IceCap Asset Management Ltd.

Our view on global investment markets:

June 2019 – "Threading the Needle"

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Disclaimer

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It's easy!

In the world of knitting, stitching and crocheting; threading the needle is easy. Line-up your thread, needle and a good cup of tea and you're all set.

In most other worlds – it can be tricky.

If executed perfectly – threading the needle can be rewarding, exhilarating and thrilling all at the same time.

If executed imperfectly – it can end in disaster.

In American football, 49ers quarterback Nick Mullens expertly threaded the football between 4 different Raiders players, landing it perfectly in the hands of his teammate George Kittle, who then galloped 60 yards for a touch down.

That was thrilling.

Sporting a human-wingsuit, Jeff Corlis dove off a 12,000 foot mountain and expertly threaded the needle known as "The Crack" in the Swiss Alps.

That was exhilarating.

Unknown to many, threading the needle is also being attempted in the high stakes game of global finance.

Leaders at the world's central banks are all trying to steer their domestic economies through a small opening while avoiding the pitfalls created by a lifetime of excessive borrowing and ill-fated policy responses.

In the minds of these financial maestros, they have the tools, the doctorate degrees and the blessings of governments to thread the financial needle.

In an effort to resolve any financial crisis, the world's central banks have always tried to thread the needle by changing interest rates and/or changing the amount of money in the system.

The central banks and their supporters all claim that only through their actions, was a serious crisis resolved allowing everyone to live happily thereafter.

What the central banks and their supporters <u>do not</u> tell you, is that the actions to save one crisis, have <u>always</u> sowed the seeds for the next crisis.

In the minds of investors with common sense and objectivity – we expect the exact same outcomes that have occurred every other time central banks tried to thread the needle.

After all, expecting anything else would be the classic definition of insanity.

The needle is a sharp tool. Yet, if the user is not careful – a simple prick can cause an awful lot of damage.

Send in the clowns

Unfortunately for most investors, the majority of the investment industry either refuse, are unable or simply not allowed to share with investors how all financial events are linked together.

And what is even more alarming, the industry is once again shepherding investors into the very markets that are about to experience the after-effects of central banks once again trying to thread the needle.

The Needle

The foundation necessary to truly understand the movements of global capital markets is knowing the USD is the world's reserve currency. And by default, financial actions by the US Federal Reserve affect the entire world.

This of course is quite different from every other central bank in the world. The actions of central banks in every other country primarily affect their local, domestic economy only.

Actions by the Bank of England are never talked about by the Japanese.

Whenever the Reserve Bank of Australia makes a significant change, it won't even cause a yawn in Brazil.

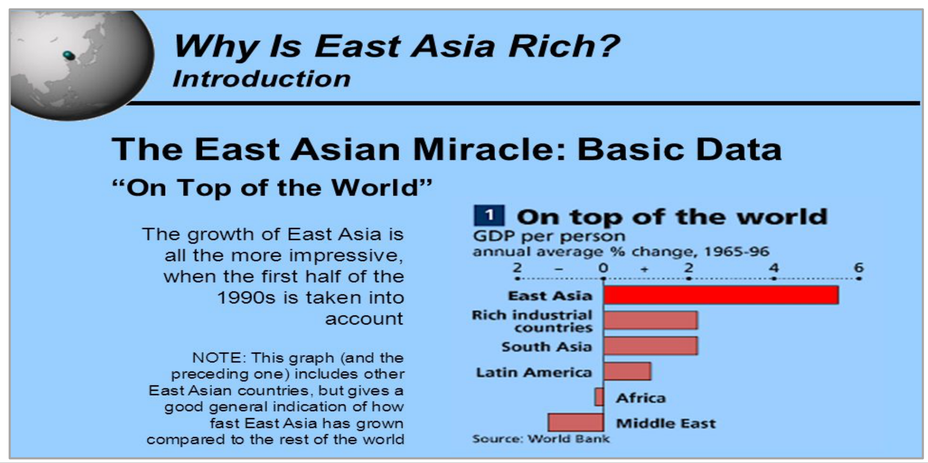
The Bank of Canada is an unknown entity to the Americans.

Meanwhile, it is true that the European Central Bank (ECB) is more widely known around the world. Yet, it is also true this fame has been achieved due to clownish-type behavior from the supposedly sharpest financial minds in Europe – not due to their actions causing ripples in international economies.

The US Federal Reserve however is a different story. And despite anyone's *subjective* feelings towards America's current debt, fiscal, political, or social states; understanding and respecting the power of the Federal Reserve and the USD is paramount to your financial success and security.

To better appreciate how and why the US Federal Reserve is the Financial Needle of the world, one needs to simply observe the actions and reactions in the recent past.

Let's first start in 1996 Asia, and what was sold as the Asian Miracle.



The economic hitman

In the mid-90s, investors everywhere were screaming for opportunities to invest in the roaring tigers.

I started my career during this time, and I was instantly attracted to the Asian Growth Mutual Fund which just finished the year up +86%.

Asking my mentor at the time whether clients should still invest in this fund, the fella responded "even if the fund does ¼ of what it did last year, clients will still make 20%+."

Three years later, this happened:

Asian Financial Crisis

July 1997–December 1998

A financial crisis started in Thailand in July 1997 and spread across East Asia, wreaking havoc on economies in the region and leading to spillover effects in Latin America and Eastern Europe in 1998.

A South Korean labor union member of Seoulbank, one of South Korea's most bad-debt burdened commercial banks, looks downcast. (Photo: Choo Youn-Kong/AFP/Getty Images)

This was my first real lick of a financial crisis and it didn't taste good.

It turns out, the Asian Miracle was no miracle at all. Instead it was simply the powerful concoction of exponential domestic borrowing, combined with a flood of foreign investment.

This combination can only cause markets to go in one direction – and that's up.

Of course, when capital starts to leave, the opposite is also true. And this is where the US Federal Reserve came into play.

In early 1997, the US Federal Reserve increased overnight interest rates by 0.25%. Now on the surface, this tiny increase may not seem like the tiger killer – but it was.

In fact, it was just enough to frighten stock markets. And just enough to get the first wave of foreign investors to begin withdrawing their capital from the by now – very debt heavy Asian region. And just enough for them to reallocate their capital to America.

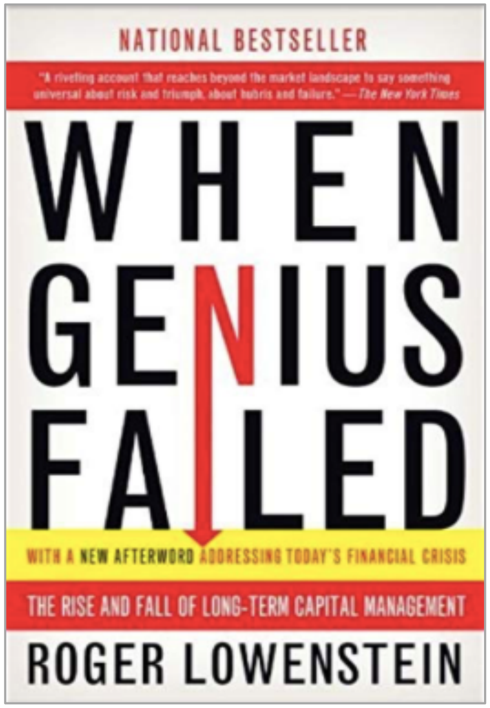
It was this first outflow of foreign capital that really loosened up the olives in the jar. And as you know, once that first olive moves, the rest tumble out very quickly.

At the time, the US Federal Reserve was trying to *somewhat* reduce the extreme level of exuberance in US stock markets.

What it actually managed to reduce was the entire Asian currency and bond markets.

Y2K

Of course, not only did the Fed manage to deflate an entire continent; the turmoil from Asia spread to Russia, and then ignited the collapse of not only the Russian Ruble, but also the New York based hedge fund, Long Term Capital Management (LTCM).



Unknown to most of the world, LTCM was levered to the hilt and completely riding the coat tail of continued prosperity in Russia.

To refresh - the collapse of Asia caused the collapse of Russia which caused the collapse of LTCM. Which nearly caused the collapse of the Wall Street titans including Morgan Stanley, JP Morgan and Goldman Sachs.

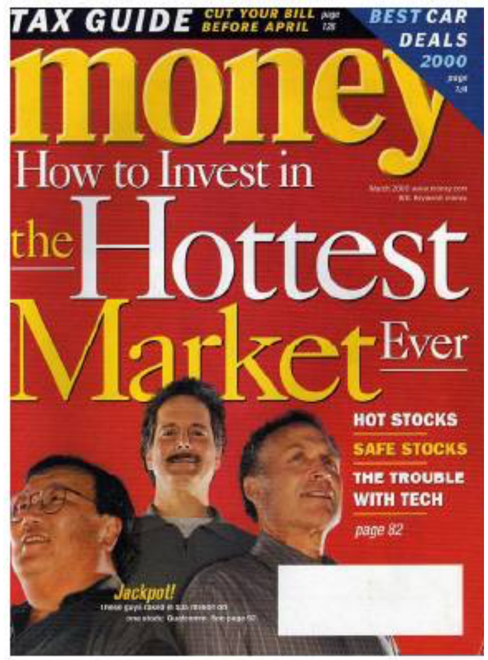
This was all ignited by the Federal Reserve believing a 0.25% rate hike would only affect the local US economy and financial markets.

To clean up this financial mess the Federal Reserve sprang into action and did their thing - it would once again try to thread the financial needle to save the day and right the ship.

In 1998, the Fed began to reverse its previous rate increase and proceeded to cut rates from 5.50% all the way down to 4.50%.

It turns out, the Federal Reserve didn't thread the financial needle at all. And in fact, the only thing it did was to provide the foundation to once again encourage excessive borrowing and investment.

But this time, instead of foreign capital moving out of America, it stayed right in America and found a home in the technology sector.



At this point, we don't know what is more frightening – the fact that we (and many others) can vividly recall the days of the infamous Tech Bubble splattering against the wall, or the fact that nearly 50% of today's investment industry is too young to remember or too young to have experienced this financial moment in time.

Monetary cocktail

For those who want to reminisce, the days of Pets.com, JDS Uniphase and Nortel were certainly a scene.

But what is lost upon those who lived (and then lost) the dream – was the fact that to save the world from the collapse of the Tech Bubble, the Federal Reserve once again tried to thread the financial needle.

This time, Alan Greenspan and his soothsayers at the Federal Reserve knew things were not only wrong – but very wrong.

And when things are very wrong, the Federal Reserve did something they had never done before – they reduced interest rates all the way from 6.50% down to 1.00%.

And to put the financial cherry on top – it stayed that way for nearly 5 years.

Put another way, the global financial system received such a jolt from the breaking of the Tech Bubble – the Federal Reserve had to provide more stimulus than what was ever provided in financial history.

Of course, this record would be shattered again in less than 4 years.

Notice how each financial crisis, required increasingly more financial stimulus to bailout the losses and help the world get back on track.

Also notice the pattern – every single time a crisis occurred, it was put in motion by central banks and their reaction to the previous crisis.

Understanding this – it should be incredibly clear to everyone that the seeds for the next crisis have already been planted, the crisis has already started to grow, and nothing is standing in its way.

To complete our stroll down financial memory lane; understand that the 2008-09 Great Financial Crisis was completely enabled by the US Federal Reserve.

The Fed's reaction to the Tech bubble by keeping interest rates at 1.00% for 5 years was the breeding ground for all of those low-cost mortgages, and ultra-excessive product creations by the Wall Street machine.

And the losses, shocks and paralysis from the 2008-09 crisis was so severe, the Federal Reserve and other major central banks responded in a way never before seen in our lifetime.

First they bailed out entire banking sectors.

Next, they lowered interest rates to 0%.

Then they proceeded to print over $14 Trillion dollars.

Finally some central banks (Japan, Eurozone, Switzerland, Denmark, and Sweden) cut interest rates below 0% - or put another way, they created NEGATIVE interest rates.

Collectively, this monetary cocktail has been brewing for 10 years.

History rhymes

For many, 10 years can be a blink of the eye.

For others, 10 years can seem like a long time.

For the US Federal Reserve, 10 years of 0% interest rates combined with money printing is a lifetime.

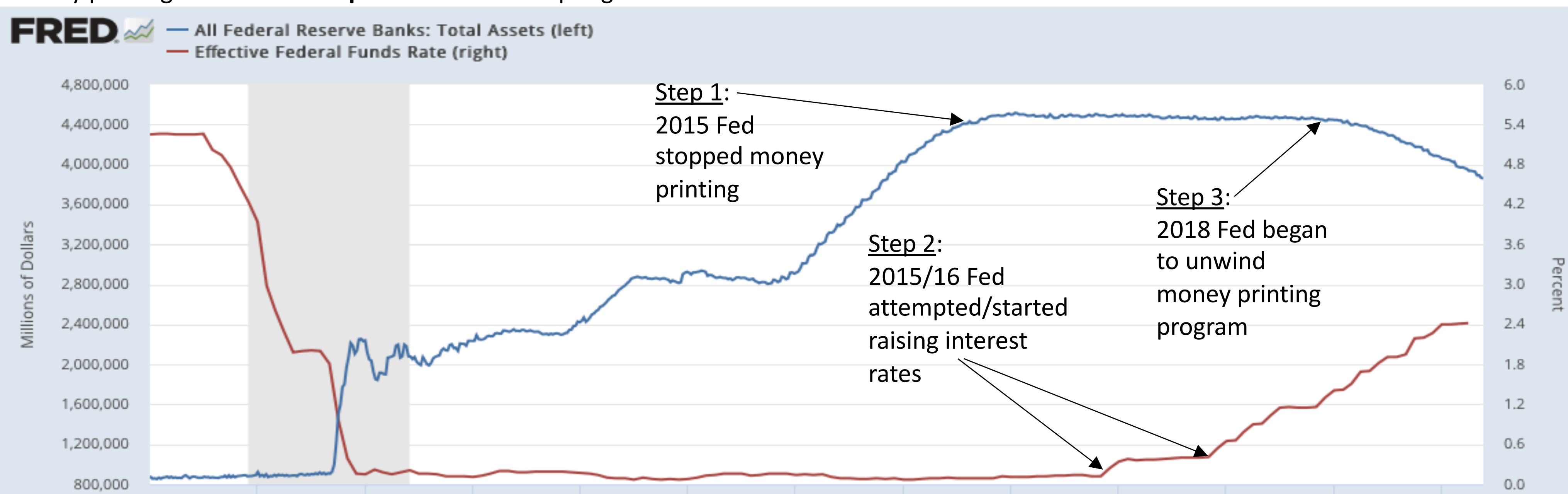
Put another way, the Federal Reserve knew they painted themselves into a corner and they had to get out.

The **first step** with getting out of the corner involved putting an end to money printing. The **second step** focused on attempting to raise interest rates up towards normal levels. And the **third step** was beginning to unwind (or bringing back in) all the money it printed.

Chart below shows all 3 steps.

Notice how it took a full 3 years for the Federal Reserve to transition from ending the money printing program (QE) to actually beginning to unwind the money printing program (QE).

Also notice, it took the Federal Reserve 1 full year between raising rates in December 2015 to again in December 2016.



Source: Federal Reserve Bank of St. Louis

Everyone has a plan, until…

The reason it took so long to begin going down this slippery slope was due to the reaction of markets outside of the US.

Time and time again, whether it was Chinese markets, or emerging markets as a whole - the mere mention of the Federal Reserve ending QE, raising interest rates and unwinding its balance sheet caused tremors across these markets.

Note the similarities with the Asian Crisis in 1996.

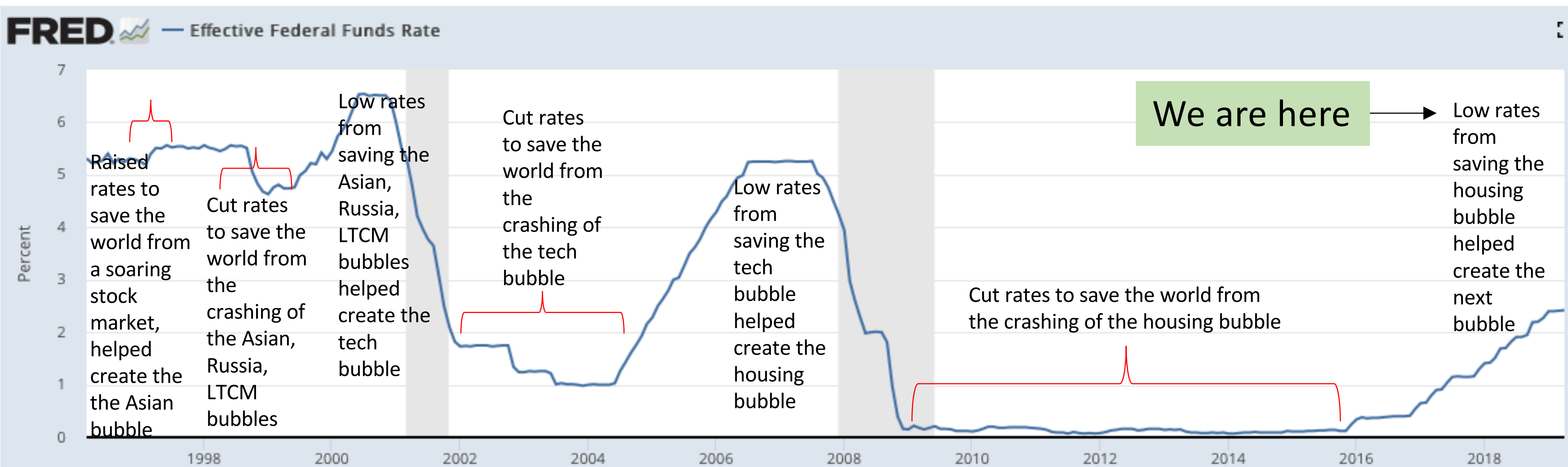
For investors, these actions by the Federal Reserve signalled a removal of stimulus – and equity investors and the talking heads gobbled excessively about the risk of stock markets crashing.

Yet, while most were preoccupied with the stock market story, something else of even more importance was happening. The Fed Reserve's actions of reducing its balance sheet and raising interest rates was slowly but surely causing foreign capital to move back into US Dollars.

And a world with less USD in circulation is a world that creates market stress, fragile currencies and deteriorating government fiscal positions.

While we have no sympathy for the Federal Reserve - we do have empathy for the Federal Reserve.

To be clear - they were damned if they stopped printing money and



Back to the Future

raised interest rates, and they were damned if they didn't stop printing money and raised interest rates.

But that's why they get paid the big bucks (from book deals *after* they leave the Fed).

Okay, enough of the history lesson

Let's now turn to what will happen in the future - and when it does happen, it will be historic.

Present day, we are once again starting to feel stress across various financial markets.

Why?

Prior to October 2018, the US Federal Reserve was coasting. They had a plan and it was humming along rather nicely.

As you know now, their plan was to gradually raise overnight interest rates by 0.25% at every opportunity until they couldn't.

And suddenly they couldn't.

In October 2018, financial markets began a sharp tumble downwards.

Stock markets, currency markets and credit markets all turned on a dime and turned what was looking to be a strong year for investors, into a year of negative returns, bitter coffee and tension filled advisor-client meetings.

Many blamed the market correction on American trade wars.

Others blamed it on high stock market valuations and a sure-as-shootin' upcoming American recession.

These reasons were easily rhymed off by the talking heads and the big bank quarterly mutual fund commentaries.

The biggest reaction from the market correction revealed a Federal Reserve that suddenly stopped raising interest rates, and even suggested that it may begin reducing interest rates, AND stop unwinding their balance sheet.

Folks - this is HUGE news.

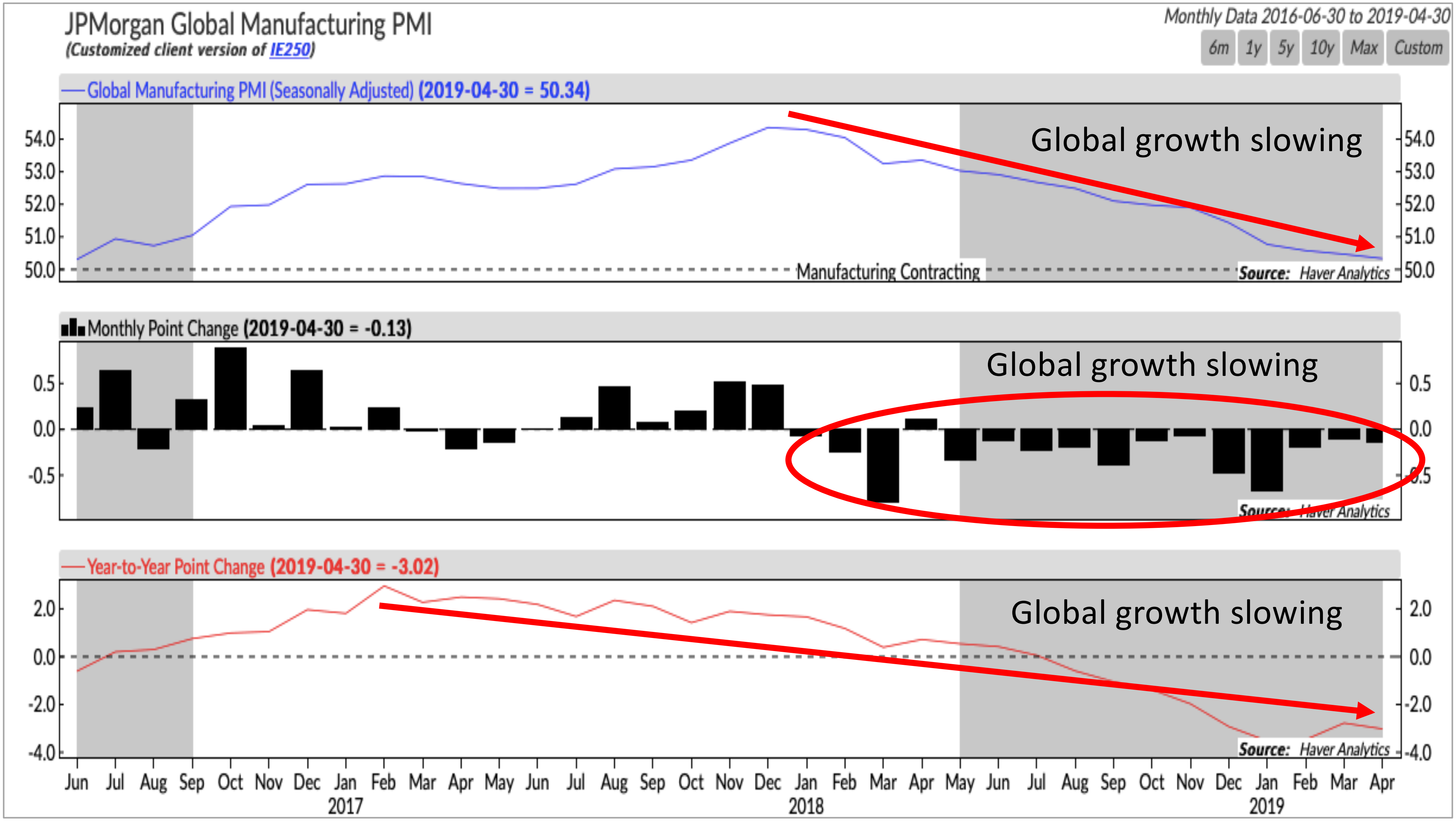
For a central bank to not only abruptly stop raising interest rates, but in the same breath suggest it may begin reducing interest rates never happens.

So, what really happened?

Chart next page shows global growth beginning to slow dramatically enough to make investors fear the inevitable beginning of a global recession.

And when a recession begins to rear its head - in truth, central bankers actually become giddy with excitement

Global Growth is slowing



USD is the only game in town

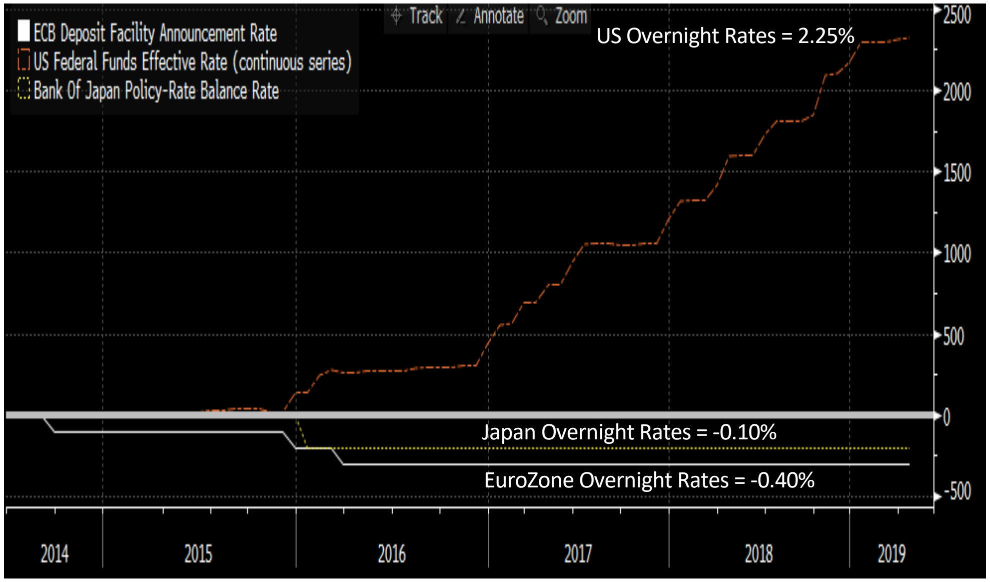
Whereas average folks see a recession as a risk of losing their job, not receiving a year-end bonus, or worse still, not being able to afford a case of wine every week.

Central bankers see a recession as an opportunity to do their magic.

Today however, most central banks have already run out of magic. There's simply no more interest rates to cut, no more bonds to buy and no more fancy programs to create.

All except for the US Federal Reserve.

Amongst the major central banks, the US Federal Reserve is the only one with rates significantly above 0% - currently at +2.25%.



And as it is the only major central bank no longer printing money - it is the only one who can shock the financial world by cranking up the printing press again.

Yet, there's just one problem.

In America, current economic data is not suggesting an economic collapse of any kind.

Yes, some data points are weakening. But overall, growth, employment, bank loan portfolios and inflation data are all *okay*.

Yes, a recession is coming. But there's nothing happening in the US to to suggest a collapse and cause the US Federal Reserve to do a 180 degree turn with monetary policy.

Outside of the US is a different story.

In a nutshell and regardless of the reason - economic, monetary, and financial conditions outside of the US have reached a serious state.

And when global conditions reach a serious state, money runs away from trouble and seeks safety.

The USD is the safety net and it is attracting foreign capital from Europe, Asia, Africa, South America and anywhere else that is afraid of losing money.

USD is a global currency

In addition to the USD being the most liquid and having the deepest capital markets in the world - it also has significantly higher interest rates AND it isn't trying to debase its currency with money printing.

In effect - all of the excess liquidity and private mobile capital is being lured and sucked right out of foreign markets and back into the US.

THIS is why the Federal Reserve has suddenly announced that they needed to stop raising rates, and begin cutting rates and maybe even begin printing money again.

Of course, when it comes to global interest rates - it's always a relative game. Lower rates in the US, will mean even lower rates across Europe, Asia and elsewhere.

Of course - for our Canadian friends, this means the Bank of Canada will absolutely be cutting rates.

The Phone Calls

We know now, that the US Federal Reserve was desperately trying to reverse all of the monetary madness that occurred since the 2008-09 crisis.

Internally, everyone on the Federal Reserve Open Market Committee agreed that they had to normalize interest rates. Collectively, they knew 10 years of 0% rates and money printing was absolutely contributing to another eventual crisis somewhere in the financial world.

In their minds, gradually raising interest rates with a consistent and transparent process would help the financial world by effectively slowly letting the air out of the financial bubble - regardless of where that bubble may be.

Of course, we know now that the quick 20% decline in stock markets at the end of 2018 was enough to cause the Federal Reserve to stop raising rates. Which in itself is a modern sign of just how fragile a system our central banks have created.

Older investors - yes, the ones with battle scars before the 2008-09 crisis, would scoff at a 20% market correction. IT HAPPENS.

But in today's financial world, it's ~~completely~~ almost as if stock markets are never allowed to decline.

And if a decline does happen - our governments and central banks must do *something* to fix it.

The Federal Reserve responding to the recent correction was nothing new and the majority of the media and big box banks will tell you this story.

But wait - this story is incomplete.

What also happened during the 2018 end of year market correction was phone calls.

Please

While the US Federal Reserve was on its way to raising interest rates all the way to 4%, the rest of the world was (and still is) caught in an interest rates funeral pyre.

A long time ago, the entire continent of Europe lead by the European Central Bank, piled up every single interest rate, every single bad loan provisioning policy, and every free market text book - and lit them all on fire.

In doing this, the Europeans destroyed their financial markets.

Anyone who disagrees with this statement, simply spend time with the **chart** on the next page which shows the performance of Europe's biggest and best banks over the last 40 years.

Here you'll notice that not only have European bank stocks collectively declined 80% from their 2007 peak - but stock levels are actually back to prices first reached in the 1980s.

Germany's crown jewel, Deutsche Bank, has declined from $120/share to $7/share. An astounding -94% decline.

For comparisons, this would be equivalent to Royal Bank of Canada stock at $20, or National Australian Bank at $5, JP Morgan trading at less than $25.

If Canadian, Australian and American bank stocks were trading at these levels there would be concern.

Face it - the entire European banking system is rotten to the core.

Behind closed doors, it has failed.

With doors open, the lights are only being kept on by regulators and the European Central Bank.

As such, the first phone call came from the Europeans to the Americans, and it went something like this:

Europe: "PLEASE STOP RAISING RATES".

America: "No. Our domestic economy is doing okay. Employment growth is steady, inflation is low, and the economy is doing fine. We have to raise rates from the crazy levels reached during the last crisis".

Europe: "OUR BANKS ARE HANGING BY A THREAD. OUR COUNTRIES CANNOT BORROW AT MARKET RATES AND HIGHER RATES IN AMERICA IS SUCKING ALL OF THE USD FROM THE GLOBAL SYSTEM".

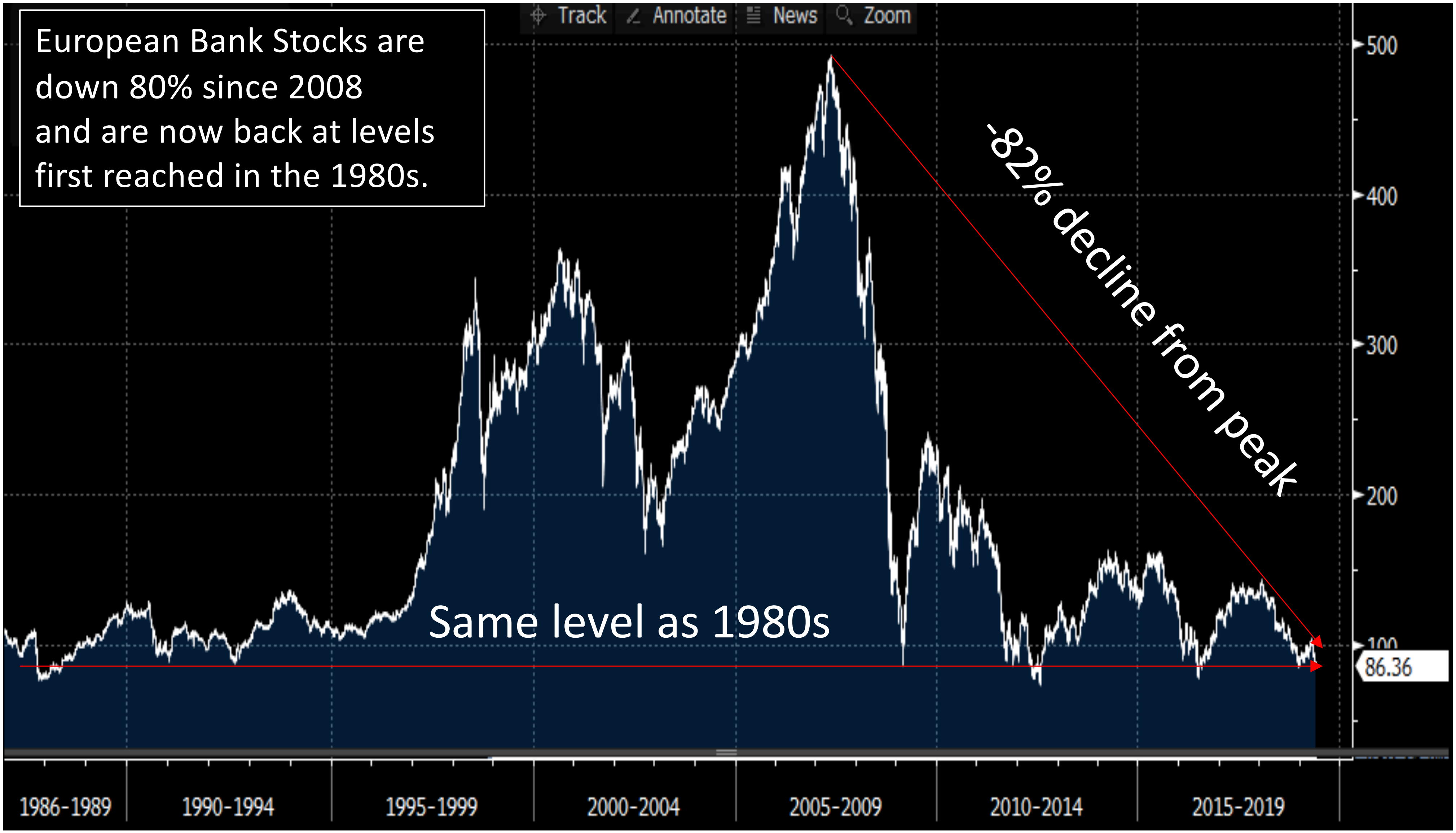
America: "It's not our problem. We cleaned up our banking system - you need to do the same"

Europe: "IT IS YOUR PROBLEM. IF OUR BANKS GO UNDER, WHO KNOWS WHAT WILL HAPPEN NEXT".

America: "One second, we have the Chinese on the other line".

China: "PLEASE STOP RAISING RATES".

Rotten to core



Stay out in front

America: “Why?”

China: “HIGHER RATES, TRADE WARS, AND A SLOWING GLOBAL ECONOMY IS SUCKING ALL OF THE USD FROM OUR COUNTRY AND FROM THE GLOBAL SYSTEM.”

America: “Fix your own banking system, write-off the bad loans and you’ll experience significantly less flight of capital. Wait a second, we have the IMF on another line.”

IMF: “PLEASE STOP RAISING RATES. SINCE THE LAST CRISIS, EMERGING MARKET COUNTRIES HAVE BORROWED IN USD EXCESSIVELY. EVERYTIME THE USD STRENGTHENS, IT WEAKENS EVERYONE ELSE. WE HAVE ENOUGH TO BAILOUT ARGENTINA EVERY 3 YEARS, BUT ANOTHER ASIAN, OR EASTERN EUROPEAN CRISIS WILL BE TOO MUCH TO HANDLE.”

In the end, the Americans did relent. The Federal Reserve stopped raising rates and have now indicated that it could begin cutting rates immediately.

Recall our earlier history lesson - the Federal Reserve is once again making a monetary policy decision to save the world from a crisis.

The Federal Reserve turning dovish is meant to accomplish one thing and one thing only: make the USD less attractive to foreign investors.

But also remember - it’s a relative game.

As economies, jobs and tax revenues decline in other countries - locals will be begging their local central banks and governments to do something to save them.

Australia was the first out of the gate:

CENTRAL BANKS

Australia’s central bank cuts rates to record lows as growth sags

PUBLISHED TUE, JUN 4 2019 • 12:38 AM EDT | UPDATED TUE, JUN 4 2019 • 1:04 AM EDT

We assure you the Bank of Canada, Bank of England, Swedish Riksbank, the Swiss National Bank, and the Bank of Japan will soon be following the Aussies and doing their best effort to stay out in front of the Americans.

The net effect will be a big fat zero.

We already know, 0%, negative% and money printing cannot produce enough economic growth to exceed interest payments and debt rollovers.

The past 10 years have clearly demonstrated this monetary failure.

And we also know, 0%, negative% and money printing cannot change the elephant in the room - the USD as the world’s reserve currency.

This last point is KEY. It is the KEY to knowing why the world is headed in the direction towards interest rates and currency crises.

This time is different

And it is the key to knowing how to make money as the financial world transitions towards an eventual fate of not having the USD as the world's reserve currency.

We cannot emphasize enough - do not confuse our bullish view on the USD as being a long-term, linear view of the world.

In financial markets - nothing is linear.

The USD will eventually be replaced as the world's reserve currency - but understand, this is no easy feat. And to achieve this feat - the USD first has to cause significant stress in the system. It is only through this stress will the world commit to making the change.

Of course, getting to that eventual place is not as simple, or as easy as people think. While it is complicated, ironically it is also very easy to envision how it develops.

The **first development** is recognizing that a global recession is coming.

This recession will begin outside of the US and then as it develops, foreign capital will rush into the US for safety and protection.

Of course, this movement of capital will only exacerbate the recession further which will then absolutely seep into America as well.

In the United States, it is now fact, that since 1850, the present decade is the only one that has not experienced a recession.

RECESSIONS BY DECADE
...WILL THIS DECADE BE THE FIRST WITH NONE?

DECADE	#	STARTING YEARS OF RECESSIONS			
1850	1	1857			
1860	3	1860	1865	1869	
1870	1	1873			
1880	2	1882	1887		
1890	4	1890	1893	1895	1899
1900	2	1902	1907		
1910	3	1910	1913	1918	
1920	4	1920	1923	1926	1929
1930	1	1937			
1940	2	1945	1948		
1950	2	1953	1957		
1960	2	1960	1969		
1970	1	1973			
1980	2	1980	1981		
1990	1	1990			
2000	2	2001	2007		
2010	0				

Source: Crestmont Research

The **next development** is recognizing the precarious situation of the world's debt pile.

Yes, it does seem economists and think tanks have droned on for years about the world's debt load.

But this time, it is different.

The reason it is different is due to global interest rates (right across the entire yield curve) being artificially supressed lower.

It's extraordinary

This act of anti-capitalism has produced borrowing rates below what would normally have to be paid on borrowed money.

Effectively, the entire planet cannot tolerate higher rates. If rates were to spike, surge, or even creep higher - the financial pain would be unbearable.

THIS is why the world's debt pile is absolutely going to be ground zero of the next big crisis created by our central banks.

Chart this page, shows the amount of <u>NEGATIVE</u> yielding debt in the world.

Remember, in the real life world of capitalism and the invisible hand - negative interest rates would not exist.

In fact, up until 2010 it did not exist. And the reason it didn't exist is due to the fact that when you lend someone money, you expect to <u>receive</u> interest - not the other way around.

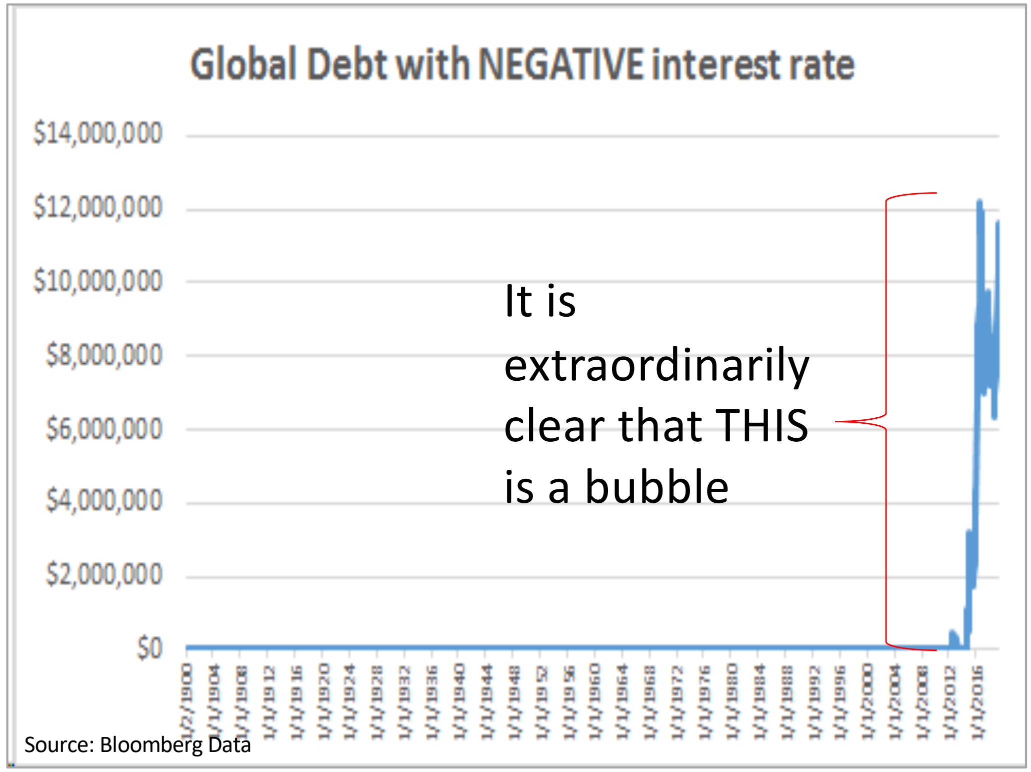
Yet, this is exactly what we have in the world today.

Here's Denmark:

Markets

Bankers Stunned as Negative Rates Sweep Across Danish Mortgages

By Christian Wienberg
May 23, 2019, 8:00 PM ADT *Updated on May 24, 2019, 5:31 AM ADT*

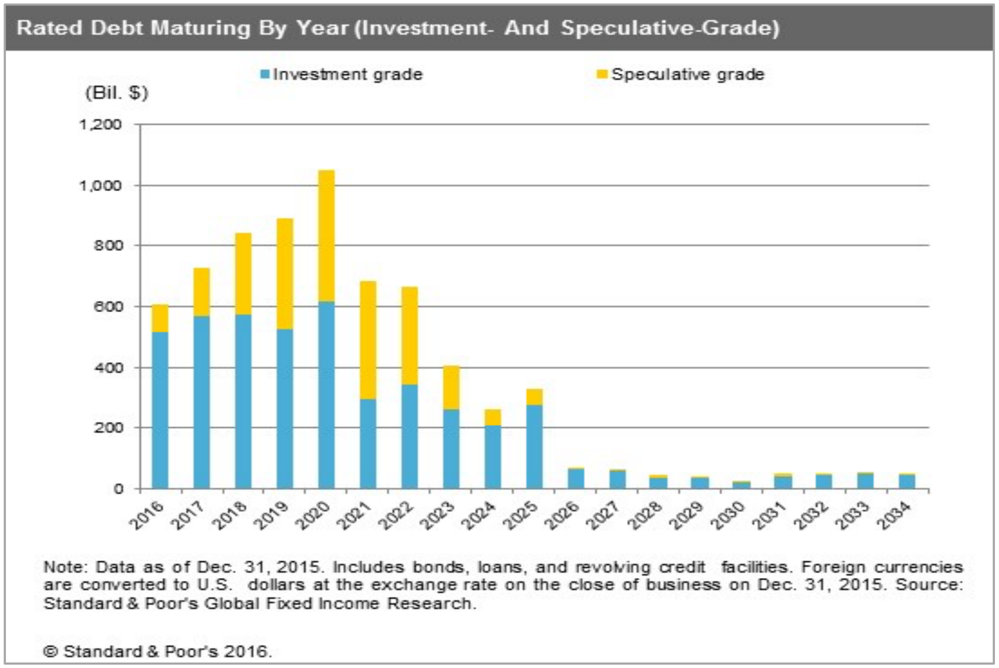


The next development is recognizing not only is the world sensitive to interest rates rising, but it's also sensitive to investors continuing to be comfortable lining up to receive next to nothing for buying bonds.

Next page, we share with you infamous Wall of Maturity that is approaching.

It's so very obvious

The 2020 Maturity Wall: $4.1T of Debt to Mature. And 1/3 of that is High Yield



This means very soon, an awful lot of borrowers will all be trying to borrow even more money at the exact same time.

If for any reason, debt markets are not as favourable to these borrowers at that time, then it will get very messy, very quickly.

Of course, the ultimate financial point to recognize is that not only have more countries, corporations and individuals been borrowing (due to low rates), the credit quality of this collective bunch has declined considerably.

Most of the investing public still have no idea that their "High Yield" bond funds used to be called "Junk" bond funds.

After all, who in their right mind would want to invest their hard earned savings in junk?

Yet, considering the risk-free rate of return is between -0.4% and +1% in most countries, and most investors are demanding between +5% to +7% in income; Junk Bonds would make the obvious and perfect fit.

Of course, to complete the sell-job, the name "junk" had to go and the new, significantly more comfortable name "High Yield" has been used instead.

iShares Launches 5 Defined Maturity High-Yield Bond ETFs

Published: May 10, 2019 7:32 a.m. ET

RBC Global Asset Management

RBC High Yield Bond Fund

Barings rolls out two high yield bond funds

By Shannen Wong / 16 Jan, 2019

Perfection

This is important to recognize because as the global economy turns down later this year - the environment for ~~junk~~ high yield bonds will not be very pleasant.

The difference between yields on the highest quality bonds and the lowest quality bonds (high yield/junk) are about as low as they can go.

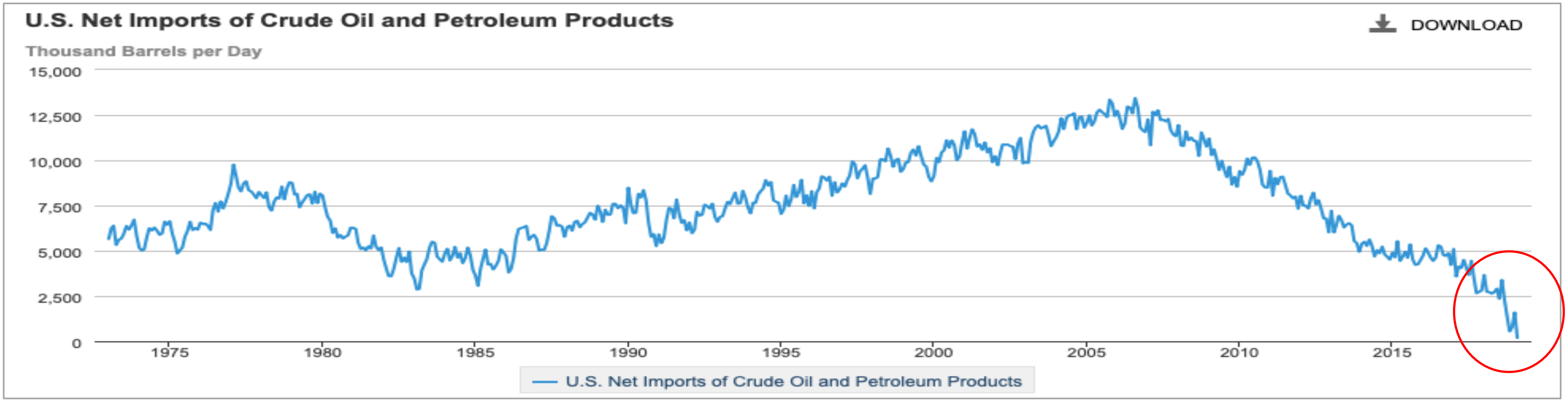
This means they are priced to perfection.

Imperfection means spreads have the potential to slingshot to the red circle area which would create substantial losses for those investors.

Another must-recognize point is the relationship between America and oil markets.

For as long as anyone can remember, America has been a net-importer of oil. This meant America had to rely upon other countries for oil. Ever wonder why America cared so much about the middle east?

American oil - game changer



Well, now thanks to the discovery of shale oil - America has now moved very close to becoming a net exporter of oil.

Yes, this is significant for geopolitical reasons.

BUT - it is EXTRAORDINARILY significant for financial reasons.

When the United States was importing oil from other countries it was supplying USD to the world USD market.

With the Americans now becoming a net exporter of oil - this excess supply of USD cash to the global system has just come full stop.

IceCap has been VERY clear about our expectations for the USD to potentially surge.

The primary reason for this optimism is due to the pessimism in financial markets outside of the United States.

When considered together with the now reduced shortage of USD being supplied to the market - the **Strong Dollar** story becomes even that much more attractive.

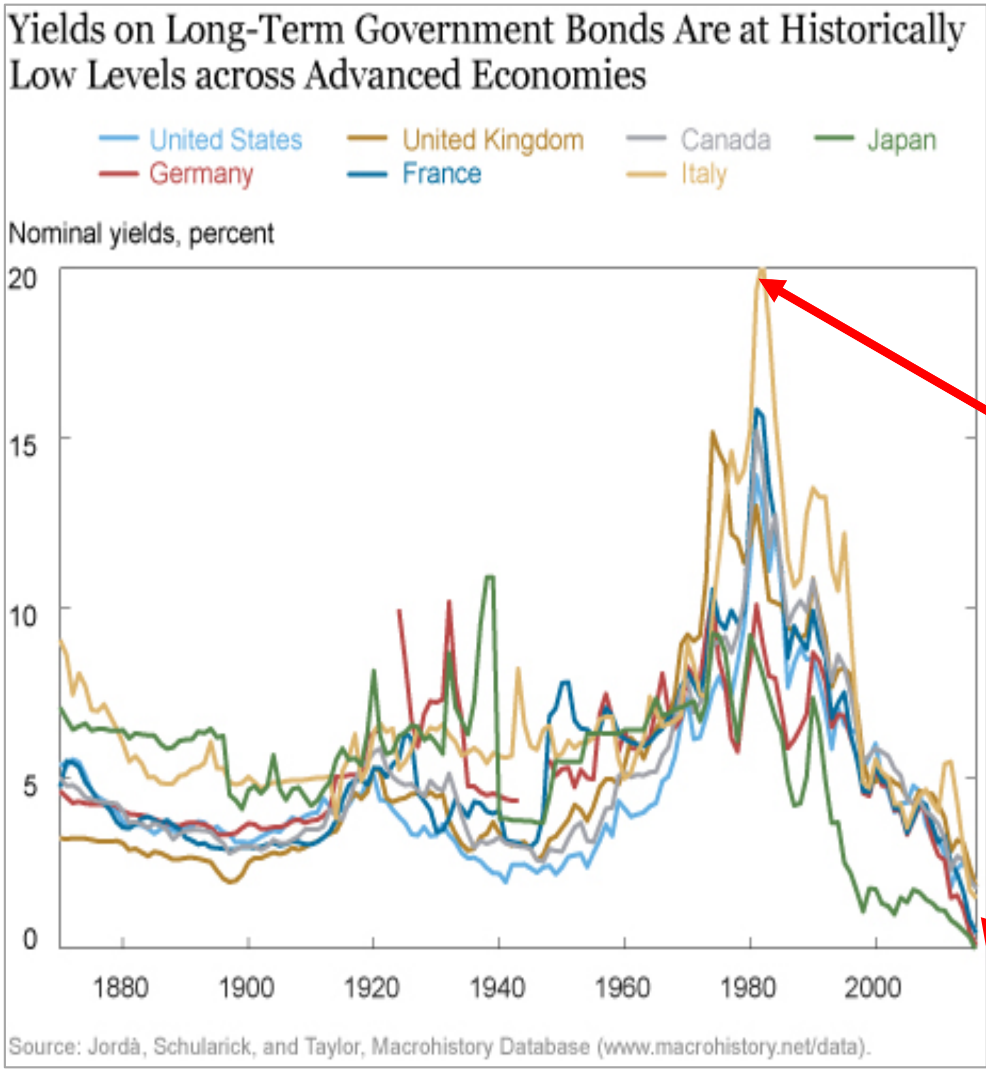
The Bigger Picture

Most will agree that there is information, media and word of mouth overload.

And due to today's financial landscape being acutely unique - it is rather easy to lose sight of the big picture.

Surprise

For starters, the #1 picture investors should keep in their pocket is the following:



Whereas the world is focused on the central banks and their addiction to cutting interest rates below the real-world level of 0%, something much bigger has happened at the other end of the interest rate spectrum.

As the chart shows, long-term interest rates are at their lowest levels since the data is available in 1850.

There are 3 things important about this fact:

1) When long-term rates decline, bond prices (and everything linked to long-term rates) go up. The opposite is also true. When long-term rates go up, bond prices (and everything linked to long-term rates) go down.

2) Long-term rates peaked in 1982, and have declined ever since. This has been THE best 38 year moment in financial history. The problem is that everyone in the investment industry has only ever worked in this best 38 year moment in financial history.

3) Current long-term interest rates are not only at all-time lows, but some countries have long-term rates that are negative. In other words, without splitting hairs over minor 0.0001% movements, long-term bond yields are at their lowest levels and they are coiled to spring higher.

We cannot stress this enough, long-term rates are going to completely surprise the market and spring higher. And when this happens, it's going to create a lot of stress and losses across every single financial market affected by long-term rates.

Announcement

IceCap Strong Dollar Fund

May 1, 2019

KEY BENEFITS

Diversified exposure to the knock-on effects of a rapidly appreciating U.S. Dollar.

Exposure to markets & securities that are not easily accessed.

Potential to act as a strong overall portfolio hedge.

Potential for a strongly asymmetric return profile.

All Financial Roads Go Through the U.S. Dollar

FUND TERMS

Santiago Capital	General Partner
IceCap Asset Management	Sub Advisor
Management Fee (Class A)	1.5%
Performance Fee (Class A)	15%
Management Fee (Class B)	0%
Performance Fee (Class B)	25%
Minimum	$250k
Lockup	1 year
Liquidity	Monthly

FUND THESIS & STRATEGY DESCRIPTION

The objective of the IceCap Strong Dollar Fund is to provide qualified investors with protection as well as the opportunity to benefit from financial, economic, political and social stress created by aggressive and unorthodox global central bank monetary policies.

The combination of these aggressive and unorthodox monetary policies have never before been implemented on a global scale. The financial and economic results of these policies have seen muted economic growth, supported by exponential increases in sovereign borrowings and increasing government deficits. The political and social results have seen significant increases in global income inequality, as well as the rise of political populism from both ends of the political spectrum.

The General Partner (Santiago Capital) & Sub-Advisor (IceCap Asset Management) believe these policy actions have artificially suppressed the global yield curve and suspended the price discovery process for global bond & currency markets. The General Partner and Sub-Advisor believe conditions exists for the return of the price discovery process & a re-escalation of crises across various global markets.

The Fund will deploy capital across the fixed income, currency, commodity & equity markets in order to profit from what the managers believe will be a rapidly appreciating U.S. Dollar as the result of foreign capital seeking safety in U.S. markets due to the combination of a global sovereign bond & currency crisis.

- Santiago Capital LLC has appointed IceCap Asset Management Limited as sub-advisor for a new special purpose vehicle.
- The fund is structured to benefit from what we believe will be opportunities across global bond, currency, credit, equity and volatility markets.
- Available for Accredited and Eligible investors only.
- Those who qualify and are interested please contact:

Brent@SantiagoCapital.com

KeithDicker@IceCapAssetManagement.com

Signals

Other events that have caught our attention include this affecting the Canadian market place:

CIBC lowers full-year profit outlook

While mortgage growth has been slowing for years across the Canadian banking sector after a decade of ultralow rates, CIBC is now experiencing a sudden pullback. Residential mortgage lending fell 0.9 per cent from the year prior, and the change has an outsized impact on CIBC because the vast majority of its earnings come from Canadian personal banking.

COMPANY NEWS 2h ago

Scotia Q2 profit misses estimates as loan loss provisions rise

Doug Alexander, Bloomberg News

While the majority of Canadian home owners and their banks are loath to admit it - the housing market is in a bubble, excessively valued, and it is priced to perfection.

And like any other country in the world - mortgage loans are the domain of the banks. And as the Canadian banking industry is controlled by the big 5 banks, it's relatively easy to catch clues as to when the tide may be changing.

Recent earnings from CIBC and Scotia Bank both hint of concerns with their lending portfolios.

If the global economy turns down as expected, the Canadian housing market and bank earnings will also turn down.

When long-term interest rates spring higher, the global economy will turn down even more; creating further stresses across the Canadian housing market and bank earnings.

Clearly, central banks have created an interest rate nightmare scenario - rates have been pushed down so low that no one can tolerate higher rates.

A derivative of this nightmare-risk, is the fact that the borrowing binge due to lower rates has also created the potential for a credit risk event in bond markets.

Effectively, a credit risk event occurs when borrowers cannot pay back their debt. Or the probability of not paying back debt rises.

This "probability" metric is commonly reflected in the credit rating. And with economies and financial markets being stretched to the ying - be prepared for the prospect of credit downgrades to begin hitting the screen.

Lisa Abramowicz @lisaabramowicz1 Following

Mexico got downgraded & is on the brink of having a junk rating, creating the specter of higher borrowing costs just as trade tensions with the U.S. heat up.

Soft commodities

The final big picture item which is receiving very little attention is the potential for inflation to surprise next year, and the surprise will likely come from the corn and soy markets.

Recent flooding in the American Midwest has devasted the farming industry. The floods have delayed planting and have the potential to hurt supply when harvest occurs later this year.

ILLINOIS CORN PLANTING IS NOT EVEN HALFWAY FINISHED, USDA SAYS

U.S. PLANTINGS ARE ON A SLOW BOAT TO CHINA.

By Mike McGinnis
6/3/2019

While this should be a transitory event, the knockdown effects could potentially create an economic environment where growth is slowing, yet inflation is increasing.

The combination would of course create another conundrum for the US Federal Reserve just as they are trying once again to thread the financial needle.

Our Strategy

Stocks

Our equity models continue to conclude neither a bullish nor bearish view of stock markets. As a result, our client portfolios remain with neutral allocations to equities. We completely agree that the fundamental reasons for holding equities have deteriorated, yet market internals are not flashing warning signs. This could change of course, and if it does we'll change our strategy. Until then, we continue to benefit from rising markets.

Bonds

Our concern and avoidance of risk in bond markets meant we missed the recent rally in long-term bonds. However, we continue to conclude that long-bonds and credit remains in a significant bubble and will certainly not be chasing yields.

Recently, we effectively exited our positions in corporate bonds and now primarily hold short duration, sovereign debt.

It is our view that corporate, junk, high yield, and emerging market bonds offer little value. Preferred shares remain an accident waiting to happen.

USD Rules

Currencies

No changes. Our expectation for stress to re-escalate across fixed income and currency markets is creating the potential for a blow-off in USD. All client portfolios remain structured to benefit from a strengthening USD.

Commodities

We continue to hold no positions. The current rally in gold has caught our attention, yet it remains unable to provide a significant break above the 1400ish level. When USD surprises as we expect, gold will likely experience another leg down.

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 Chief Investment Officer. He has over 25 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, RealVision, MacroVoices, 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.

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