Our view on global investment markets:

October 2021 - *You Cannot be Serious*

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Country club sports

"YOU CANNOT BE SERIOUS!!"

It was the scream that came straight from Queens.

And just like that, the complacent, non-descript, snooze-inducing world of professional tennis was introduced to volatility for the first time.

Not only did John McEnroe go on to dominate the world of professional tennis, his volatile personality and spontaneous outbursts catapulted the sport to the top news stories of the day.

When McEnroe eventually retired, so too did the popularity of the sport. And just like that, there she was - gone. The volatility injected into the sport collapsed just as fast as it erupted years earlier.

The world of professional golf was even more boring than tennis. Let's face it, only the die-hards could get excited with players consistently scoring pars with the occasional birdie on the back nine to win the latest "car manufacturer" sponsored tournament.

But then John Daly came along. And suddenly non-golfers were tuning in to a sport that was turned upside down by the people's champion.

While McEnroe introduced volatility to tennis, John Daly's antics turned the volatility dial all the way up to 11.

After all, Daly looked and acted nothing like a professional golfer.

Whereas other players wore beige khakis and white polo shirts, hydrated with Gatorade and ate fruit during their rounds; Daly could be found wearing bright shirts with unmatching checkered pants, eating hot dogs and washing them down with Budweiser's.

Yet, opponents learned not to be fooled by the cover. Underneath this non-traditional look was one of the sweetest swings and touches ever to be seen on the tour.

Daly came out of the blue to win his first major tournament. In fact, he was the 9th alternate to be invited to the tournament and he had to drive 9 hours throughout the night just to make his tee time with minutes to spare. He had no caddie, no practice rounds, and no major sponsor for any equipment.

Yet, he won. Volatility was back, and suddenly the world became interested in Sunday TV golf.

Four years later Daly did it all over again. Seemingly out of nowhere, the big fella once again shocked the world and won the most prestigious golf tournament known to mankind - the British Open.

To this day, Daly doesn't have to pay for a pint in Britain.

Yet, in between and after, his major wins, Daly had little success. However, it was the "way" he had little success that enamored him with the sporting world.

Whereas all other pros dialed it in with pars and the occasional birdie and bogey, Daly's scorecard more resembled football points than golf scores. Scores of 2's, 7s, 14's and even mythical "hole-in-one"s would frequently be marked on his card.

People forget

The volatility created by McEnroe and Daly made many people uncomfortable. In fact, the vast majority of the establishment did not know how to react or respond.

More interesting however, is that once these bigger than life personalities left their sport, complacency immediately returned and people soon forgot how fast and furious it use to be.

Today's investment world is currently enjoying the calm, smooth waters manufactured by policy makers and further pacified by the big box banks and main stream media.

Yet, just as McEnroe and Daly came out of nowhere to surprise everyone and ignite the volatility flames, today's financial markets are also masquerading the bubbles that are percolating underneath.

In this issue of the **IceCap Global Outlook**, we share with readers the importance of understanding and respecting the complacency that has accumulated across many financial markets.

Better still, we share how these markets may react as soon as the next McEnroe or Daly come out of nowhere to disrupt the manufactured complacency.

Whereas the timing of these volatile events is difficult to pinpoint, the magnitude of the impact is rather easy to appreciate. Fortunately, this provides investors with an opportunity to be proactive and actually benefit from these high probability events.

Perhaps the most interesting feature of volatility is how it can be triggered by non-financial events as well. Re-escalation of stress across political, social, and healthcare factors are seemingly also on the cusp of ramping higher.

Also, consider how echo chambers are expanding within political, social, educational, healthcare and crypto worlds, and therefore making the consequent reaction to a re-escalation of stress an even larger event.

Put another way - most investors won't know what hit them.

The point we make is that financial market risk, can come from financial AND non-financial factors.

So, take off your blinders. Remain objective. And get ready for some unexpected excitement. After all, we do live in a volatile world.

Short Memories

Oh dear. I've been managing money now for nearly 30 years and it still amazes me how quickly people forget. How fast they rationalize. And how swift they are to condemn non-conforming thinking.

After all, the show must go on.

Yet, here's a jolt to yank you out of the financial fantasyland so meticulously crafted by the industry and media.

For some reason, the big banks and media never discuss the most important factors that are affecting your total wealth.

Use your time wisely

To them, the big machine must always keep churning. Churn, churn and then churn some more. Collect your assets, stuff them into some version of a balanced fund, and plaster it with all kinds of make-up in the name of global diversification, armies of CFA accredited analysts, and Billions of assets under management.

This will help you become richer than you think.

Or will it?

After all, we've always been told to invest in the stock market for the long-term. For sure, markets will bounce around every now and then. But if you continue to dollar-cost-average into the bank's mutual funds, you'll be a winner no matter what happens in between.

This is true for investors who have infinite time horizons.

Pension plans, multi-generational trusts, and endowment funds all have collective investment time horizons longer than the individual beneficiaries of the plan themselves. They need not worry about the volatility in markets.

But everyone else, has to worry about volatility in markets.

The fact is, as we grow older and become more dependent upon our investment nest-eggs, the more sensitive we become to the extreme drawdowns from markets.

Numbers are numbers. A 50% loss in anything, requires a 100% return to get back to where you started.

Yet, a 50% loss can mean different things to different people.

A 50% loss for someone with little savings in their 20s or 30s, is really not that big of deal. They have time and higher future earnings to recover from these losses.

A 50% loss for someone with some savings in their 40s or early 50s, is becoming a concern. Sleepless nights ensue, followed by their bank advisor telling them steady as they go.

A 50% loss for someone with maximised savings in their late 50s, 60s, or older has suddenly become a big deal. It affects their physical and mental health, as well as their ability to maybe do the daily or long-term financial activities they enjoy the most.

Of course, near -50% losses rarely happen. And when they do happen, it's always due to an extremely unusual event. Therefore, why all the muss?

Well, to better appreciate all this muss, one only has to go back 20 years.

Yes, since the year 2000, global markets have experienced no fewer than 3 separate major market volatility events..

The year 2000 brought us the Tech Bubble.

The year 2008 brought us the Housing Bubble.

The year 2020 brought us the 2020 Covid Pandemic.

The American experience

And to better visualize the experiences of these 3 significant volatile market events, here's a picture of the **American market experience**.

The first point to pop out at you is how it took nearly 8 years to fully recover from the -51% loss from the Tech Bubble popping.

And then in 2007, just as investors were finally at peace with the painful memories of the tech losses, the 2007 Housing Bubble popped.

The only good thing about the Housing Bubble breaking was that instead of 8 years, it only took 6 years to fully recover.

The irony of course, is now in 2013 many investors were mostly licking a 0% return since the stock market highs of the year 2000.

Yes, 14 years of long-term investing had netted investors a big goose egg. Of course, this is only for the investors that didn't sell during the sell-offs or who did not have the bad luck of holding stocks in companies that went to zero. Their recovery time is even longer.

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The Canadian experience

Whereas the 2000 Tech Bubble and the 2008 Housing Bubble were due to financial market excess, the 2020 Covid Correction is an example of a non-financial event that can cause volatile moments for investors.

Despite this out of the blue market crash, there was some good news - instead of the usual 6-8 year grind to fully recapture losses, American stock market investors were made whole a mere 9 months after the volatility began.

Naturally, investors readily accepted this recovery - yet, they should also be asking questions. After all, in the financial world, there is no such thing as a free lunch.

We'll revisit the Covid Correction in a moment.

Next, let's examine the **Canadian Market Experience**. Below is the chart showing the main Canadian Stock Index and you'll notice Canadians (despite what they've been told) are seemingly not immune to global market stresses and volatility.

While Canadian and American investors had similar maximum losses, it took Canadians a

The European experience

much longer period to fully recover.

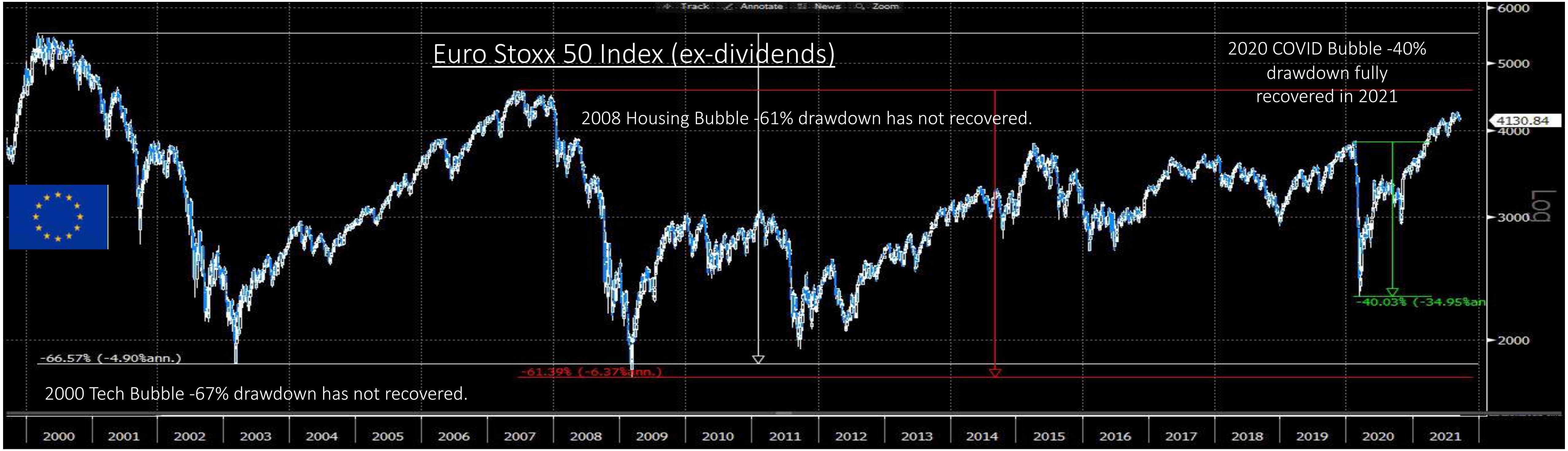
The Canadians needed nearly 12 years to recover from the Tech Bubble versus the 8 years for Americans.

As well, the Canadians required another 12 years to recover from the Housing Bubble compared to just 6 years for American markets.

Although Canadian markets also recovered rather quickly from the 2020 Covid correction, it was still nearly 4 months longer than the recovery rate in American markets.

And, if you think the Canadians got a raw deal - just wait till you see the European Market experience.

The below chart, demonstrates why IceCap consistently refers to the old world as the economic fantasyland called Europe.



The Japanese experience

Whereas Americans and Canadians have had some degrees of success from market volatility, the European experience has been a horror show.

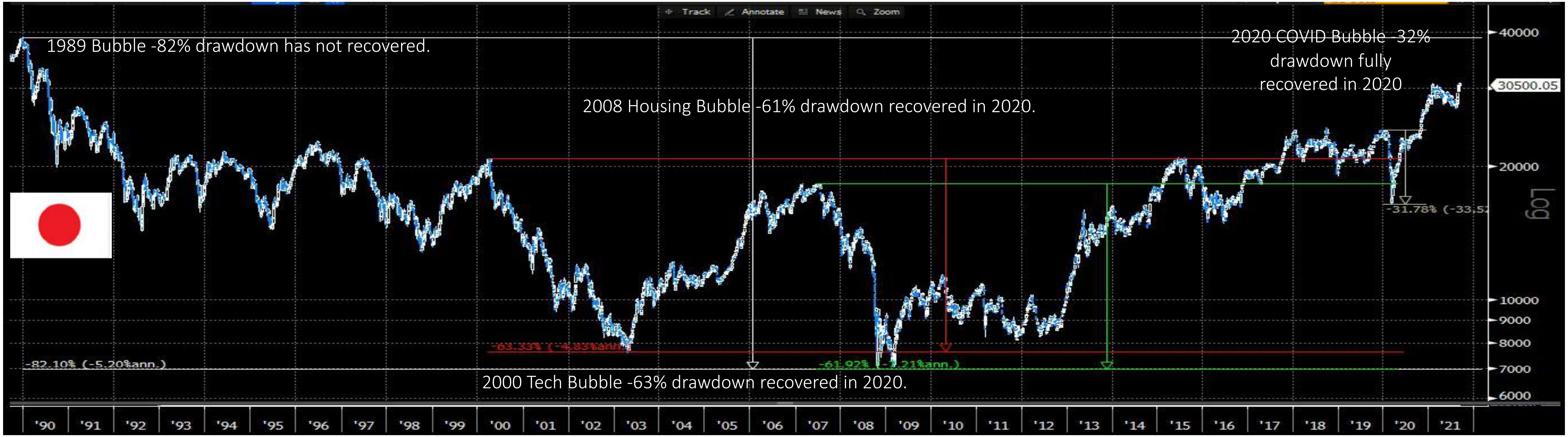
Consider the following dreadful facts:

1) European investors have yet to fully recover from the Tech Bubble. Yes, nearly 22 years after the 2000 market breaking, investors in the best and brightest European companies still haven't recovered their losses.
2) The same failure applies for the 2007 Housing Market breaking. To this day, Europeans are still, trying and clawing their way back from the losses occurred from those fatal days.

And that brings us to the Covid Correction. Here, the Europeans have enjoyed similar success as the Americans and Canadians. Granted, their recovery time was a bit slower than the Canadians and Americans, but they did recover.

Of course, as bad as the European stock market experience has been, at least it isn't the **Japanese Market Experience**.

Below you'll see the tortuous affair for Japanese investors. It's been so bad that the stock market still hasn't recovered from its 1989 high. Yes, that's over 32 years of losses.



It’s not a mystery

And if you think comparisons to the 1989 Japanese bubble high are unfair, just know that it took over 20 years to recover from the 2000 Tech bubble, and 13 years to recover from the 2008 Housing Bubble.

Curiously, the Japanese market performed right in-line with the 2020 Covid Correction. The market’s -32% drop was fully recovered in just 10 months.

Once again, we have another major stock market recover in record time from the Covid Correction. As it’s such an outlier, we believe it’s important to put this 2020 Covid Correction recovery period in perspective.

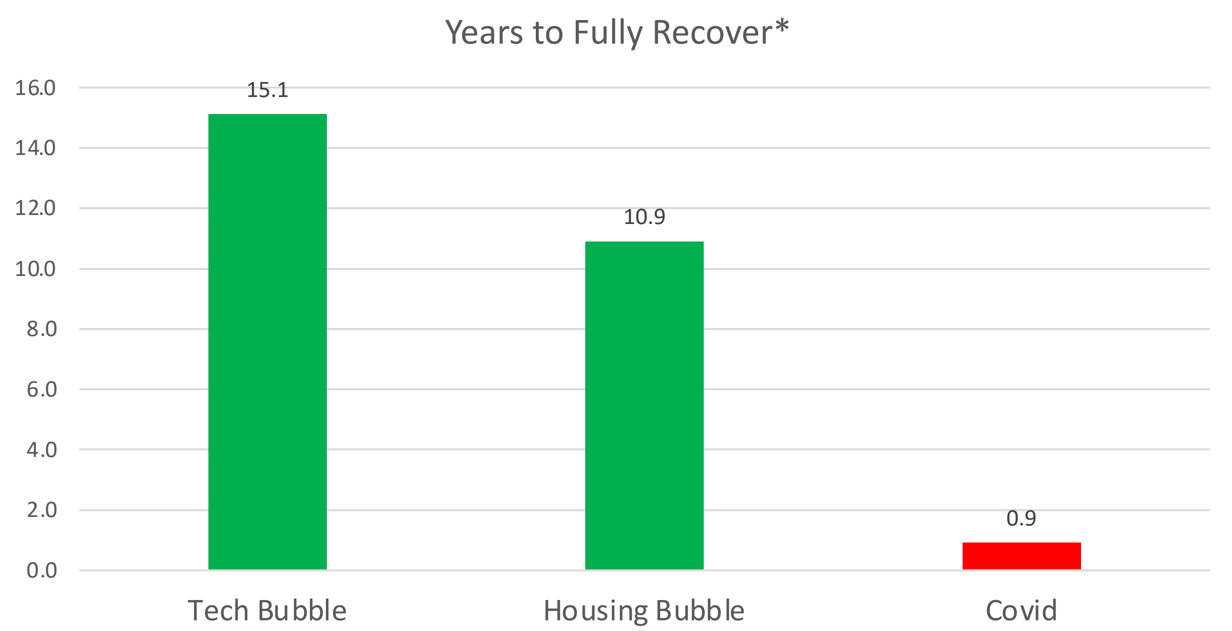
In the **next column**, we show you the average aggregated recovery times across the American, Canadian, European and Japanese stock markets during the Tech Bubble, Housing Bubble and Covid Correction.

Note the extreme difference in recovery period from the Covid Correction compared to the other two volatile market events.

Naturally, this is where some pundits become defensive and “defend” market performance around any period.

For example, some people may claim that the Covid Correction wasn’t driven by financial factors, where as the tech bubble and housing bubble were clearly the result of poor capital allocations.

Others will claim markets have simply become more efficient. Today’s quick & easy access to financial information is significantly better compared to the 2008 and 2000 periods



Source: IceCap Asset Management Limited

* equal weighted composite of S&P500 Index, SPTSX Composite Index, EUR Stoxx 50 Index, Nikkei 225 Index performances (price return only)

Others (including the big banks) simply either don’t care, are unaware, or simply naïve and claim markets are always efficient. Therefore don’t worry about these trivial -50% loss periods. Why even bother trying to unravel a mystery that isn’t even a mystery?

But what if there is a reason. And the reason is rather obvious. And the reason will help explain and identify why another seismic event is lurking.

Keep adding fuel to the fire

Before sharing why the recovery from the Covid Correction was so much faster, investors should first understand why the recovery from the 2008 Housing Bubble was faster than the recovery from the 2000 Tech Bubble.

The answer of course is due to the reactions by the American central bank (US Federal Reserve).

In plain, simple terms - the Federal Reserve's response to the Housing Bubble was more aggressive than their response to the Tech Bubble.

The 2000 Tech Bubble saw the Federal Reserve cutting interest rates from 6.5% all the way down to a (then) record low of 1%. This took place over a 3-year period.

The Federal Reserve's response to the 2008 Housing Bubble was with faster and deeper cuts all the way down to 0%. In addition, they also began a controversial new policy of printing money to buy bonds (Quantitative Easing).

This exact same policy was played out with the Canadians, the Europeans and the Japanese. And, although not shown in the earlier charts, the British, the Swedes, the Aussies, and the Danish etc also followed these aggressive policy moves.

The key point to appreciate - all major moves in markets today affect EVERY country and market.

In other words - any risk event in any market has the potential to quickly spread to other unsuspecting markets.

As an example, IceCap is Canadian based (yet with significant global experience) and we are therefore frequently asked what will cause the Canadian housing bubble to break.

Our response has consistently focused on external factors.

In other words, an event in Europe or emerging markets could be the trigger point which would cause long-term mortgage rates in Canada to spike higher. This would create stress across the entire real estate and banking industries.

Moving on, let's finally answer the question to the elephant in the room - why was the recovery from the Covid Correction so much faster than the recoveries from the Housing Bubble and the Tech Bubble?

Answer - central banks lead by the US Federal Reserve, the Bank of Canada, the European Central Bank, the Bank of Japan, as well as the Chinese, the British, and every other central bank in the world, collectively unleashed the largest monetary stimulus ever to touch any financial system in the universe.

Yes, this may sound a bit exaggerated - but this is only because we do not know anything about the financial systems in *other* universes.

And do you know why the truth hurts? Because in this case if the truth was known, investors, the media and the big banks would warn their clients that today's financial markets have been <u>artificially</u> pushed higher by ultra aggressive monetary and fiscal stimulus. If this was widely known, investors everywhere would at the minimum, begin a process of de-risking their portfolios to protect against the next big rise in volatility.

Be Bullish!

And if everyone began this process at the same time, the risk-event kinda becomes a self-fulfilling prophecy.

To begin with, let's circle back to the goals of the investment industry.

It really has one goal - get your hard earned savings into a fund and keep it there forever.

Think about your favourite bank, advisor or mutual fund company. None of them ever says - the stock market is at risk, the bond market is at risk, our currency is at risk, our housing market is at risk and so on.

Instead, we are coddled with many, warm-felt expressions coined to make you always stay the course. Of course, the course always goes straight through their mutual funds and managed accounts.

Naturally, the only place they warn about risk is in the size 4 font risk disclosure statement.

Now, the industry is very clever and creative. Some of the best slogans and adverts include:

"Connecting all your banking needs". "Grow with us". "Our Expertise, your investment success". "We're passionate about your success". "Setting your path".

The list goes on.

And then there are the investment words of wisdom, which are also designed to keep you invested and to never, ever consider risk.

This sage advice frequently includes:

"Buy the dip". "Be Bullish". "Markets fluctuate, stay the course".

And then, there's the grand-daddy of them all: "if you miss the best 10 market days of the year, you underperform the market significantly. Therefore stay invested".

It is this last one which is frequently used by supposedly the best and brightest investment advisors. Once this expression and charts are rolled out to the client, their committed to the ups and downs of severe volatility forever.

In fact, this advice is so valuable, it's hard to avoid.

In truth, this one expression contains only half truths, and completely ignores the other question the industry would never, ever ask - what happens if you miss the market's worst days?

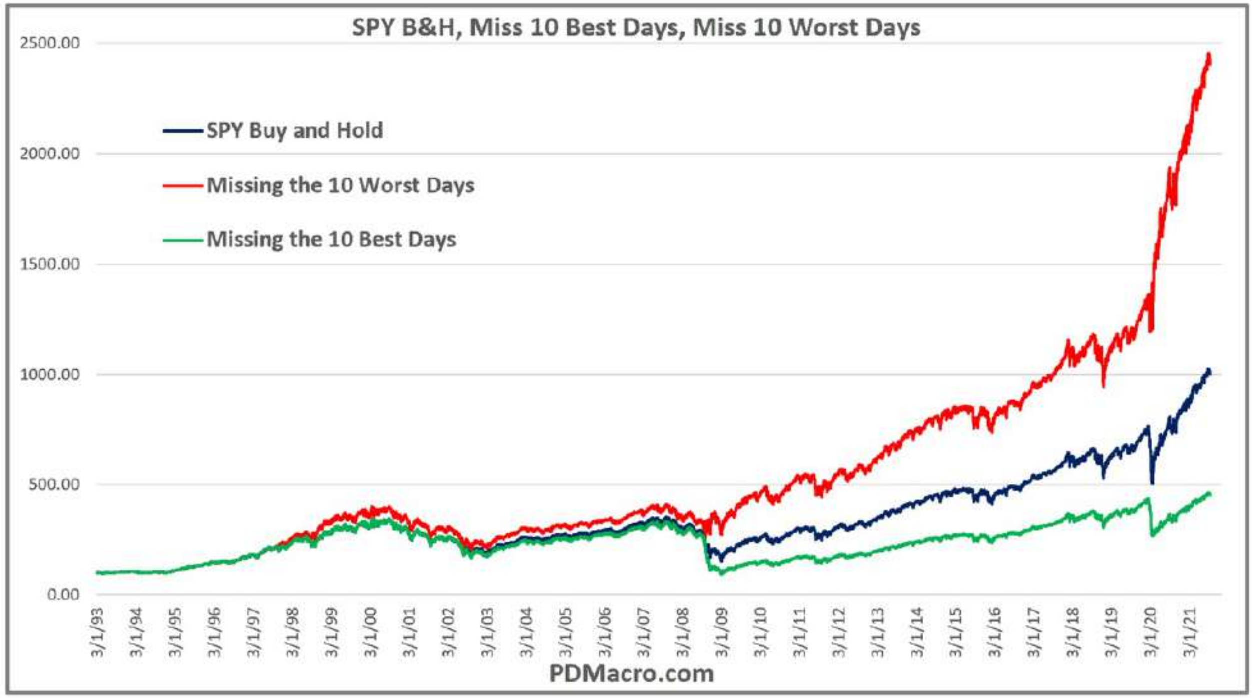
And for the really astute investors, you should also ask - when do the best days occur?

Ask the right questions

The answers of course, explains why as an investor, it's always healthy to ask questions, especially if you are sitting in front of one of the big industry machines.

And as you may now suspect, missing the worst days of the market can add even more value to your nest egg than staying invested and also enjoying the best days.

Here's a great chart borrowed from David Taggart of PD Macro, which clearly show the power of avoiding large drawdowns.



Naturally, we readily accept there are fallacies with this thought process as well. Yet, the thought is there, for you to at least consider.

The final perspective for you to consider with the industry propaganda of "fearing a miss of the best days", just know that the majority of the "best" days usually occur immediately after the "worst" days.

And the final, final thought on this investment fallacy, nowhere does it consider the investor's time horizon and objectives.

Remember, most severe losses require a long time period to extract revenge and fully recover. Unfortunately, many investors simply do not have the time for this journey.

Speaking of time, let's now dive right into the historic stock market recovery from the 2020 Covid Correction.

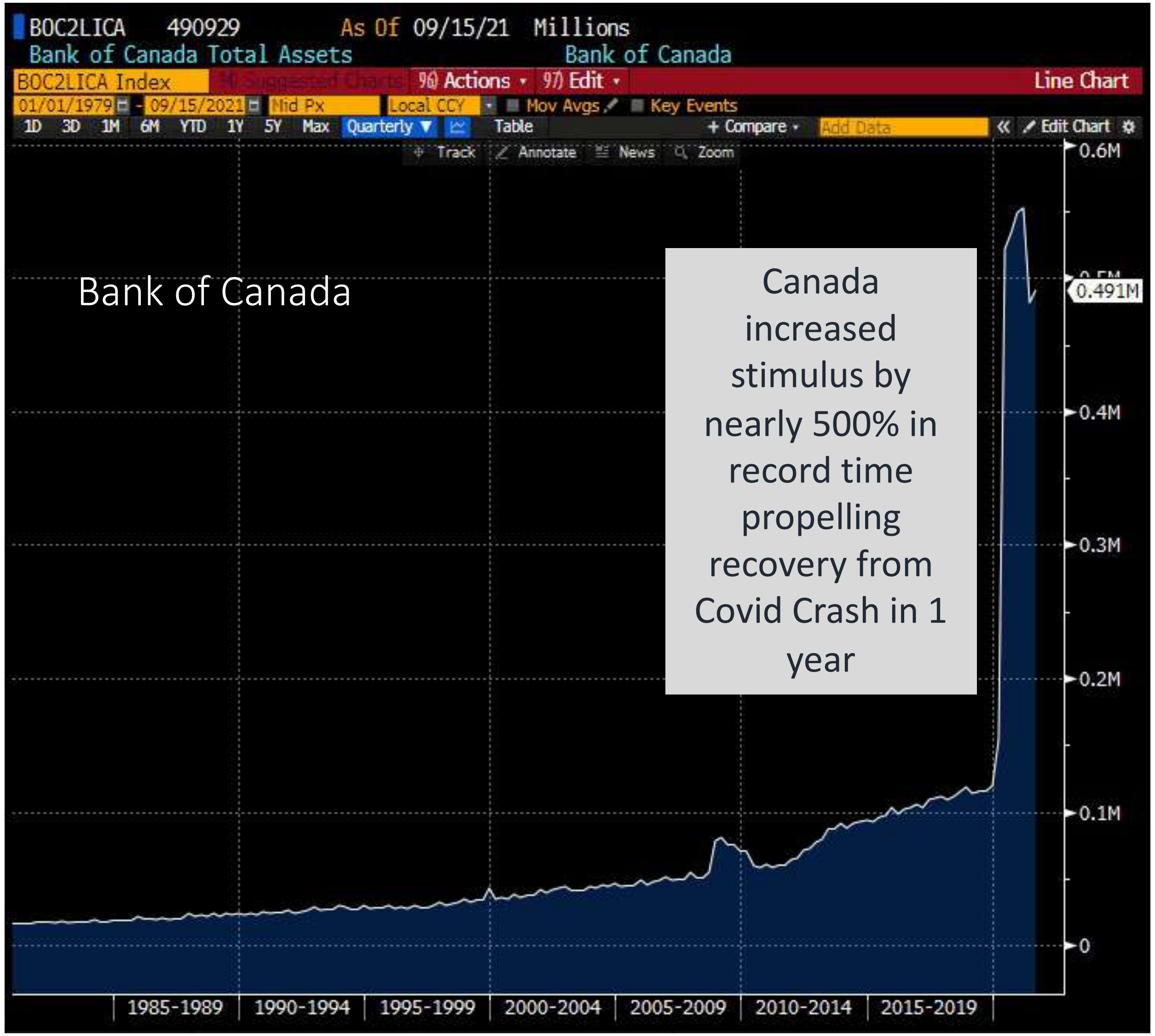
As we shared earlier, the recovery from the Covid Correction was exceptional. It smashed the recovery times from all previous market declines.

And here's why.

The World's central banks, and governments, simultaneously printed money, borrowed this printed money, bought stocks, government bonds, high grade corporate bonds, and even bonds issued by the crappiest companies on earth - the ones who issue junk bonds (or high yield bonds as the industry prefers to call them).

Charts on the next 2 pages details this historic wave of monetary and fiscal exuberance.

USA & Canada Central Bank Balance Sheets



Europe & Japan Central Bank Balance Sheets

It’s a self preservation story

Some readers will recognize and understand the data points in these charts, and others may be seeing them for the first time.

And that’s what makes the IceCap Global Outlook so great - we have readers from all financial walks of life.

For those who are not familiar with these charts, first know these charts detail the amount of stimulus by each central bank. Some people refer to it as money printing, others call it by it’s official name of Quantitative Easing.

Just know, while it isn’t technically money printing, it is an extreme and unorthodox policy of indirectly printing money with the goal of causing the economy and markets to rise.

The next point to appreciate is the sharp rise or acceleration of the lines during the Covid Correction. Both the size and the speed of this globally coordinated monetary reaction truly was unprecedented.

This is the point where some will say it was necessary, and needed. Otherwise, the banks and governments would have collapsed.

This is also the point where others will say it was unnecessary and not needed. The financial and political worlds actually need a good enema to cleanse the system.

The IceCap view is neither. Instead, investors should always ignore their feelings of what should happen, and instead always focus on what will happen.

In this case, and as it has been previously established with the 2000 Tech Bubble, and then again with the 2008 Housing Bubble - the reactions by the central banks and governments should be no surprise.

Even though the policy makers change over time, the policies do not change.

And the #1 policy and the #1 agenda for the central banks and governments is to keep everything together at all costs. It is always about self-preservation.

This all sounds rather dramatic. But it isn’t. Instead it is simply facts.

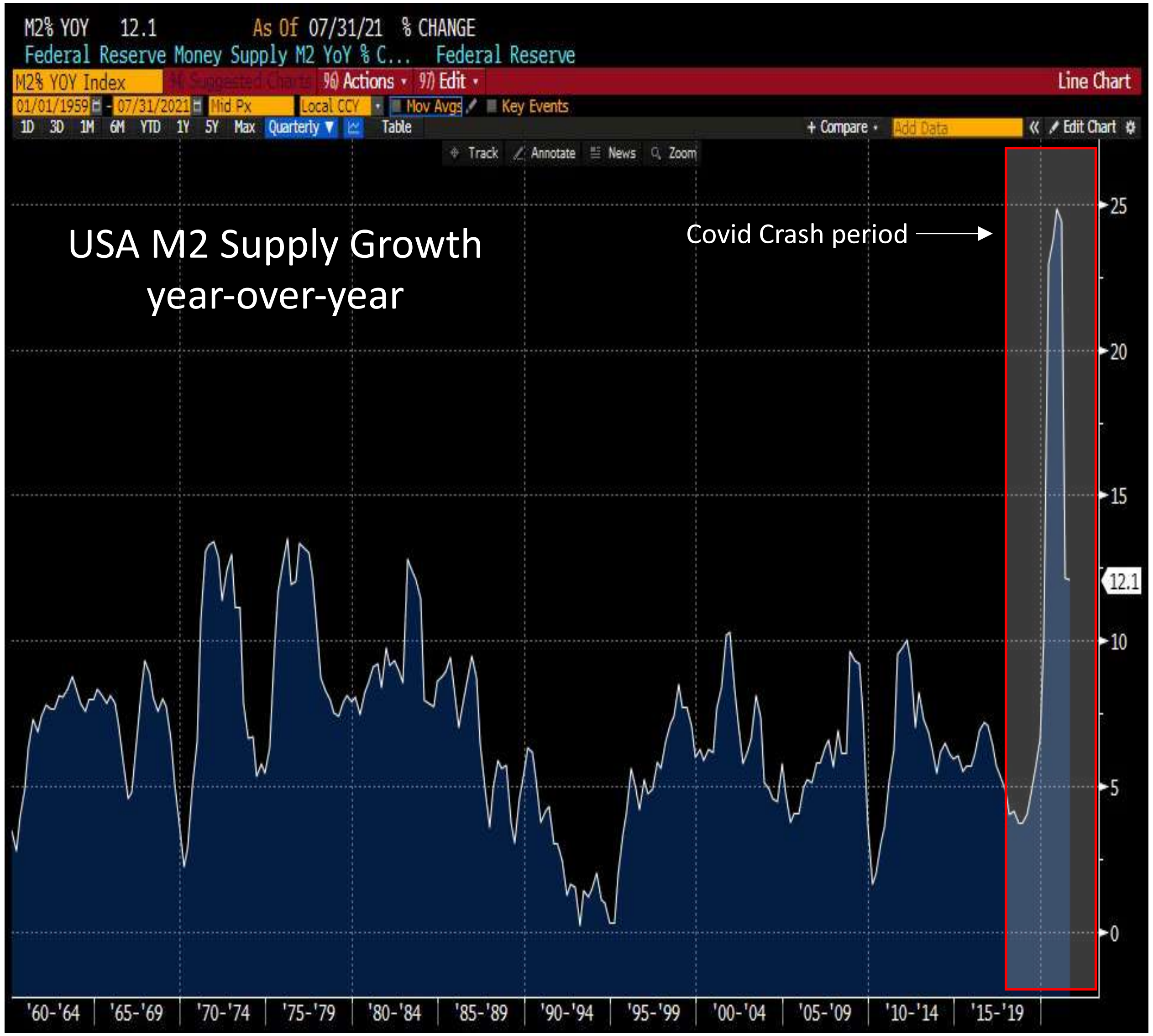
And what we also know, and these same policy makers also know, but the industry and media refuse to report - we really have reached an historical point where there are no more interest rates left to cut. Fewer and fewer government bonds left to buy. And no hopes whatsoever of governments ever again producing balanced budgets.

Which means there’s even less than no hope of governments surviving their self-made debt crisis when volatility returns causing severe financial risk to return at a rapid pace.

And when we overlay these inconvenient truths onto market volatility charts, you’ll see why complacency is indeed coiled, and simply waiting for the next McEnroe or Daly to come along and surprise everyone with bursts of volatility.

To appreciate this volatility set-up, first note the **chart on next page** which details the growth in the money supply in the United States. This chart perfectly encapsulates the speed in which monetary stimulus gushed into the financial system during the Covid Correction.

The 2nd derivative is key



More importantly, investors should note that it isn't the <u>absolute</u> level of data points that usually matter, instead, it is the <u>rate of change</u> of data points that matter.

Here we show a couple of eye-whoppers.

For starters, note just how <u>extreme</u> the stimulus response was for the Covid Correction relative to all other periods in the history of these data points - which start in 1959.

Second, take note of how the growth in stimulus is now slowing. Put another way - just as fast as the Federal Reserve giveth, now the Federal Reserve taketh.

And history shows, that whenever central banks taketh away stimulus of any kind, the probability of very bad things happening increases significantly.

Okay, let's review what we've shared so far:

1. Investors' sensitivity to stock market corrections is dependent upon the size of their portfolios and the stage of their life earnings and retirement years. The closer you are to, or in retirement, the less tolerance you have to extreme market losses.

2. There have been 3 significant stock market corrections over the last 20 years starting with the 2000 Tech Bubble, then the 2008 Housing Bubble, and now the 2020 Covid Pandemic. The main point is that severe market corrections happen at a greater frequency than the industry and media tell you.

3. After each market correction, the reaction from the world's central banks was to add increasingly more and more stimulus to help with a recovery.

Walk - jog - run - sprint

4. Due to the stimulus amounts increasing with each subsequent crash, the recovery time has become shorter.

5. The amount of stimulus applied to the 2020 Covid Crash dwarfed the amount of stimulus applied at any other time in financial history.

This last point should really catch your attention because it explains a whole lot about the extreme amounts of complacency and the ignorance towards the current market rally.

Naturally, the key to never being caught off guard or not surprised by anything is to appreciate and understand the dynamics that has enabled a current trend to develop.

IceCap is sharing its view that a significant factor contributing to the current market uptrend has been fabricated by central banks and government spending policies.

Put another way, a significant factor contributing to the current market uptrend isn't a naturally created economy created by innovation, price discovery and private capital seeking to maximize investment.

This is a big deal.

The reason it's a big deal is because as soon as central banks and governments begin to slow their pace of stimulus or even stop it altogether, markets tend to first walk away from potential trouble. Then the walk turns into a jog, and then it becomes an absolute sprint to the exit.

And it is during this final sprint to the exit, when volatility measures skyrocket.

Volatility

In general terms, volatility is a measurement of changes or swings in the return of any market.

When a market is trending along with little to no bad things happening, volatility is low. Of course, when it hits the fan, volatility goes through the roof.

The other thing to know about volatility is that markets usually have long periods of low volatility, and short periods of high volatility.

Think back to the market experiences of the Tech Bubble, the Housing Bubble and the Covid Correction. In each of these events, markets declined quickly and dramatically.

Perhaps the most important lesson to learn is that once volatility turns from very low to very high - investors have very little opportunity to react. This is especially true if your investment advisor and big bank believes there is no way on earth one could possible prepare for such an event anyway.

IceCap disagrees.

For starters, there are natural ways to structure your investment portfolio to dampen the effect of these high volatile market events. All it takes is experience, know-how, and objectivity to effectively do what's right for you as a client.

Next, observing volatility levels across ALL markets and understanding what is driving current market trends will provide you insight as to the probability of another highly volatile market event occurring.

Increases in volatility usually starts with a debt crisis

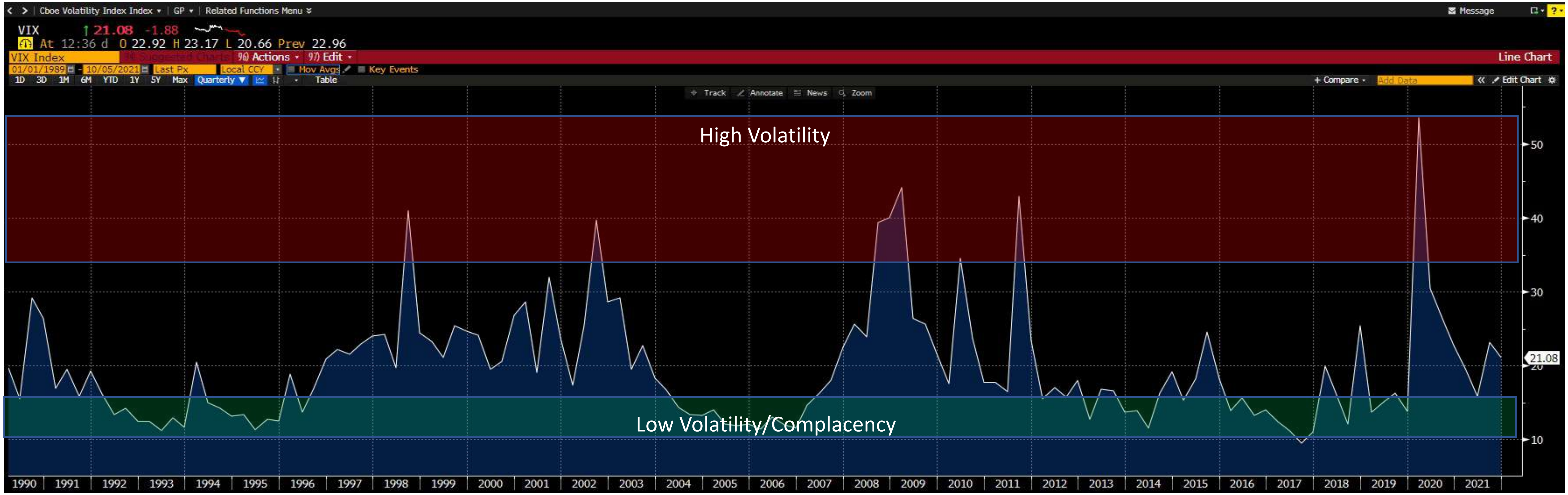
Fortunately for investors, tools and perspectives are available to make this observation for yourself.

Let's first begin with the most popular volatility measurement - the VIX Index. This index measures the volatility for the US stock market (S&P 500 Index is a basket of close to 500 leading companies in the USA).

Note, the long periods of low volatility are interrupted by shorter periods of bursts in volatility. Next, recall that each eventual crisis was triggered by a collapse in debt markets. The Asian FX crisis was caused by debt, the LTCM crisis was triggered by Russia's debt problem, the Tech Bubble was triggered by a collapse in equity capital investments.

Of course, the USA-Iraq war wasn't debt focused. Rather, instead it demonstrates how an external factor can affect markets.

The common denominator across all of these events - complacency.



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Central banks have enabled increased borrowing

Very few investors have been exposed to volatility. And most of those who claim they know all about volatility are only aware of the VIX Index. Which kinda makes sense - after all, the VIX Index measures volatility for the stock market and the stock market is really the only market most people follow.

Yes, of course the VIX Index is important. However, this is where once again IceCap's view is providing investors with something different (and increasingly more important) to think about.

While previous market bubbles eventually popped due to debt problems in specific markets or regions, today's ultra complacency is further exposed and vulnerable to a sudden spike in volatility due to the exponential growth in debt across the entire global system.

The reason this is more important today compared to 10 years ago, and 10 years before that, is completely due to the interest rate environment purposely created and endorsed by our central banks.

What we mean by this is the following: the monetary policy response to every market and economic crisis has been lower and lower interest rates.

Naturally, every time interest rates were decreased, it enabled everyone's borrowing to increase.

Next is the key point for this entire IceCap Global Outlook. Because the entire world is awash in debt (governments, corporations and households), the slightest uptick in interest rates or credit spreads in any market has the potential to create panic, and an immediate jolt higher in volatility across all financial markets.

And here's the kicker - this upcoming spike in volatility will also be felt in bond, currency and commodity markets. In other words - don't expect this event to only be felt in stock markets.

Yes, stock markets will experience initial sharp, drawdowns. But the primary markets to bear the brunt of this shock to market complacency will be bond markets and currency markets.

Next, we'll show how all markets have been lulled to sleep by central bank and government policies.

To appreciate our concerns about currency market complacency, the next 2 pages show volatility levels across 4 major currency groups including Euro, Japanese Yen, Canadian Dollar, Australian Dollar, as well as emerging market currencies.

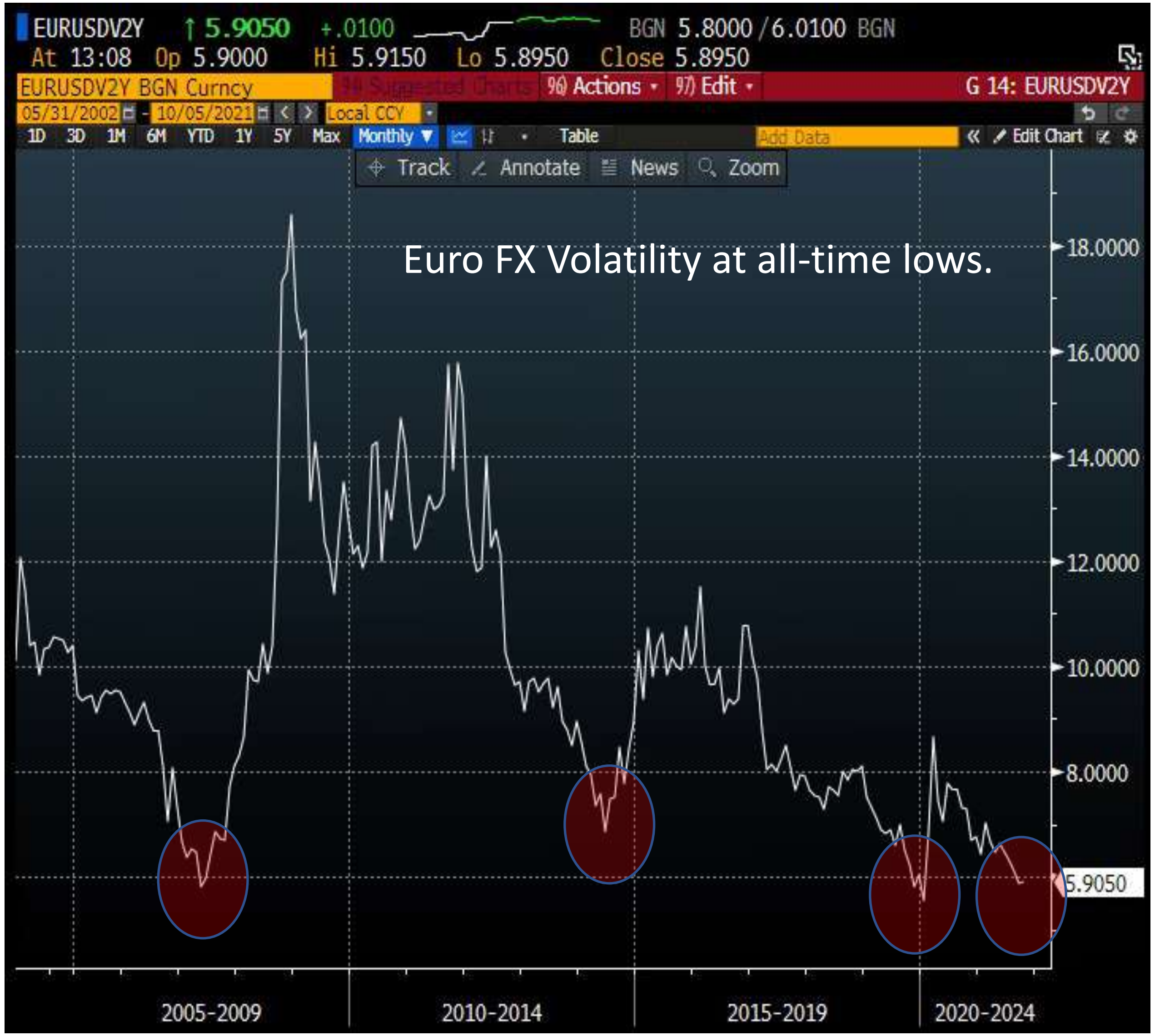
They all tell the same story. Volatility levels across each of these currency-pairs are at or near all-time lows.

Remember, what goes down eventually goes up.

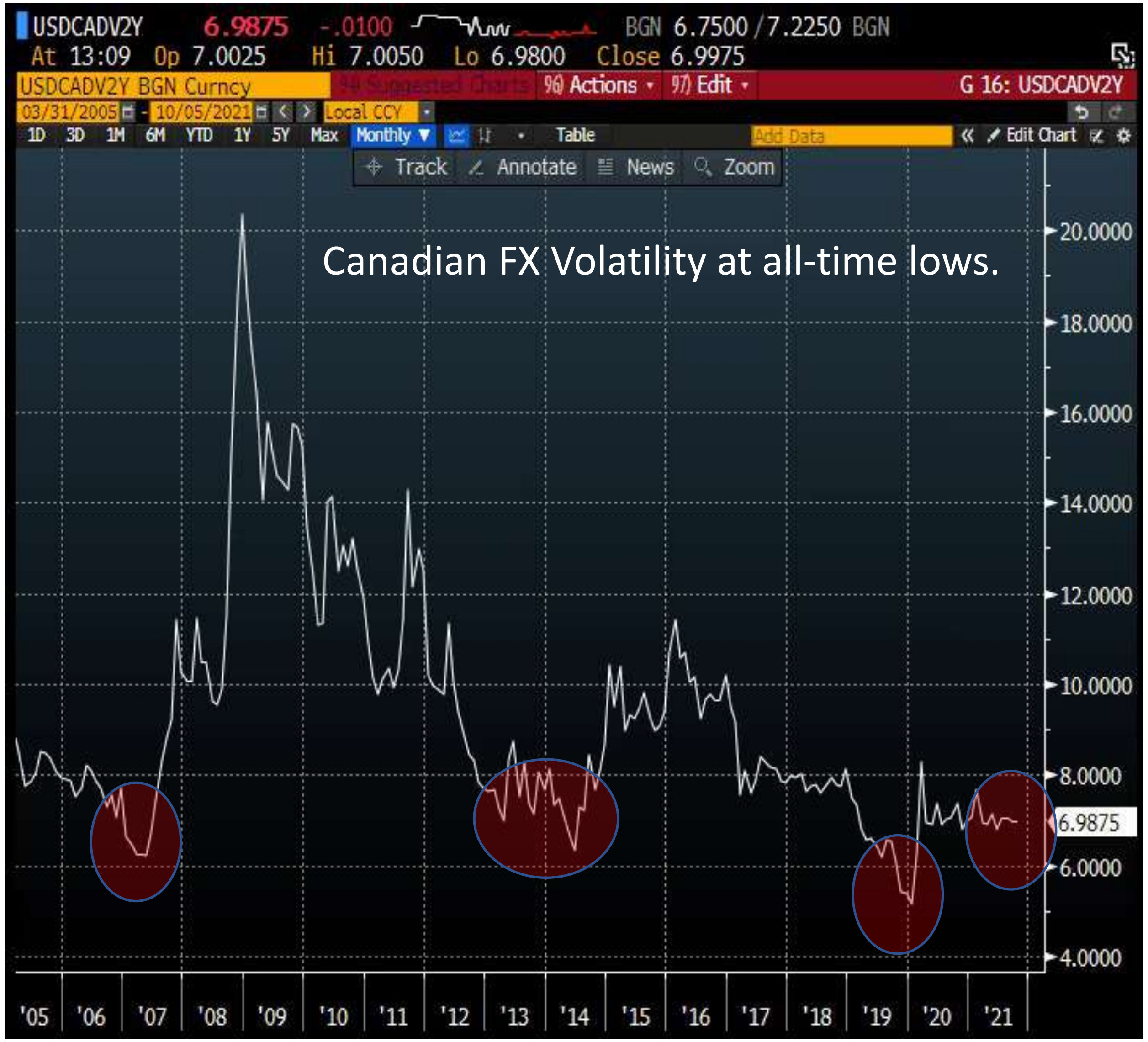
There are 2 reasons why IceCap expects the next crisis to initiate across currency markets.

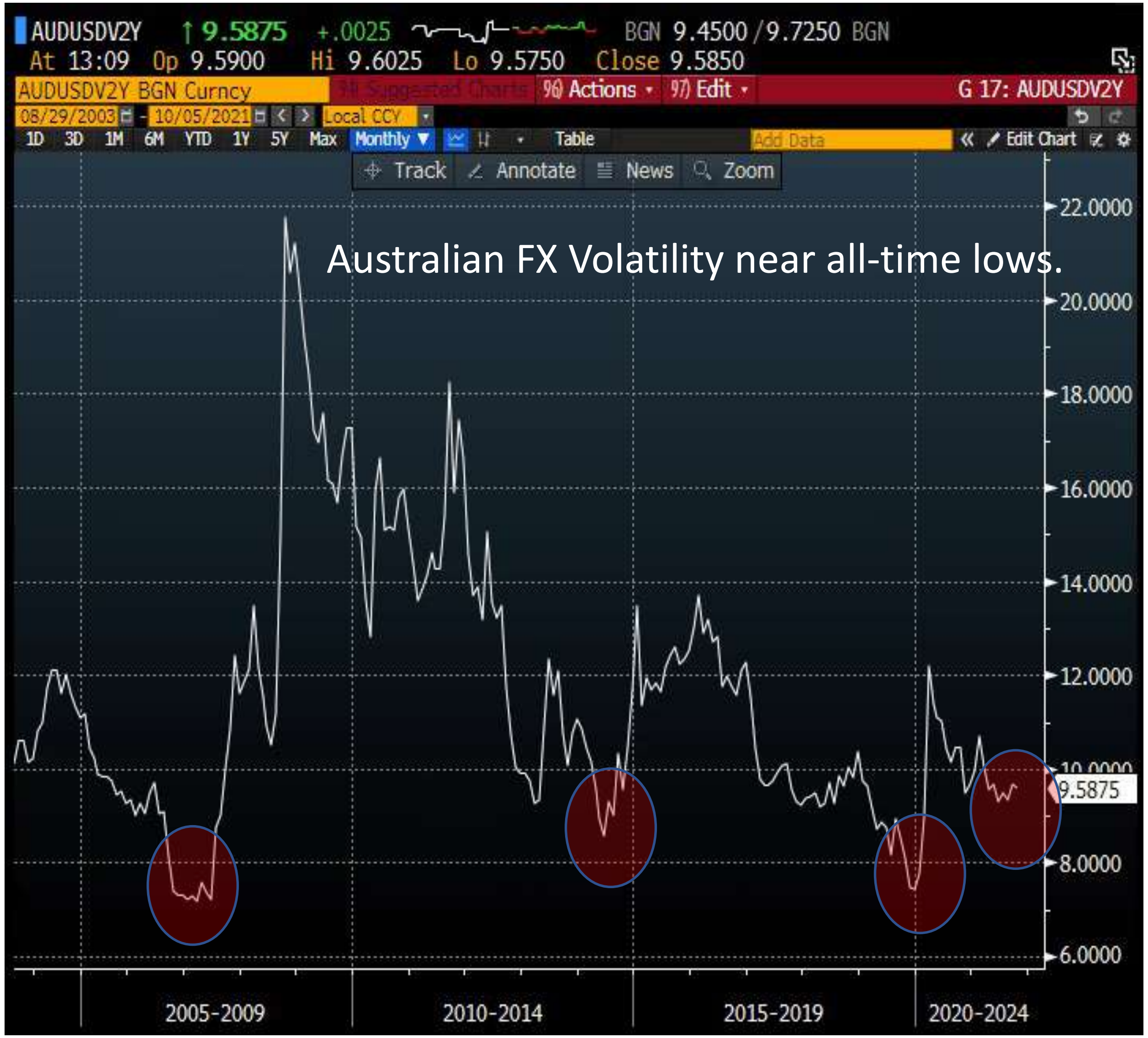
The primary reason is growth of USD debt outside of the United States of America. Many do not realize that a significant portion of borrowings by countries actually occurs in USD.

Euro and Japanese Yen volatility at all-time lows



Canadian Dollar & Aussie Dollar volatility at all-time lows





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The entire world runs on US Dollars

Headline below demonstrates this growth in USD borrowings.

BUSINESS NEWS DECEMBER 7, 2020 / 8:20 AM / UPDATED 10 MONTHS AGO

Sturdy dollar casts a shadow over emerging markets, BIS says

By Saikat Chatterjee 3 MIN READ

LONDON (Reuters) - A stronger U.S. dollar will increasingly weigh on emerging-market economic prospects, since developing countries have taken on so much dollar-denominated debt in the past decade, the Bank of International Settlements said on Monday.

The phenomena of large borrowings of USD by entities outside of the USA does not occur in any other currency. It doesn't occur in Euros, Canadian or Australian Dollars. Forget about British Pound Sterling. And anyone claiming the world is lining up to borrow Chinese Yuan/Renminbi should have their head examined.

The world's economy and financial system runs through USD. Global trade settles in USD. The system for wiring money around the world is owned by the Americans and is in USD, and most collateral for lending and borrowing occurs in USD. And in the emerging market world; bank and currency reserves are mostly held in USD.

The reason this is so important, is that the moment another crisis event occurs, the demand for USD increases at the exact same time the supply of USD decreases.

This supply-demand mismatch creates imbalances across international funding markets as well as bank reserves. And the immediate market reaction to this event occurs in currency markets.

The really cool thing about currency markets directly fielding the blows from volatility created from global debt and funding stresses is the following: no one is prepared for this event.

And this creates opportunities to position your portfolio for reduced exposures to markets that are not currently pricing in any risk.

That's really the crux of assessing volatility measures. When volatility is very low, the probability of it rising is a lot higher than currently expected.

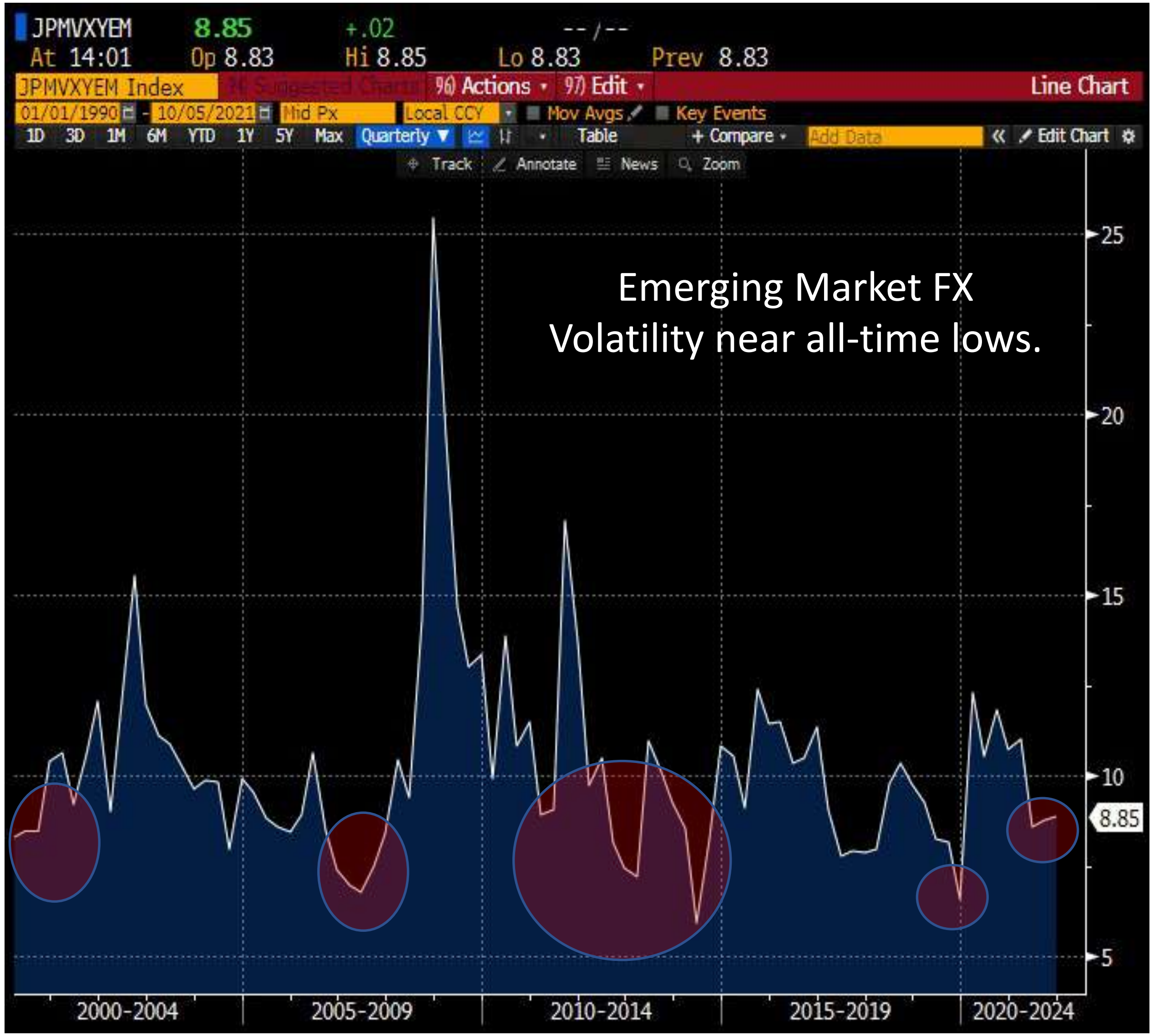
And of course, the opposite is also true.

But what makes this current situation so incredibly interesting, is that unnatural market forces have been the primary driver of lulling everyone to sleep with never-ending dreams of markets always going up and never going down.

And what makes this ultra-complacent market even more attractive is that low volatility measures also exist across commodities, emerging market currencies and bond markets.

See Charts on the next pages for confirmations of the complacency in current markets.

Emerging market FX and Copper volatility near all-time lows



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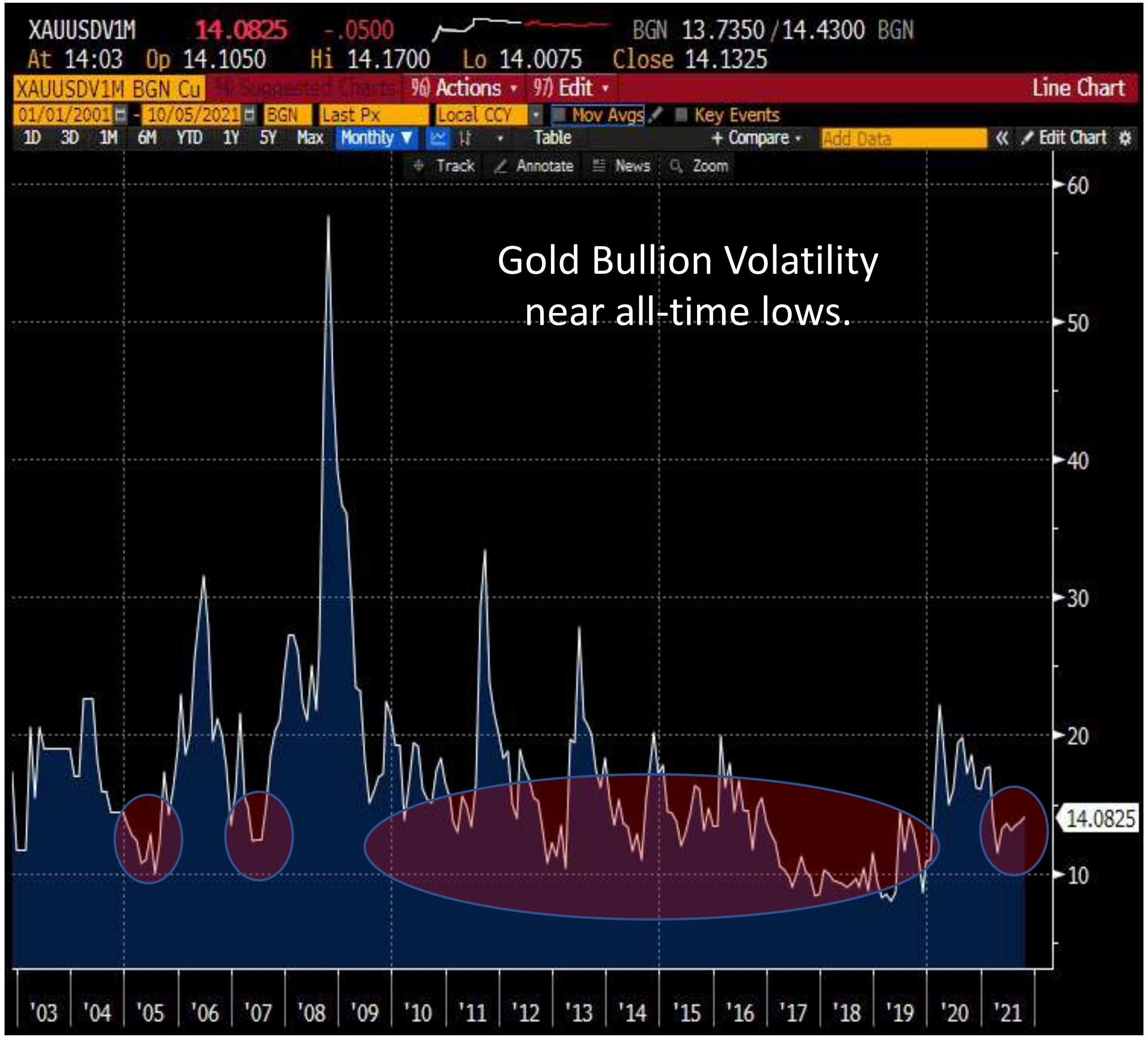
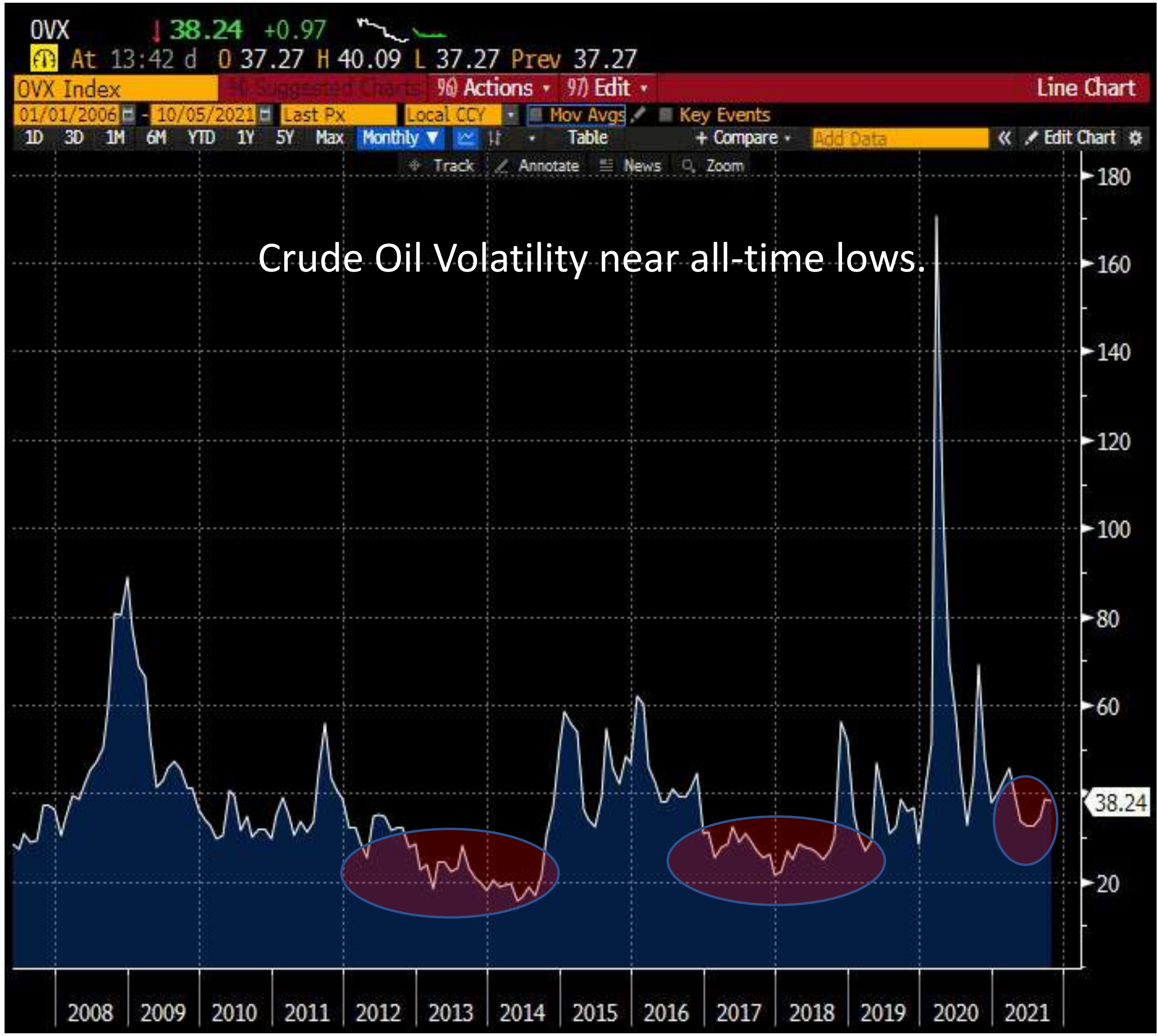
Gold and Oil volatility at all-time lows





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Credit spreads at all-time lows

For this volatility discussion, we're sharing the best for last. Once again, IceCap is sharing with you an incredibly important market factor to know and understand.

We're not sure why the big box banks, portfolio managers and advisors never show this to clients. Perhaps they believe it's much too complicated to understand or communicate.

Or maybe it's due to the fact that the charts confirm market complacency is at extreme levels. Or maybe, they're simply handcuffed because communicating these facts screams to clients that they should de-risk. And if big banks de-risk their client portfolios, it creates additional market headaches, and even bigger operational headaches.

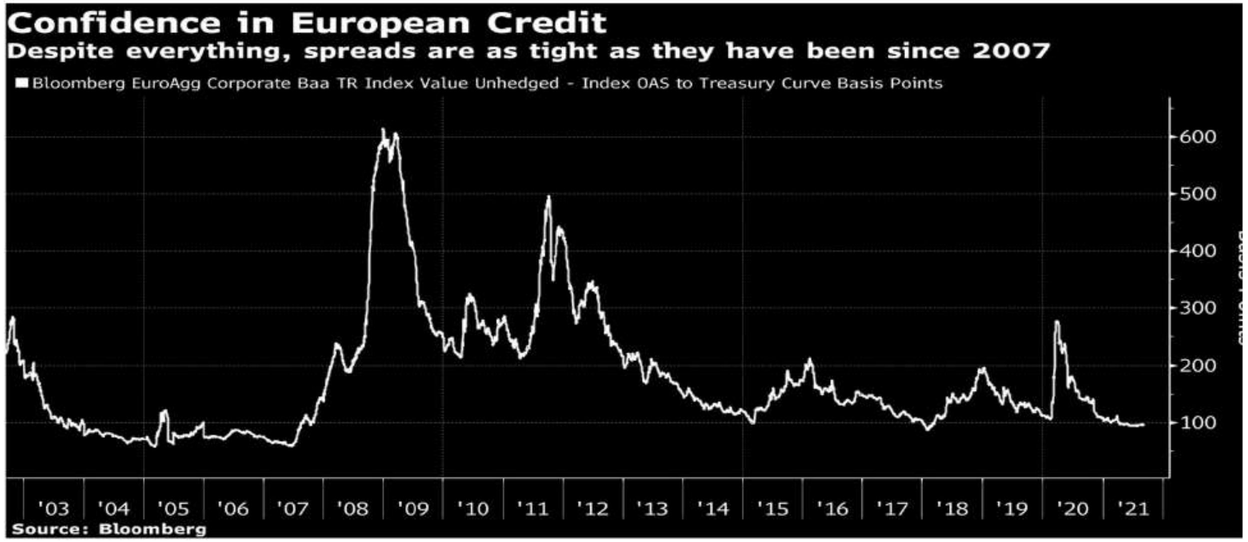
Instead, the big banks are telling you "to stay invested all the time, because if you miss the best days in the market…"

Nevertheless, here IceCap shows you credit spreads for US high yield bond markets and European credit markets.

Credit spreads measure the difference in borrowing costs between the most credit-worthy borrowers and somebody else.

In these cases, the charts show that the difference in borrowing costs for the lowest quality borrowers compared to the government is at all-time lows.

In other words, markets are not the least bit concerned about companies (and the worst companies at that) not being able to repay their debt.



And at the same time, investors continued to be pressured into investing their hard earned savings into bond markets that are completely exposed to credit spreads. Put differently, the big banks and advisors are recommending to their clients to buy credit bonds at the most expensive time in history.

Considering the fragility of the global system, this is the biggest red flag to warn that complacency is too high, or put another way - volatility is positioned to go in only one direction, and that's up.

The Final Words

The objective of the IceCap Global Outlook is to share with readers our views, ideas and thoughts on the really big market drivers that are affecting markets.

And since everyone's time is valuable, we ensure we write and talk about market factors that few others are sharing. Otherwise, we're simply wasting yours, and our time.

A major take-a-way from this and other IceCap publications is that the world's financial system has reached the end of a policy cycle that was created after World War 2.

Nearly 80 years later, the system has completed its arc, yet policy makers remain completely reluctant to allowing the transition to a new system. Instead, investors should be prepared and understand that any new system will only begin once the current system breaks.

And avoiding a breakage is not an option. It will happen. Instead, we are seeing continuing missions to prolong the current system for as long as possible. Yet, the longer this prolonging phase continues, the greater the stresses are across all markets.

Another key point from our views is that although we have identified high risk events that may happen, we always stress that these concerning views have not kept us away from equity markets.

IceCap is more conservative than most other managers, and this is due to empathy with investors' sensitivity to losses as they enter and enjoy their retirement years.

In fact, we've always maintained a healthy allocation to equities. Yet, we've successfully offset these exposures to other markets that have actually benefited from the high volatile events that have occurred since IceCap was launched in 2010.

The final, final point we are making here, and we hope it's the point you remember - it is our belief that bond and currency markets have a significantly higher than expected probability of experiencing severe market stress in the coming cycles. Yes, equity markets will always create frequent, uncomfortable experiences. However, what makes today's situation so interesting is that chaos and volatility is perfectly set-up to come screaming through non-equity markets.

And, just as few were prepared for the dramatic, and sudden increase in volatility by John McEnroe and John Daly in their sports, it is our view that few investors are prepared for an equal breakage of complacency in bond, and currency markets.

The upcoming surge in volatility will eventually pass, yet the road through this experience is going to create an incredible amount of opportunities to both make and lose money.

And, if you are sensitive to capital losses in your investments, this is something you should be considering for your portfolios.

Our strategy

Currencies

The decline in global monetary and fiscal stimulus has shifted markets away from risk-on to becoming skeptical about the near-term. This shift has resulted in USD beginning to strengthen again versus all currencies. The probability of of USD surging is a lot higher than people think. We have a significant allocation to USD.

Fixed Income

We remain at minimum allocations for fixed income. Credit spreads are set-up to create losses for corporate and high yield bond strategies once risk returns.

Commodities

We believe this sector may potentially become the most attractive asset class during the next cycle. Agricultural commodities is our preferred market.

Equities

No changes to our equity strategy. Equities are at risk of a correction, yet longer-term they will attract capital relative to bond markets. A correction will be used to increase allocations.

Volatility

Volatility continues to be suppressed across many markets, creating the potential for explosive movements during an unexpected market event. Fixed income volatility is our preferred market.

About the author

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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