Weekly Market Summary

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When Benefits Outweigh the Risks?!?
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A risk-benefit analysis is a technique generally employed to assess the costs and benefits of a given activity, which usually involves risks. The risk assessment includes both the probabilities of various outcomes and the consequences of such outcomes (expressed in various forms - dollar terms, death rate, career path, ...). Benefit assessments in turn measures the benefits to the individual and society from that given activity. A proper, unbiased, risk-benefit analysis allows decision makers to lay a stronger foundation for their decisions and help them foresee the potential changes that could impact their plans. Nevertheless, the biggest challenge is the process itself! It is not a simple one and surely requires quite a bit of groundwork followed by a thorough analysis that fully factors the trends and nature of the environment we are operating in.

Take for instance the 2008 financial crisis/meltdown, which was an "*avoidable*" disaster caused by widespread failures in government regulation, corporate mismanagement and reckless risk-taking by Wall Street, according to the conclusions of a federal inquiry at the time. The panel that investigated the crisis – the Financial Crisis Inquiry Commission – did cast a wide net of blame, faulting two administrations, the Federal Reserve and other regulators for permitting a catastrophic blend: Careless mortgage lending, the excessive packaging and sale of loans to investors and risky bets on securities backed by those loans. "*The greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done*," the panel had written in the report's conclusions. "*If we accept this notion, it will happen again!*"

Nowadays, US government and central bank officials (as well as most of their international counterparts, excluding the Chinese and Canadians) continue stressing the need to go big with fiscal and monetary stimulus to support economic recovery from the global pandemic, at least until there is "*substantial further progress*" in meeting goals on growth, employment and inflation. "*Now is not the time to be talking about exit. I think that is another lesson of the global financial crisis, is be careful not to exit too early*," Fed Chair Powell had suggested in his first comments for 2021. And yet, the sustained pumping of trillions of monetary / budgetary boosts as well as the US central bank's low-rate policies - at a time the world economy is on course for its fastest growth in more than a half century – is in my opinion a reckless experiment that continues giving rise to excessive risk-taking and multi asset bubbles in the markets (equities, commodities, fixed-income, cryptos, …)

After all, both Fed and government officials have taken a recession caused by a government-forced shutdown and applied traditional demand-management tools to stimulate employment (effectively amounting to beating a dead horse). As shutdowns eases, employment will recover as the early evidence already suggests (astounding weekly initial claims figures and monthly payroll data lately). And whilst the US Federal Reserve's wild purchase of financial assets - the cause of the exploding money supply - is surely great for financial markets in the short-term, its longer impact on inflation and social inequalities could prove devastating should the Fed's experiment reignites inflation. More worrisome are concerns that the authorities' ultra-loose fiscal and monetary policies for struggling families and businesses risk becoming a double-edged sword, encouraging behavior detrimental to economic recovery, and creating pressure for additional bailouts and permanent citizens' checks! (in other words, a Coronavirus crisis that paves the way for a global reset and a universal basic income? 😊).

Is There Anyone Currently Weighing the Risks vs Benefits of These Expansive Policies?

For now, the general sense is that markets are too "*seamlessly priced for perfection*" - and that can surely persist for many more weeks/months. Trying to define the exact trigger for a future market correction or meltdown has always been a notoriously pointless game and a losing investing proposition (like the famous economist John Maynard Keynes says, "*markets can remain irrational longer than you can remain solvent*"). Does the Greensill scandal (involving former prime minister David Cameron's personal lobbying to change rules and allow emergency loans to the insolvent supply chain financing firm Greensill Capital) or the Archegos blow-up hint at further setbacks - rooted in greed - that are set to floor markets soon? Or will President Biden's proposal to double the capital gains tax rate for wealthy individuals (to 39.6%) do the trick?

Until that happens, the traditional investment world – listed bonds and stocks – is looking tired and vulnerable; The consequences of years of distortion as a result of insensitive pre-2008 mortgage lending practices and hasty post 2008 regulation, subsequent tinkering with market mechanisms, and the malicious consequences of addicting markets to low rates and flooding liquidity from QE, are becoming clear! Much of financial markets today looks like a lottery: Which stocks or crypto currencies will soon double in value on the back of mispriced money driving exaggerated hopes? Clearly when market rallies are driven by tweets, Reddit sites' tips and bored - stuck at home – inexperienced day traders, one is in serious trouble trying to explain the logic of asset movements (Dogecoin, a cryptocurrency created as a joke, lately topped Ford and Kraft in market value after rallying a remarkable 380% over 14 days! Hoo-ah!). In such case, the trick is always to ignore the noise and instead focus on thorough costs-benefits strategies.

To end this weekly market update on a happier note, let me reproduce an amusing tweet that summarizes the uncertain times we're all currently living:

"*10-years ago, I never imagined I'd see people smoking weed at a family gathering, and the family gathering is the illegal part!" (*😊)

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