Weekly Market Summary

August 10th, 2018

Clueless About Future Market Direction?! Just Follow Jamie Dimon's Accurate Outlooks For Better Guidance!!

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Jamie Dimon is a smart and successful American business executive. Born in New York City, to children of Greek immigrants (his paternal grandfather chose to change the family name from Papadimitriou to Dimon to make it sound more French...Ooh la la!!☺), Jamie attended the Browning School in his youth, later majoring in psychology and economics at Tufts University. During one summer's break from Tufts, he worked at Shearson. After graduating, Jamie worked in management consulting for two years before enrolling at Harvard Business School. During the summer at Harvard, he worked at Goldman Sachs. Jamie graduated in 1982, earning a Master of Business Administration degree as a Baker Scholar. After graduation, Sandy Weill convinced him to turn down offers from Goldman Sachs, Morgan Stanley, and Lehman Brothers to join him as an assistant at American Express (Dimon's father, Theodore Dimon, was an executive vice president at American Express, and the younger Dimon came to Weill's attention when Theodore passed along an essay that Jamie had written). Currently, Mr. Dimon is the chairman and CEO of JPMorgan Chase (since 2005) - the largest of the big four American banks. Prior to that, Jamie also served on the board of directors of the Federal Reserve Bank of New York.

Jamie Dimon's name has been included in Time magazine's 2006, 2008, 2009, and 2011 lists of the world's 100 most influential people. He was also on Institutional Investor's lists of best CEOs in the All-America Executive Team surveys from 2008 through 2011. Needless to add that his paradigmatic leadership style, as well as his ethical disposition towards the shareholder collective and intense focus on exponential value creation have earned him wide respect amongst peers and the wider financial community, also making him one of the few bank chief executives to become a billionaire, thanks in part to a US$ 485 million stake in JPMorgan Chase.

So far quite impressive – beautiful on paper – weak in reality…

In January 2012, Jamie Dimon commented on the Volcker Rule (part of the Dodd-Frank Wall Street Reform and Consumer Protection Act – originally proposed by American economist and former US Federal Reserve Chairman Paul Volcker), saying that "*part of the Volcker Rule I agreed with, which is no prop trading. But market making is an essential function. And the public should recognize that we have the widest, the deepest, and the most transparent capital markets in the world. And part of that is because we have enormous market making*." Few months later (precisely April & May 2012), large trading losses occurred at JPMorgan's Chief Investment Officer, based on transactions booked through its London branch. A series of derivative transactions involving credit default swaps (CDS) were entered, reportedly as part of the bank's "*hedging*" strategy. Trader Bruno Iksil, nicknamed the London Whale, accumulated outsized CDS positions in the market. An estimated trading loss of US$ 2 billion was initially announced, with the final damage reaching in excess of US$ 6.0 billion by the end of the second quarter! On the company's emergency conference call, JP Morgan Chase Chairman, CEO and President Jamie Dimon said the strategy was "*flawed, complex, poorly reviewed, poorly executed, and poorly monitored*". These events gave rise to a number of investigations to examine the firm's risk management systems and internal controls, and a US Senate report published in March 2013 - after 9 months of investigation - found that Dimon personally misled investors and regulators the previous year, as losses were dangerously mounting on this "monstrous" derivatives bet. According to Carl Levin, chairman of this panel, JP Morgan had "*a trading operation that piled on risk, ignored limits on risk taking, hid losses, dodged oversight and misinformed the public*".

In September 2017, Jamie Dimon labelled Bitcoin "*a fraud*" and said it will soon blow up. He added that the crypto currency is not going to work. "*You can't have a business where people can invent a currency out of thin air and think that people who are buying it are really smart. I would fire them in a second, for two reasons: It is against our rules and they are stupid, and both are dangerous*", he added. Dimon doubled up on his negative rhetoric a month later (October 2017), noting that "*if you are stupid enough to buy it, you will pay the price for it one day. The only value of bitcoin is what the other guy will pay for it … Honestly I think there is a good chance that buyers out there are lifting it up every day so that maybe you will buy it too, and take them out*." Soon after, Bitcoin managed to make few great strides, tripling in value between October and December 2017 (from $ 4,900 to $ 19,500), and prompting Mr. Dimon to declare in January 2018 that he regrets making the "*fraud*" comment previously – whilst adding that the block chain technology behind bitcoin is real and valid!

Fast forward to August 2018: Not content with a previous warning investors should brace for 10-year U.S. yields of 4.00%, Jamie Dimon went one further last weekend, suggesting 5.00% was a distinct possibility. "*I think rates should be 4% today*," Dimon said last Saturday at the Aspen Institute's 25th Annual Summer Celebration Gala. "*You better be prepared to deal with rates at 5% or higher - it's a higher probability than most people think.*" For now, the 3.00% level seems to be providing stiff resistance for the 10-year Treasury yield, with rates briefly rising through this mark last week before falling back for the fourth time this year. And that is despite a U.S. jobless rate below 4.0%, economic growth above 4.0%, and a rare surge in late-cycle government borrowing to fund ballooning US deficits over the coming years.

We have said it before and we will say it again that we do not think US Treasury yields make any sense at current depressed levels (10-year UST yield last @ 2.89%!) . Markets are surely getting carried away again, and those relentless waves of bond buying are symptomatic of a desperate reach for yield and safety! Still, with the Turkish lira sinking to a record low this morning (USD/TRY high was @ 6.0250 earlier today, last at 5.93), political & economic risk high and persisting in Italy, a generally lower risk appetite for current elevated equity valuations, US sanctions and tariffs regularly being imposed/increased on several economies, the European Central Bank's growing concern about the exposure of some European banks to emerging markets (reference to Turkey in particular) and its pledge to keep interest rates low at least through the summer of 2019, Trump's reckless tweets regarding Muller's "Witch-Hunt" investigation & potential collusion between the Russian government and Trump campaign officials during the last US presidential elections, etc …..

So with all the above listed gloomy factors (and more) shaping future market direction, one has to strongly assume that Jamie Dimon's 5% prediction "*ain't gonna happen anytime soon*"!! Higher yields are one thing, 5.00% is another!! Nonetheless, with the ever rising supply of Treasuries and the slow-motion normalization of monetary policy globally - coupled with a US administration moving away from making friends and alliances in the world (both at the political and economic level) - do not discount the possibility that Jamie Dimon ends up getting the last laugh – surely not overnight, but possibly sometimes in 2019/2020!!

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