of the above points.

Instead, they only agreed to point #1.

In effect, the Germans said no way would they agree to combining everyone's debt. After all, Germany was conservative with spending and borrowing – these traits have been ingrained into their psyche. No way would they agree to be responsible for the careless spending and borrowing ways of the southern European countries.

Meanwhile, the southern European countries said no way would they allow Germany to control spending and borrowing. The mere thought of ceding any type of sovereign control to Germany was and will always be a no-no.

In the end, this eclectic group schemed a way to satisfy everyone's goals which ultimately ended up with all 19 countries retaining control over spending and taxes (which satisfied everyone but Germany), but agreed to contain spending, borrowing and taxes within specifically, agreed to parameters (which satisfied no one but Germany).

Of course, this economic and monetary concoction could only ever exist in the financial fantasyland called Europe.

Those who understand this mess, understood it was only a matter of time before this ball of wool unravelled.

And when it unravels, it will create knots, tangles and ties that can only be fixed by cutting the cord.

Today, the cord is about to be cut.

As to who cuts it – is really irrelevant. As once it is cut, the weak and shoddy financial foundation will give away producing a global slide that will make the devil himself grin with satisfaction.

We said a while back an ETF manufacturer tried to sell us on the merits of investing in European banks.

The reason we said "thank you no" was due to our expectation of a deteriorating financial foundation in the Eurozone.

For those unaware – another incredibly bad decision by the lords of Europe was to mandate that European banks must invest their regulatory capital in European Government bonds.

Everything is Connected

And to make this an even worse policy, when combined with the European Central Bank's (ECB) money printing scheme; the result is as follows:

These government bonds should be viewed as the financial foundation, and as the crisis hits these bonds, it should be zero surprise to anyone that all banks holding these bonds will really struggle.

To illustrate, we present to you the performance of Italian bank stocks:

To better appreciate the above chart, note that Italian government bonds started to plummet in May 2018.

Which was the beginning of the -33% plummet in Italian bank stocks.

To summarize – a crumbling financial foundation will always result in crumbling stock returns for those who hold bonds from the foundation.

Sadly, the majority of the INDUSTRY today still cannot fathom how a crisis in Italy, or emerging markets could result in a crisis in bond markets and bank stocks elsewhere around the world.

Disapproval

IceCap (and now others) are telling you that there is a very high probability that crises in other bond markets will absolutely spread across Europe, over to the United States, and yes, even to Canada – home of self-proclaimed invincible banking system.

Also note – the upcoming global bond crisis isn't singularly due to financial incompetencies.

Instead, we're witnessing a collision of social, economic, political, and monetary factors.

The world has now been pulled, pushed and tugged at the seams and the increasing divide is simply accelerating the crisis for the bond market.

Let's take a simple look at France. In short – it is up Merde Creek.

The last presidential election saw Emmanuel Macron receive an unheard of 66% of the votes compared to 34% for Marine Le Pen.

Europhiles and the political establishment of the western world rejoiced as it finally halted the progress from right-wing groups that won across the BREXIT referendum and the American election.

Their belief was that Macron would become the new leader of Europe and guide the old world to a new beginning.

Naturally this belief was completely wrong.

Macron's message of reform and new beginnings really meant reduced spending, higher taxes and changes to retirement and worker legislations clearly fell on deaf ears.

Instead, French voters only heard that they HAD to get out and vote to stop Marine Le Pen.

Now a year later, the approval rating of President Macron has ironically, done something only achieved by the Italian banks – plunged like a stone.

Emmanuel Macron's approval rating falls to lowest point yet with just 29 per cent support

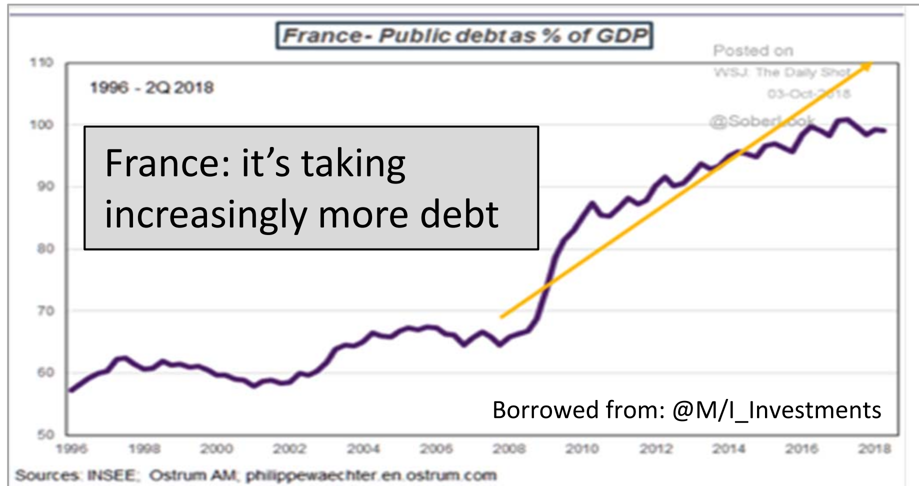
The point we make is that despite the occasional bout of enthusiasm, the world always returns to the real world of finance and economics.

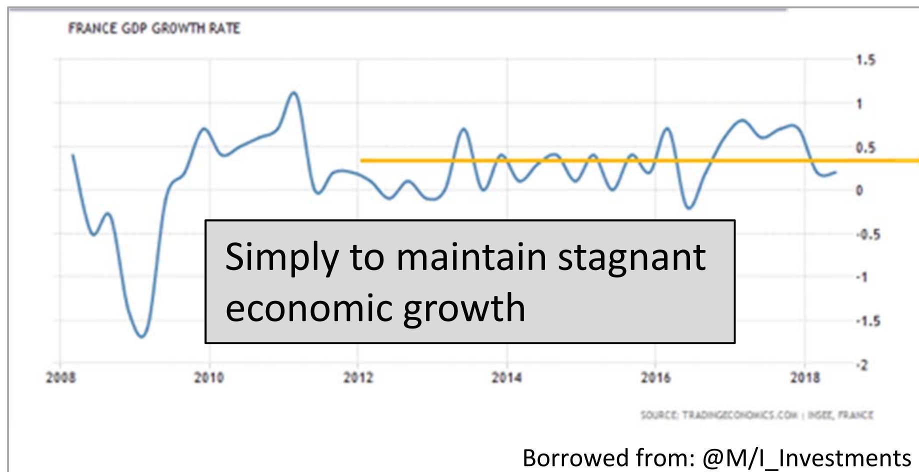
For France, we have a very high conviction that the crisis that swamps Italy will also swamp it.

Financially, France is dead.

Charts on the next, demonstrate how France has to increasingly borrow more and more every year just to maintain its current growth rate which is low to start with.

Opportunity Knocks





Of course, since 2008 all of this is being achieved with near 0% interest rates.

Imagine what happens once European interest rates are once again determined by real investors.

The Opportunity

Banks, Insurance & Fund Companies

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

If they haven't already, it is only a matter of time before your investment clients begin asking for solutions to address the imbalances across global financial markets.

Partnering with IceCap Asset Management, we can provide solutions in various fund structures to directly address your clients' questions and concerns.

This is your chance to be proactive, and improve relationships across your client base.

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Decrease Equities

Our Strategy

Bonds

Still no changes. We find it interesting that US High Yield has held steady. Once the bond crisis escalates, this market is set-up for a hard fall. Some of our best investment ideas are on the short side within different fixed income markets.

Stocks

Changes – we decreased our exposure. The current correction has turned our models negative. Further moves are likely – we remain agnostic towards the asset class..

Currencies

No changes. We remain structured to benefit from a strengthening USD. As the crisis spreads from emerging markets to Europe and then elsewhere, it is creating a perfect environment for a very strong USD.

Commodities

No changes. We've been completely right on gold. As USD surge develops, we expect gold to have one final leg down. Then the opportunity for significant upside exists.

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

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

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

Our Team:

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