Platinum ASSET MANAGEMENT

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Webinar

INVESTING IN A REOPENING WORLD

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AGENDA

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PANEL

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What we'll discuss:

- How the next five years will be different to the post GFC era
- What investments are dangerous in a zero rate world, and
- Where the opportunities are for the future.

45 minutes

Q&A

15 minutes

What should we talk about?

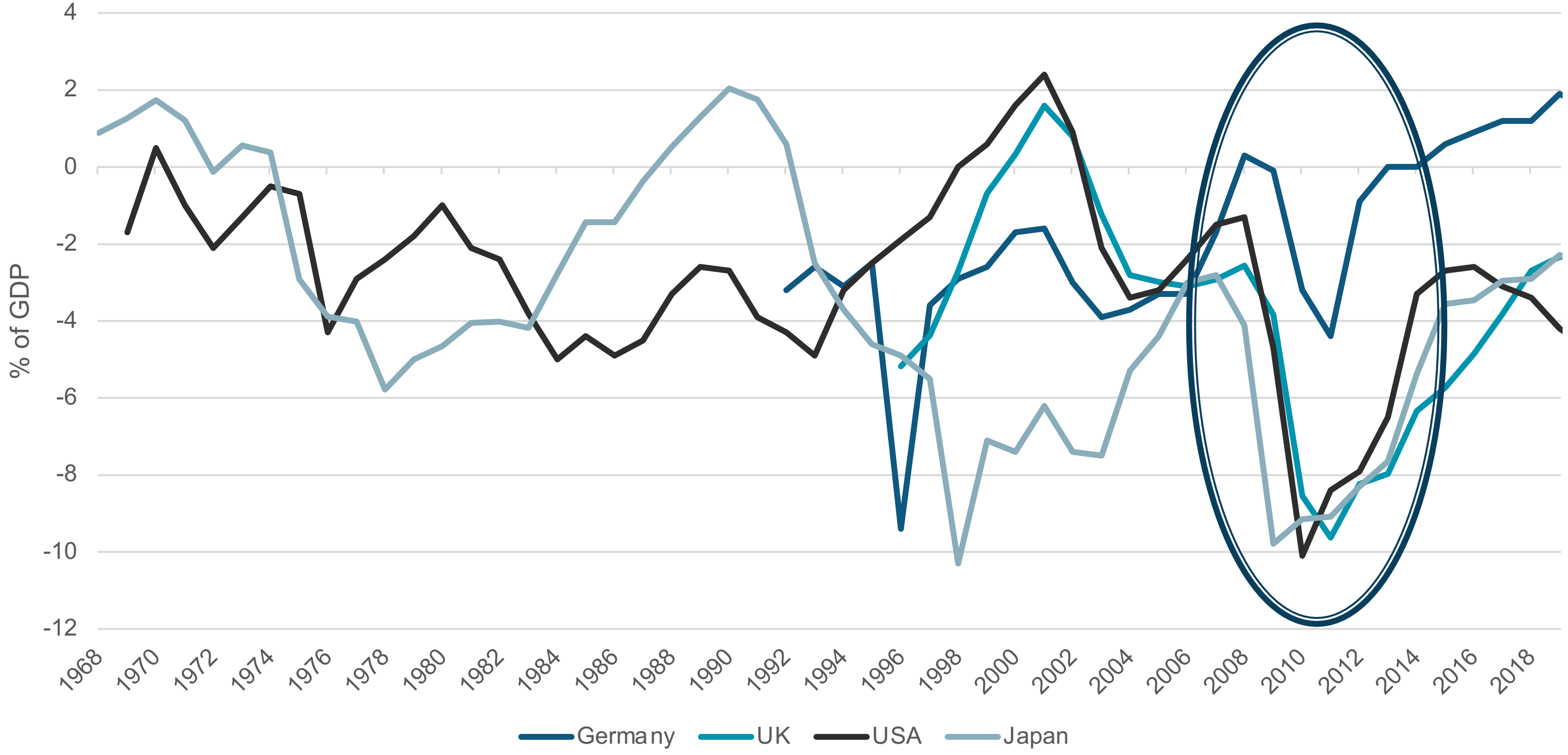
A revisionist history post GFC

Some thoughts on funding large deficits

The next few years look nothing like the last 13

Attempts at austerity post GFC

Annual central budget surplus/(deficit) by major economy, as a share of GDP, to 2019



Source: Bloomberg. Annual data to 2019. GFC period circled.

European dysfunction (?)

Never let a good crisis go to waste

 Source: Financial Times.

Germany "won" the Eurocrisis

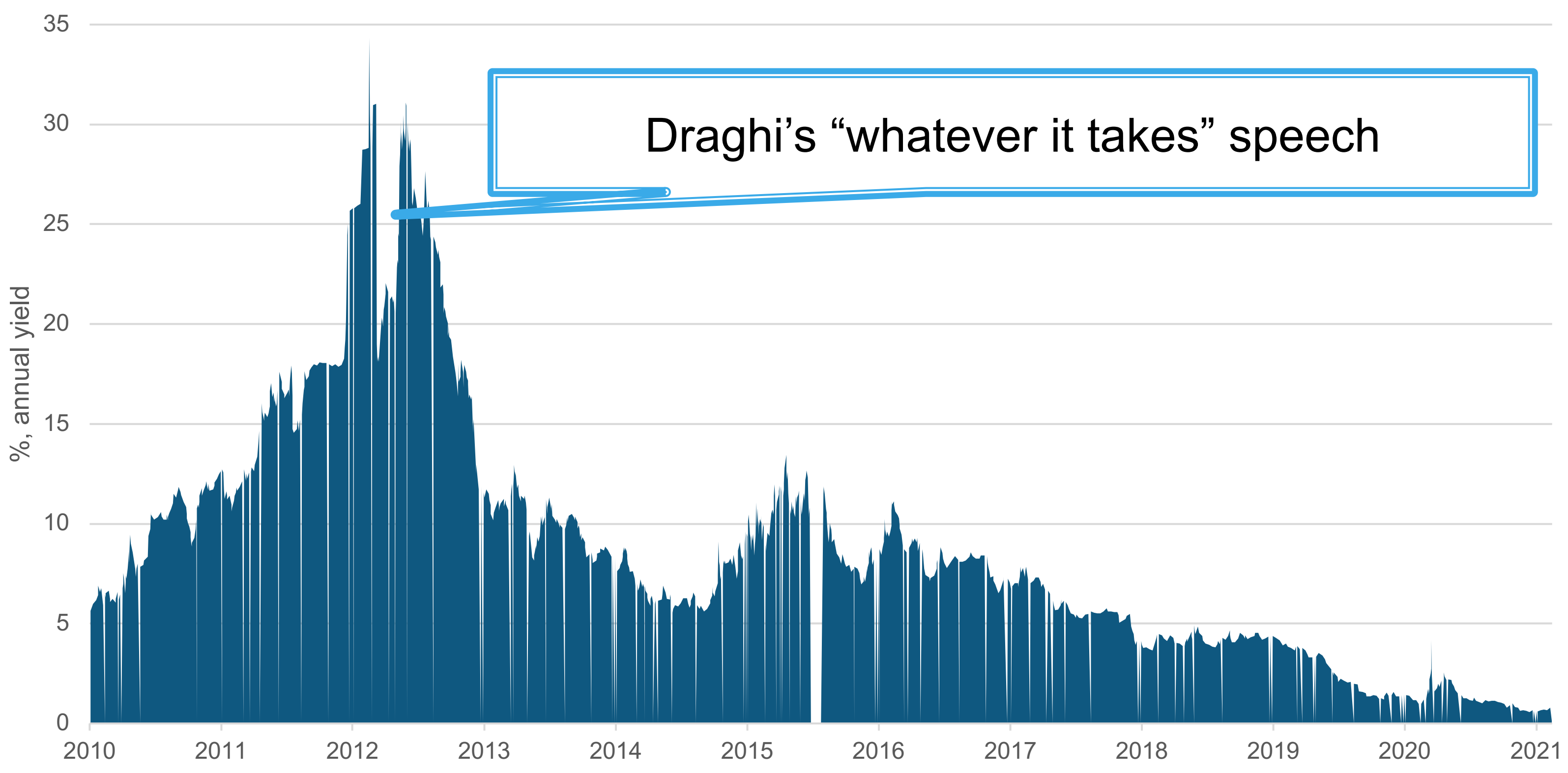
Current account surplus/(deficit) to GDP. By 2016 all of PIIGS recorded balanced current accounts or surpluses.

Current Account to GDP (%)	2008		2016
Portugal	-10	→	+1
Ireland	-6	→	+12
Italy	-3	→	+3
Greece	-11	→	0
Spain	-4	→	+2
Germany	+4	→	+8

Source: Bloomberg. PIIGS refers to Portugal, Ireland, Italy Greece and Spain.

Greek 10 year sovereign yields

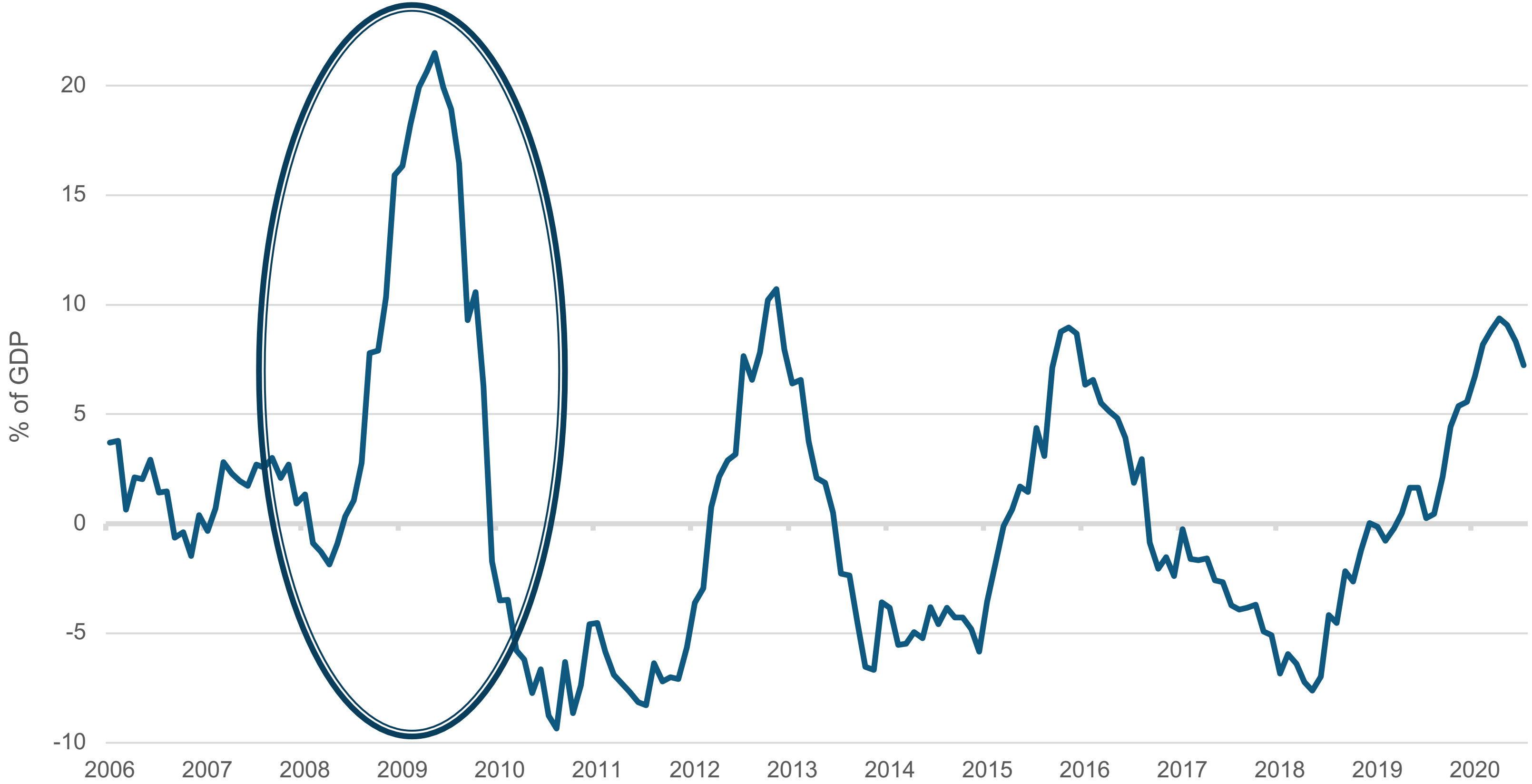
Amazing the difference three words can make



Source: FactSet. Daily data to 12 February 2021.

Thanks China!

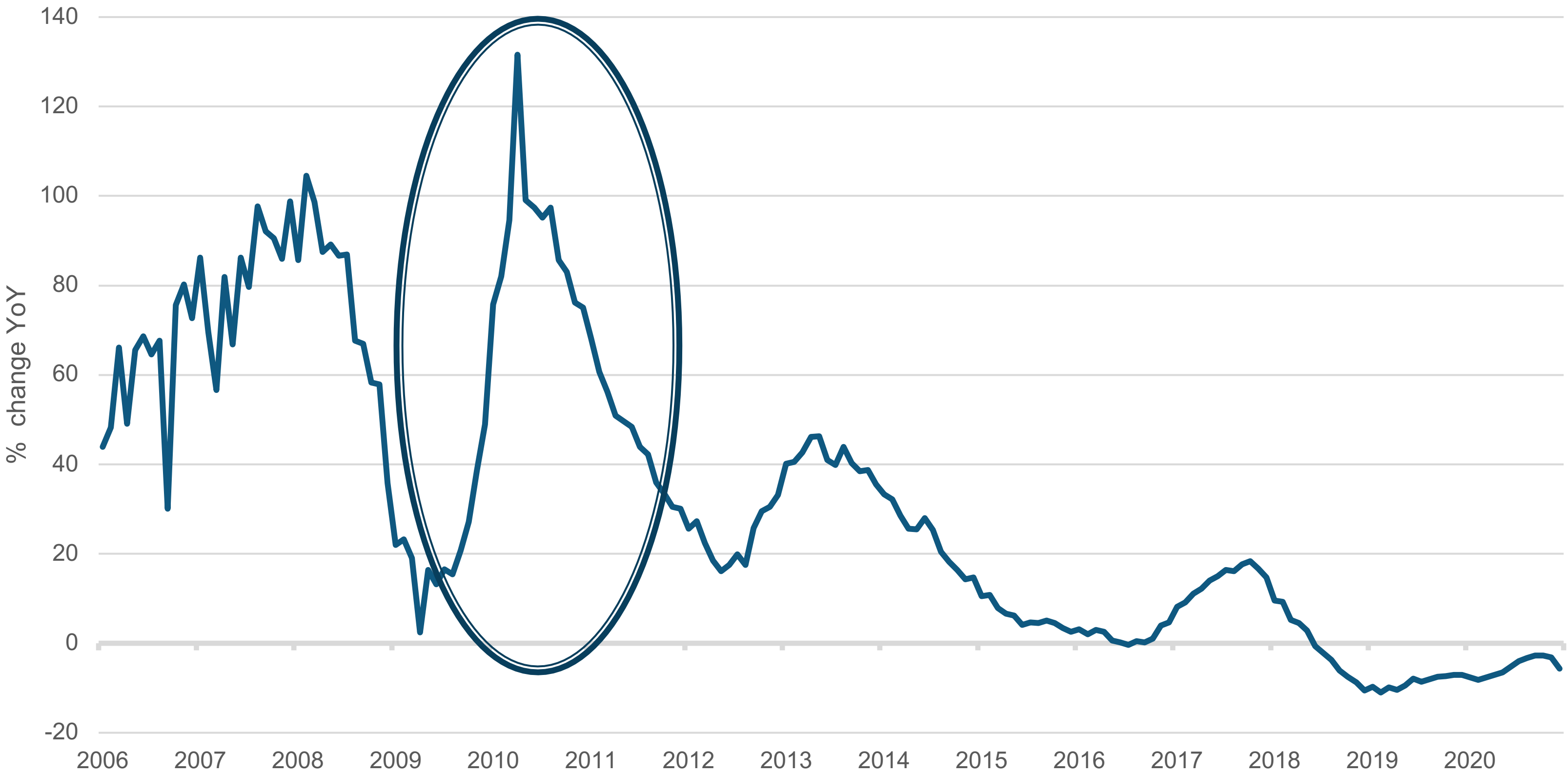
Chinese “credit impulse”: (credit growth minus nominal GDP)



Source: Bloomberg. Monthly data to 31 January 2021. GFC period circled.

The Chinese shadow bank sector: shrinking for years

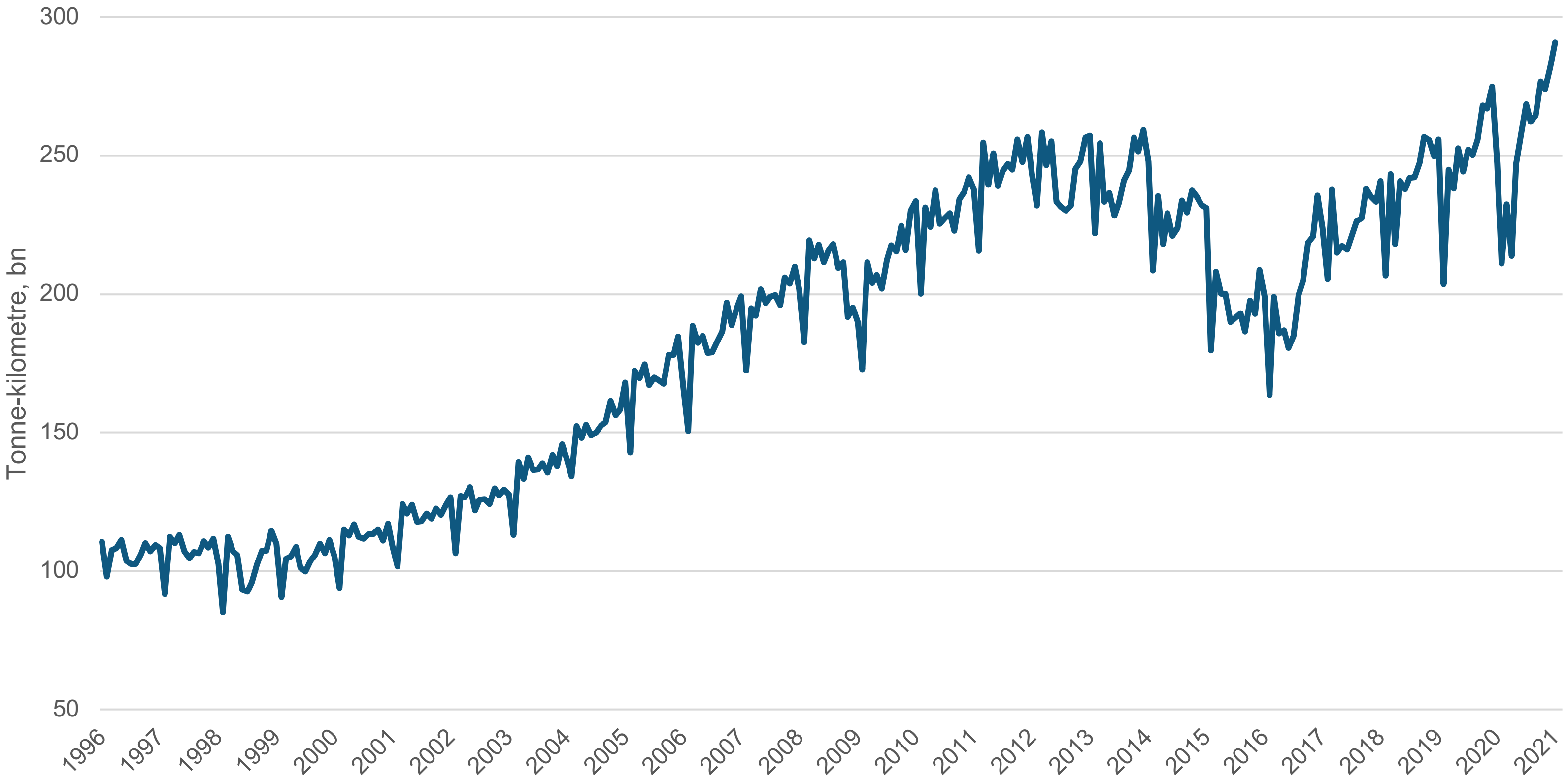
China’s non-deposit taking financial institutions (“shadow banks”) have been shrinking lending since 2018



Source: Bloomberg. Monthly data to 31 December 2020. GFC period circled.

Chinese rail freight movements

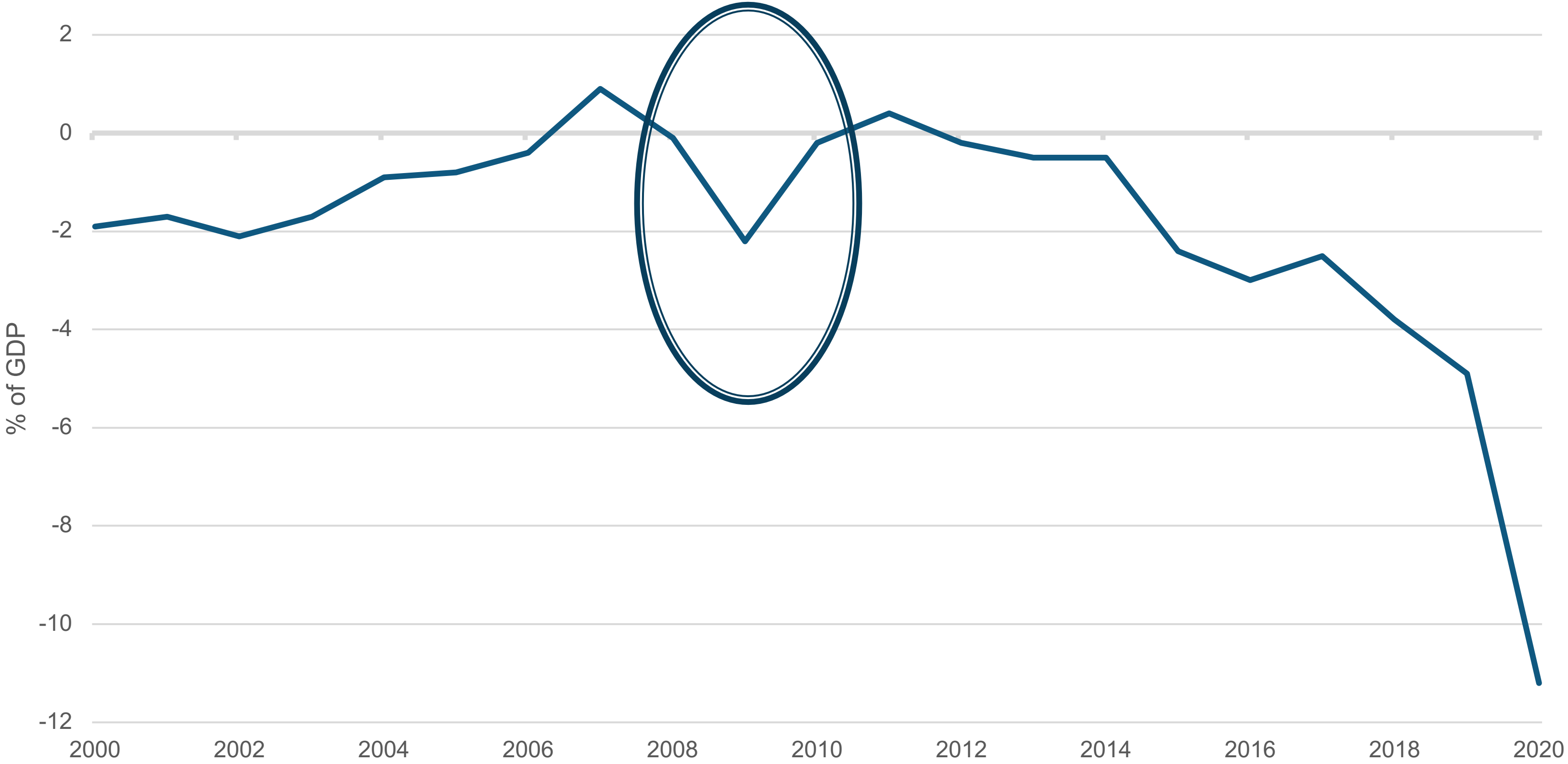
China had a massive industrial slowdown mid-decade, and has reaccelerated rapidly in recent months post Covid-19



Source: FactSet. Monthly data to 31 January 2021 shown.

Chinese fiscal position: 2000 - 2020

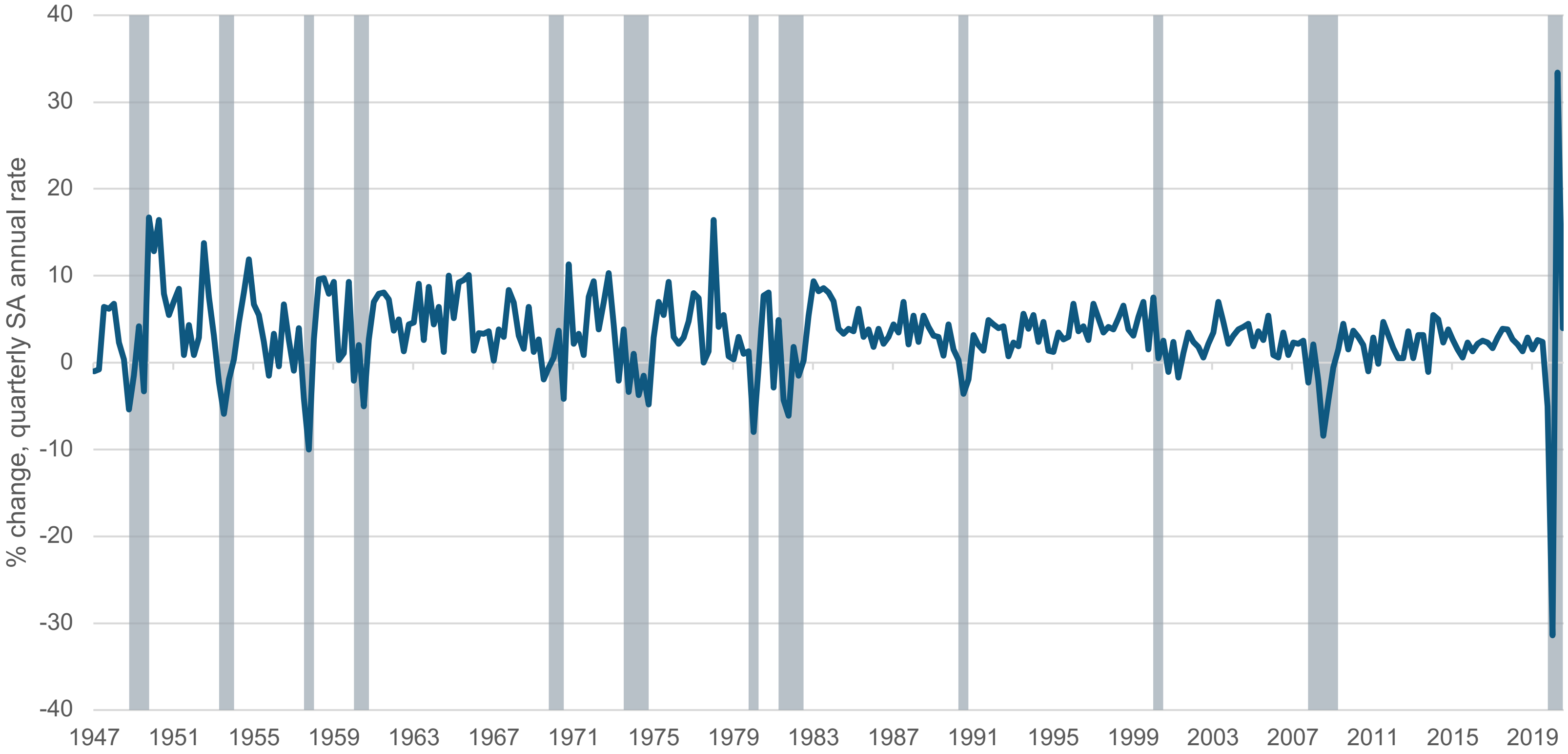
Looks like China found MMT



Source: Fitch, Bloomberg. Annual data to 2020. GFC period circled. MMT refers to Modern Monetary Theory.

The US' weakest and longest post-War expansion…

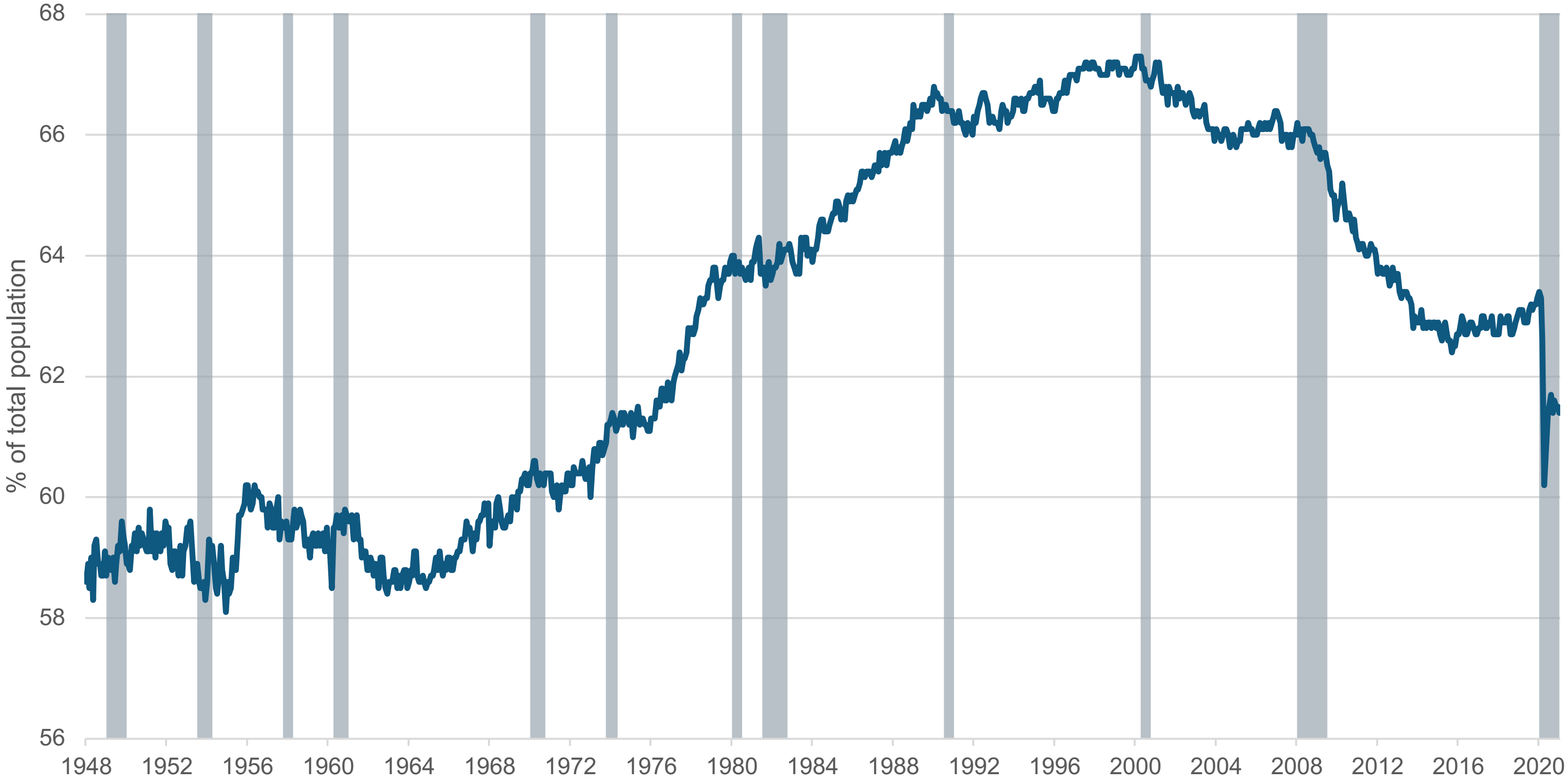
The US expansion ending in 2020 was the longest on record, and had the lowest growth rate (narrowly)



Source: St Louis Fed. Data to 4Q 2020. Recessions shaded.

...had consequences – US labor force participation rate

The percentage of the population working or actively looking for work collapsed in the wake of the GFC in the US



Source: St Louis Fed. Monthly data to 31 January 2021. Recessions shaded.

What do these countries have in common?

- China
- Japan
- Germany
- Brazil
- Vietnam
- Canada
- Mexico

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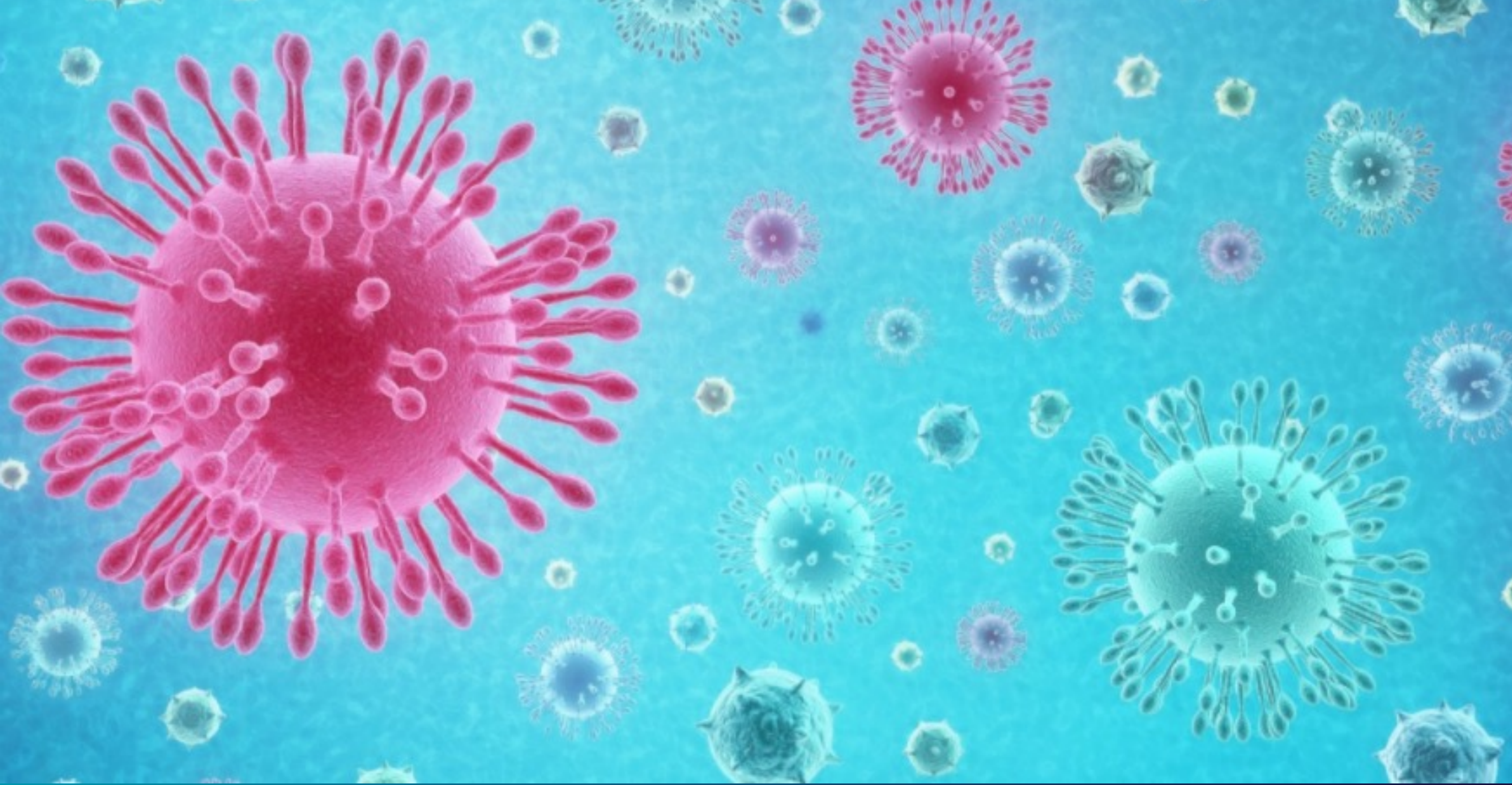
- Mexico

All were threatened with tariffs, &/or had tariffs imposed

Source: https://www.piie.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide



Source: https://www.nh.org.au/coronavirus/

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Central banks are talking – perhaps we should listen?

Economics

ECB's Mersch Adds Voice in Call for More Fiscal Stimulus

By Yuko Takeo and John Ainger
November 12, 2019, 3:01 AM GMT+11

Reserve Bank governor calls for more federal spending to boost economy

BEN BERNANKE

The new tools of monetary policy

Saturday, January 4, 2020

'Too much of a good thing': Lowe warns on low rates

RBA governor Philip Lowe has warned the world is moving to a 'crossover point' in which record low rates of borrowing might become "too much of a good thing".

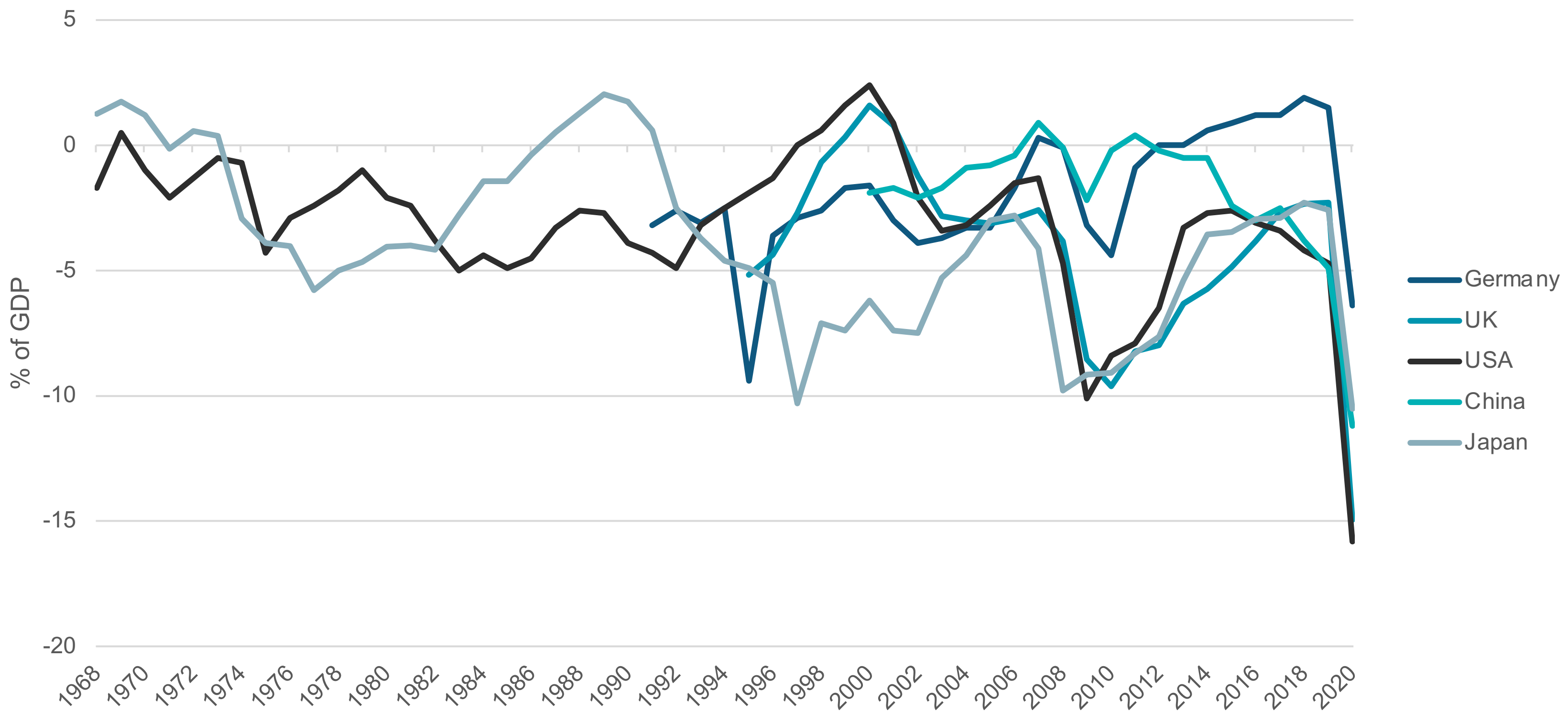
Opinions

The risk to our economy from secular stagnation

Source: https://www.bloomberg.com/news/articles/2019-11-11/ecb-s-mersch-adds-voice-in-call-for-more-fiscal-stimulus; https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/; https://www.theguardian.com/australia-news/2019/jul/02/reserve-bank-governor-calls-for-more-federal-spending-to-boost-economy; https://www.washingtonpost.com/opinions/2019/03/07/risk-our-economy-secular-stagnation/; https://www.afr.com/topic/monetary-policy-5zu

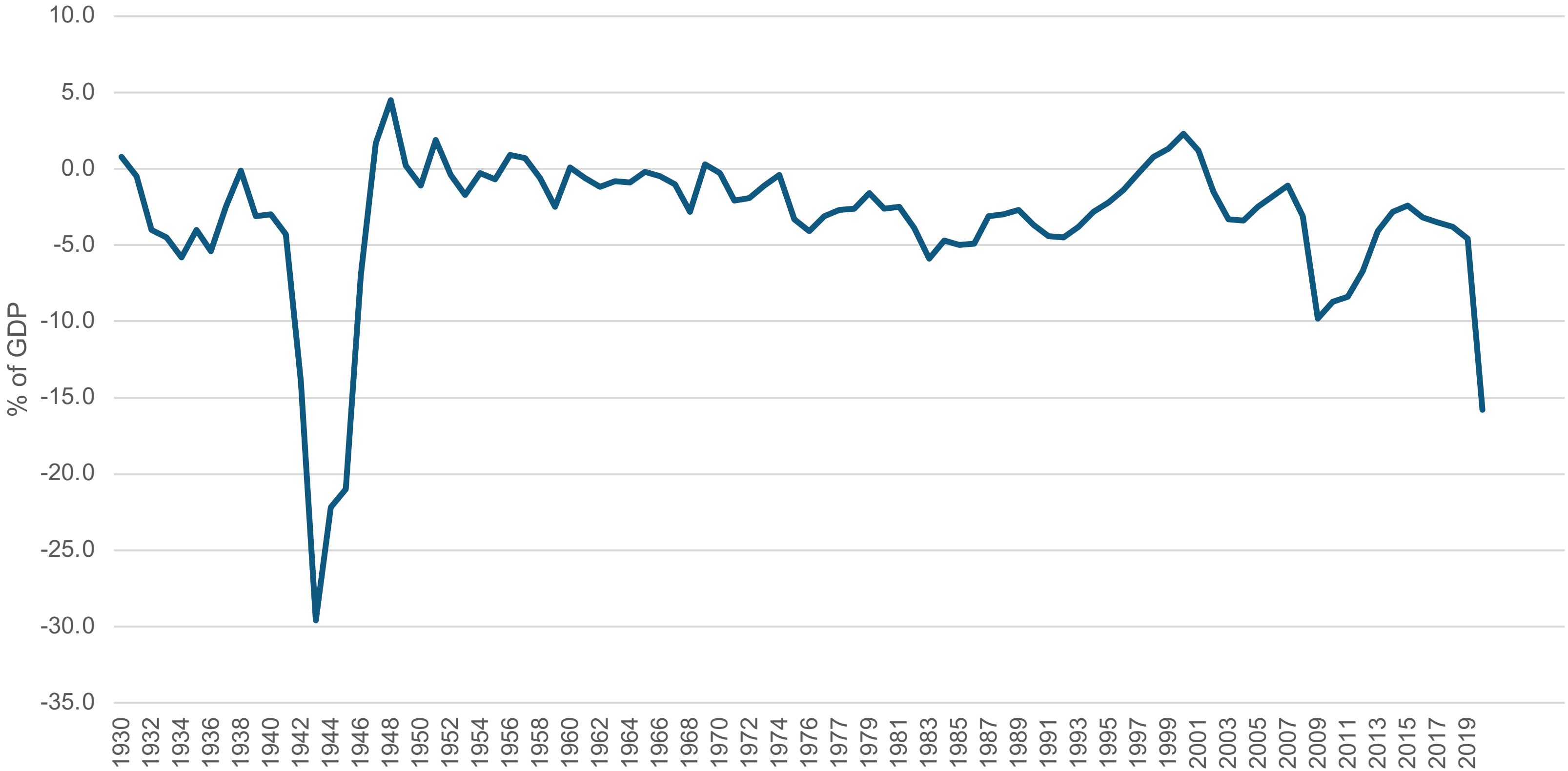
Central government budget balances

We are all MMT'ers now: annual central budget surplus/(deficit) by major economy, as a share of GDP, to 2020



Source: Bloomberg; OECD; Fitch. Annual data to 2020. MMT refers to Modern Monetary Theory.

US federal government deficits - hmmm



Source: https://www.whitehouse.gov/omb/historical-tables/, Bloomberg. Annual data to 2020.

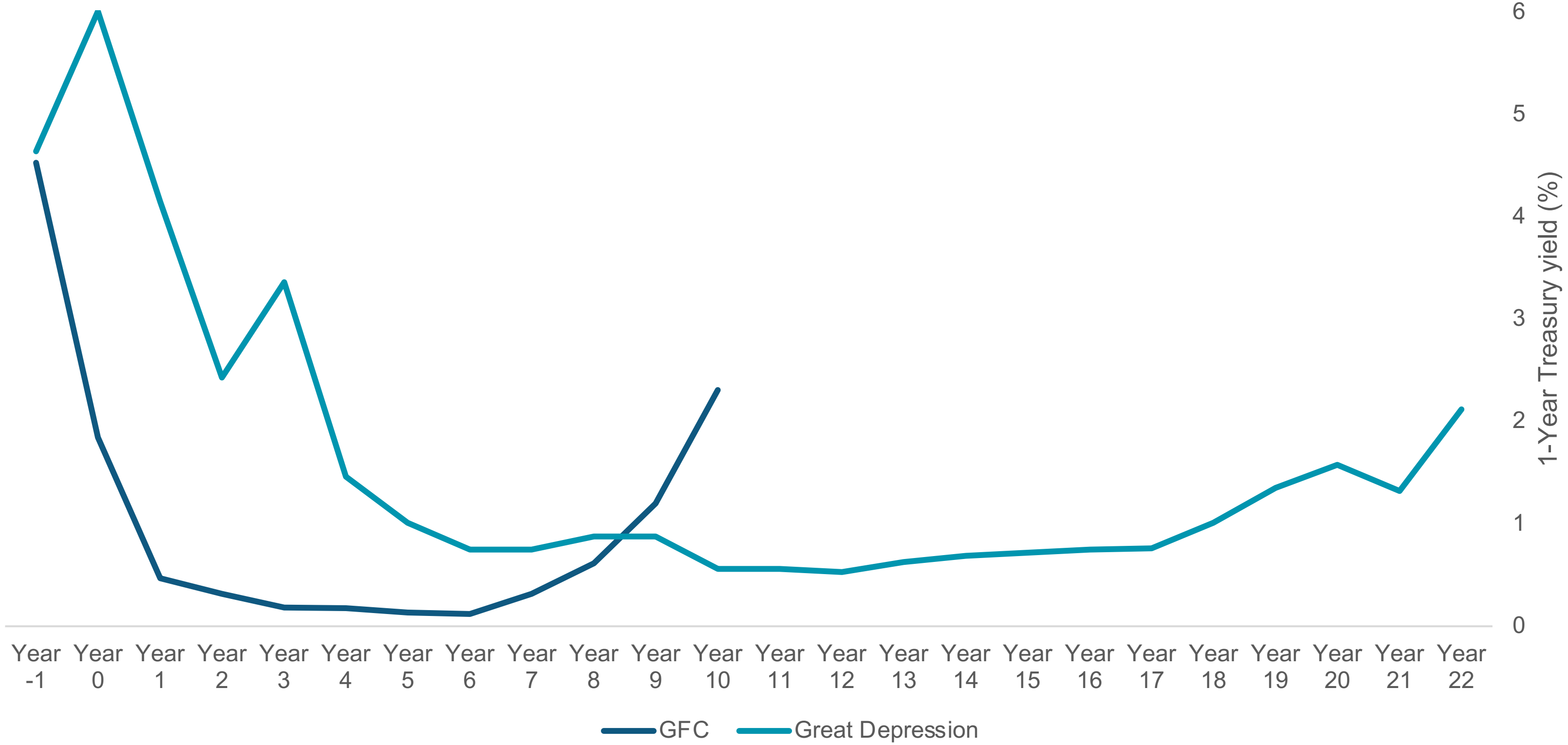
Interest rates: We have been to zero before

Rates went to zero during the Great Depression and were held low to fund World War Two

 Source: Ray Dalio, “Principles for Navigating Big Debt Crises”, https://www.principles.com/big-debt-crises/, p23.

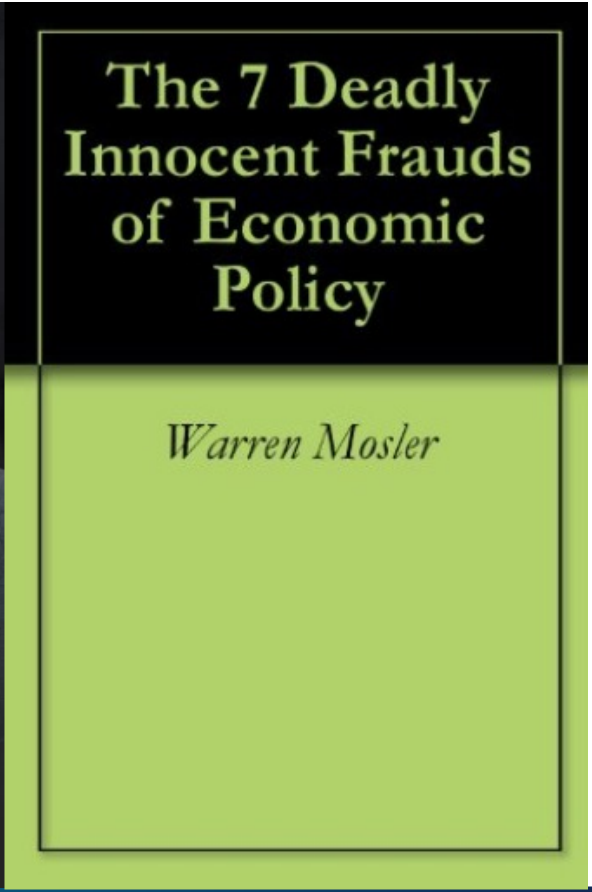
Post crisis normalisation takes a long time

Relative to the post-Depression era, attempts at rate normalisation were *fast*



Source: Robert Schiller http://www.econ.yale.edu/~shiller/data.htm for 1930s 1 year T-Bill rate, Bloomberg for post GFC T-Bill rate.
Note: 1929 and 2008 defined as year 0.

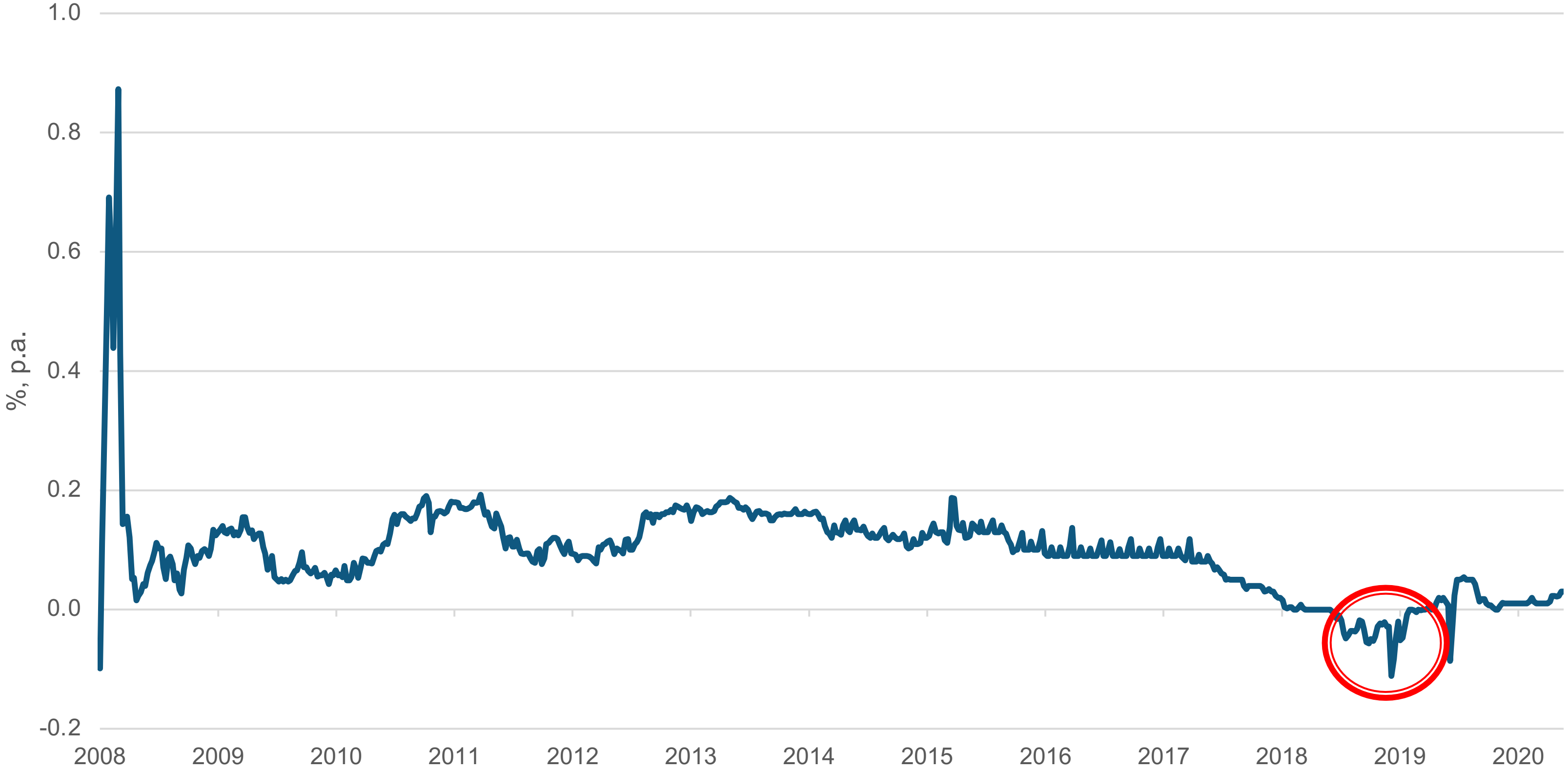
A revolution in economics?



Source: https://www.realvision.com/tv/shows/interviews/videos/theory-vs-practice-the-father-of-mmt-on-policy-profits-and-politics; https://www.amazon.com/Deadly-Innocent-Frauds-Economic-Policy-ebook/dp/B00921UG00

At the first sign of trouble…

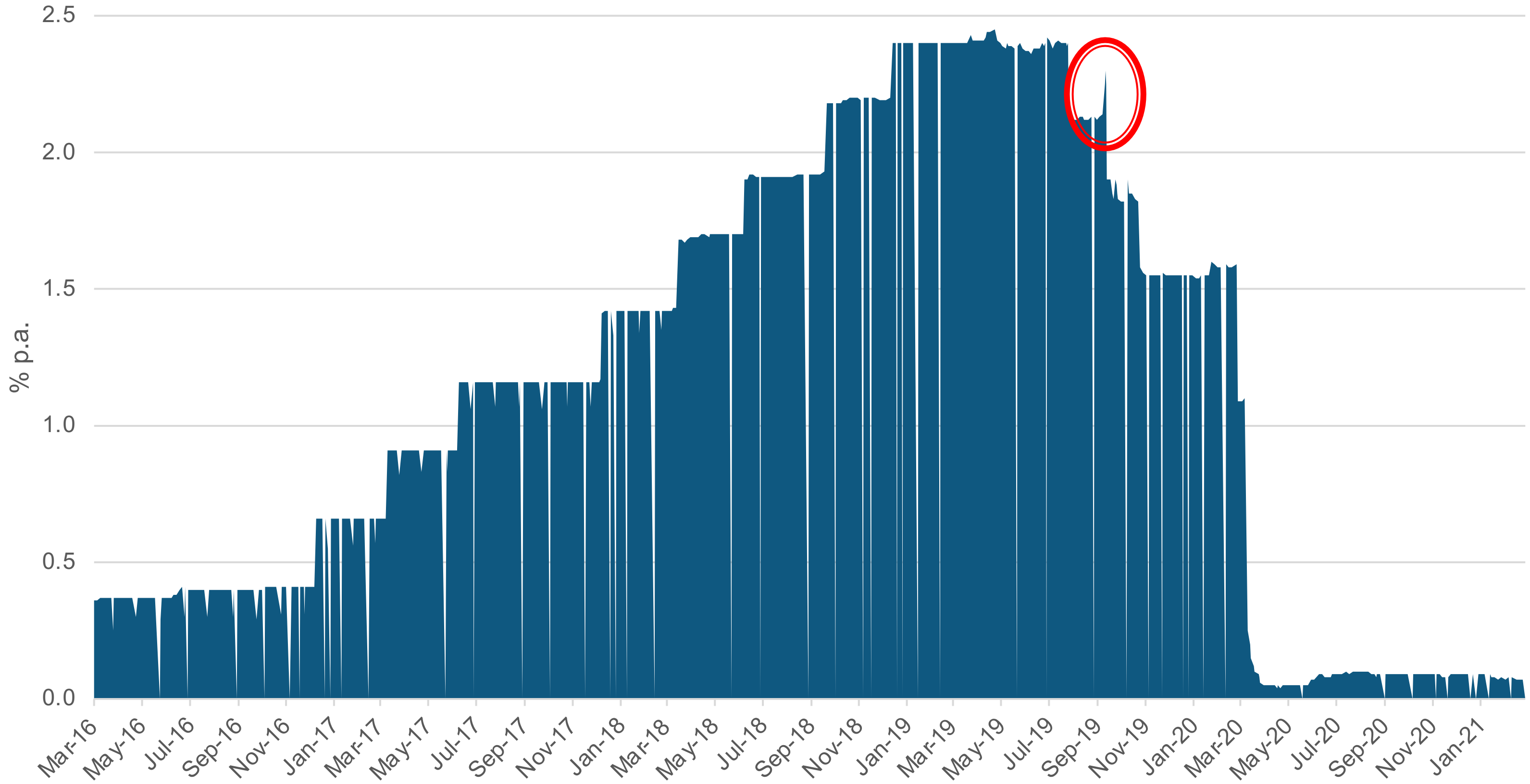
Interest on Excess Reserves minus the Fed Funds Rate



Source: St Louis Fed. Weekly data to 5 March 2021.

...in Treasury funding markets...

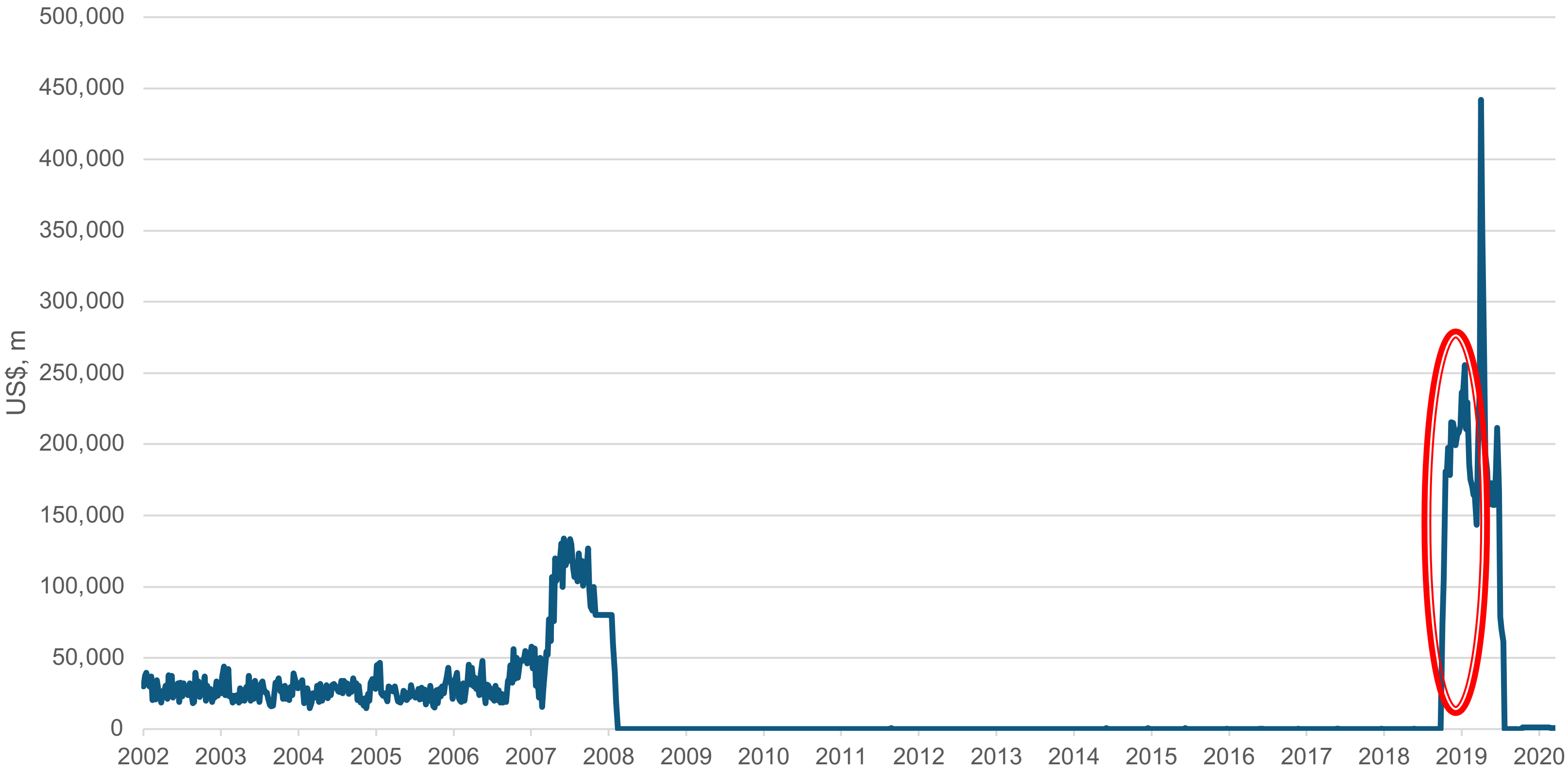
Effective Fed Funds Rate



Source: St Louis Fed. Weekly data to 5 March 2021.

…we know what the Fed will do #1

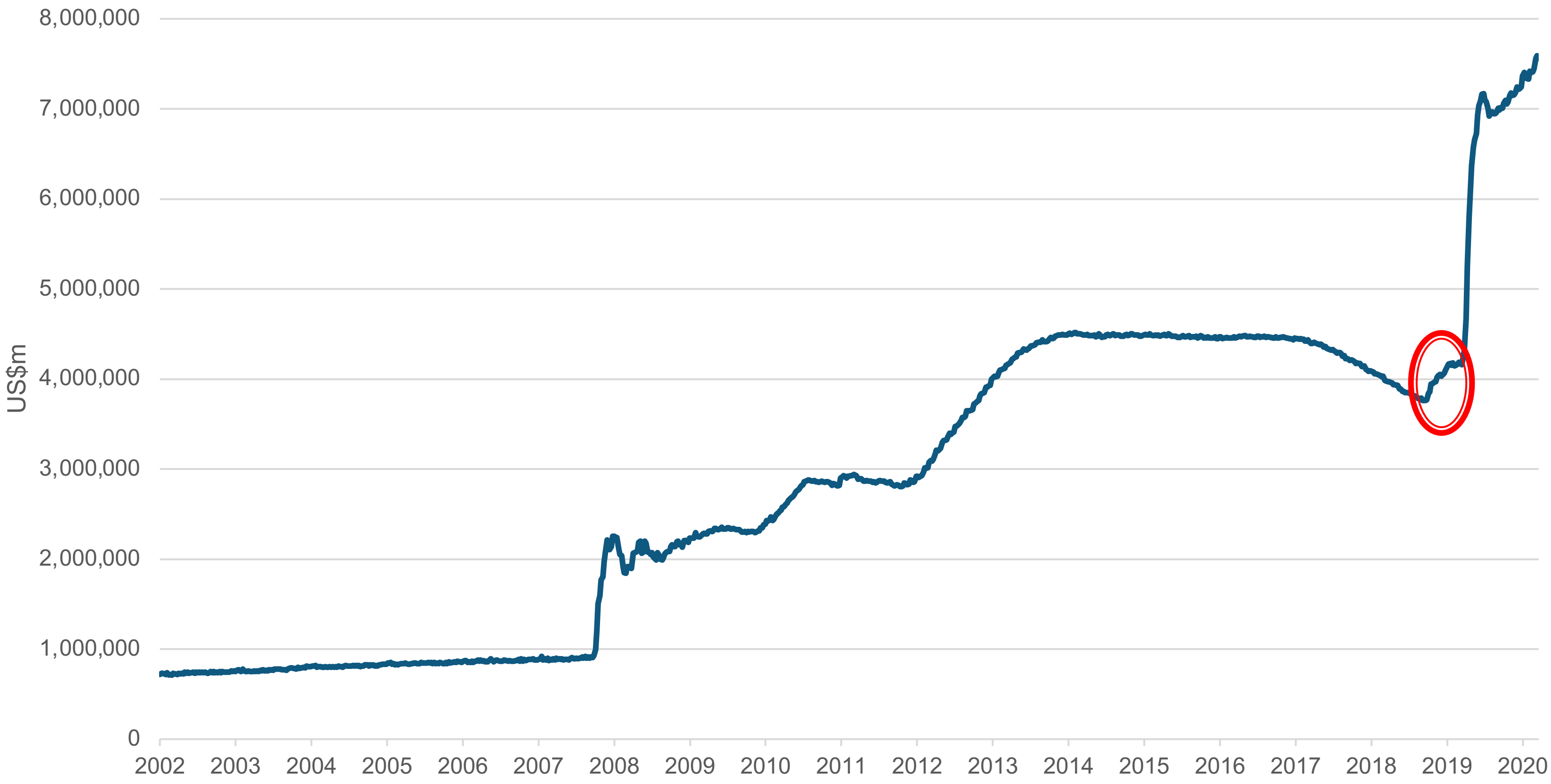
Federal Reserve repurchase agreements ("repos") outstanding



Source: St Louis Fed. Weekly data to 5 March 2021.

…we know what the Fed will do #2

Federal Reserve total assets



Source: St Louis Fed. Weekly data to 5 March 2021.

Or just "don't count" Treasuries for capital reserving purposes…

either way this looks a lot like MMT via the banking system

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Lightning round

Trade war	Over
Global pandemic	Beginning to win the fight
Fiscal austerity	Abandoned
Base effect	Lends huge momentum

Don’t believe me just watch

US 5 year breakevens (nominal rate minus Treasury Inflation-Protected Securities)

Source: Bloomberg. Daily data to 10 March 2021. Last value shown.

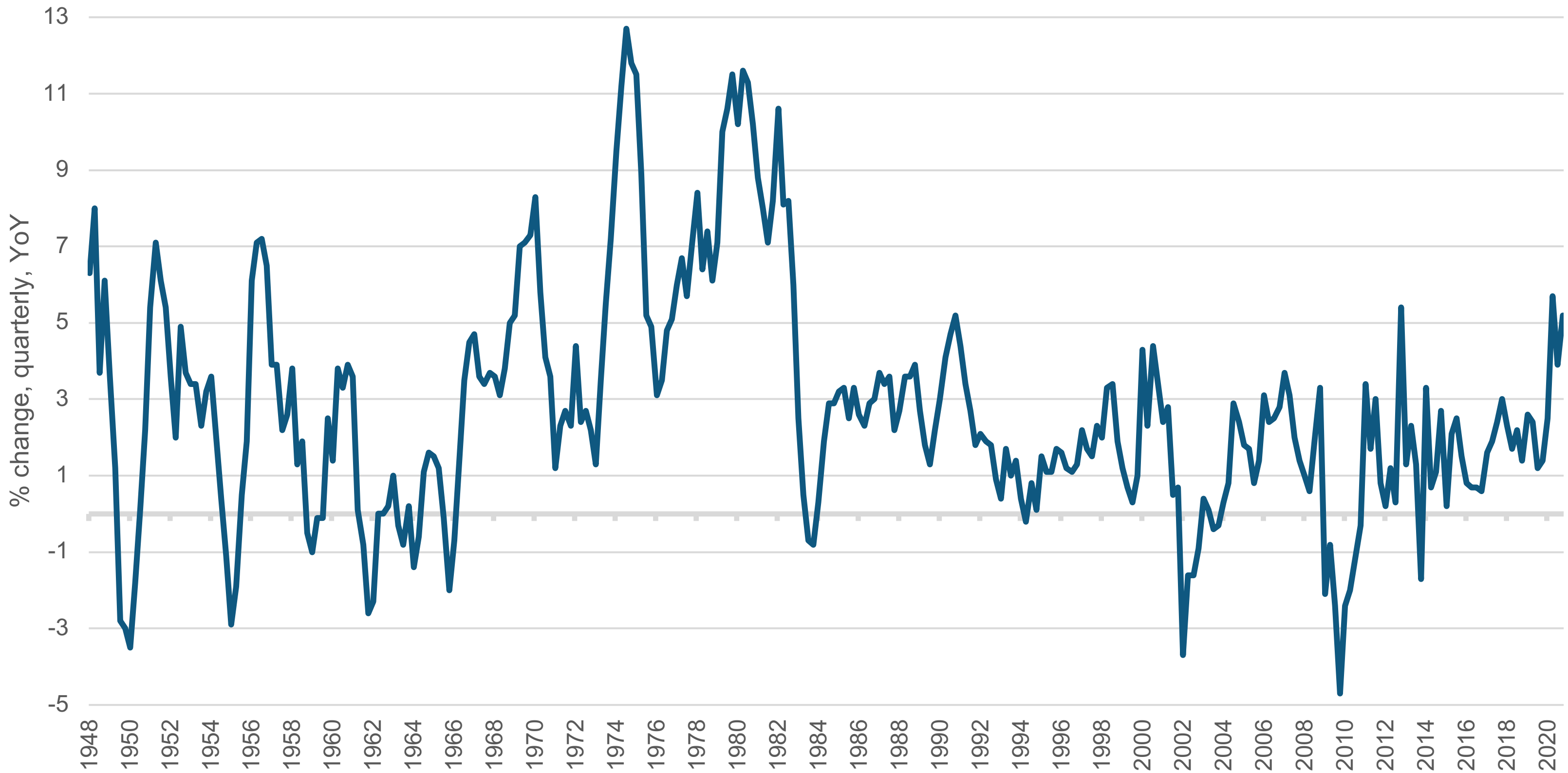
Don’t believe me just watch

The St Louis Fed Nowcast of 1Q GDP growth in the US is at 10.9%; the Atlanta Fed Nowcast is at 8.4%, both real

Source: St Louis Fed. Real GDP shown, with Atlanta Fed and St Louis Fed Nowcasts of 1Q2021 GDP added.

Don’t believe me just watch

US unit labour costs are near 40 year highs



Source: St Louis Fed. US unit labour costs, quarterly data to 1 October 2020.

“There is nothing so permanent as a temporary government program”

Milton Friedman

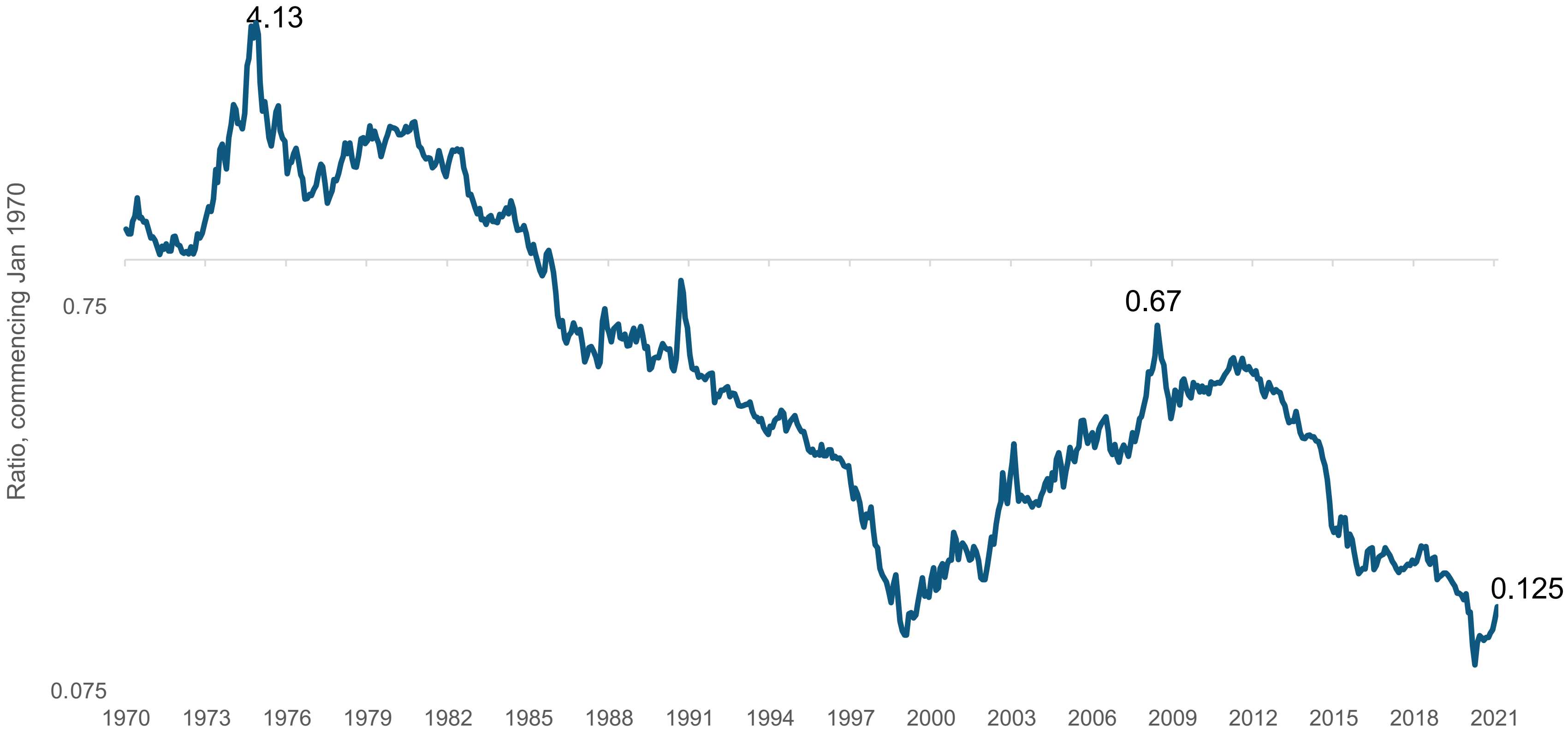
“Commodity prices have already moved”

LME copper prices are at 12 year highs

Source: Bloomberg. Data to 11 March 2021.

Commodities – just getting going?

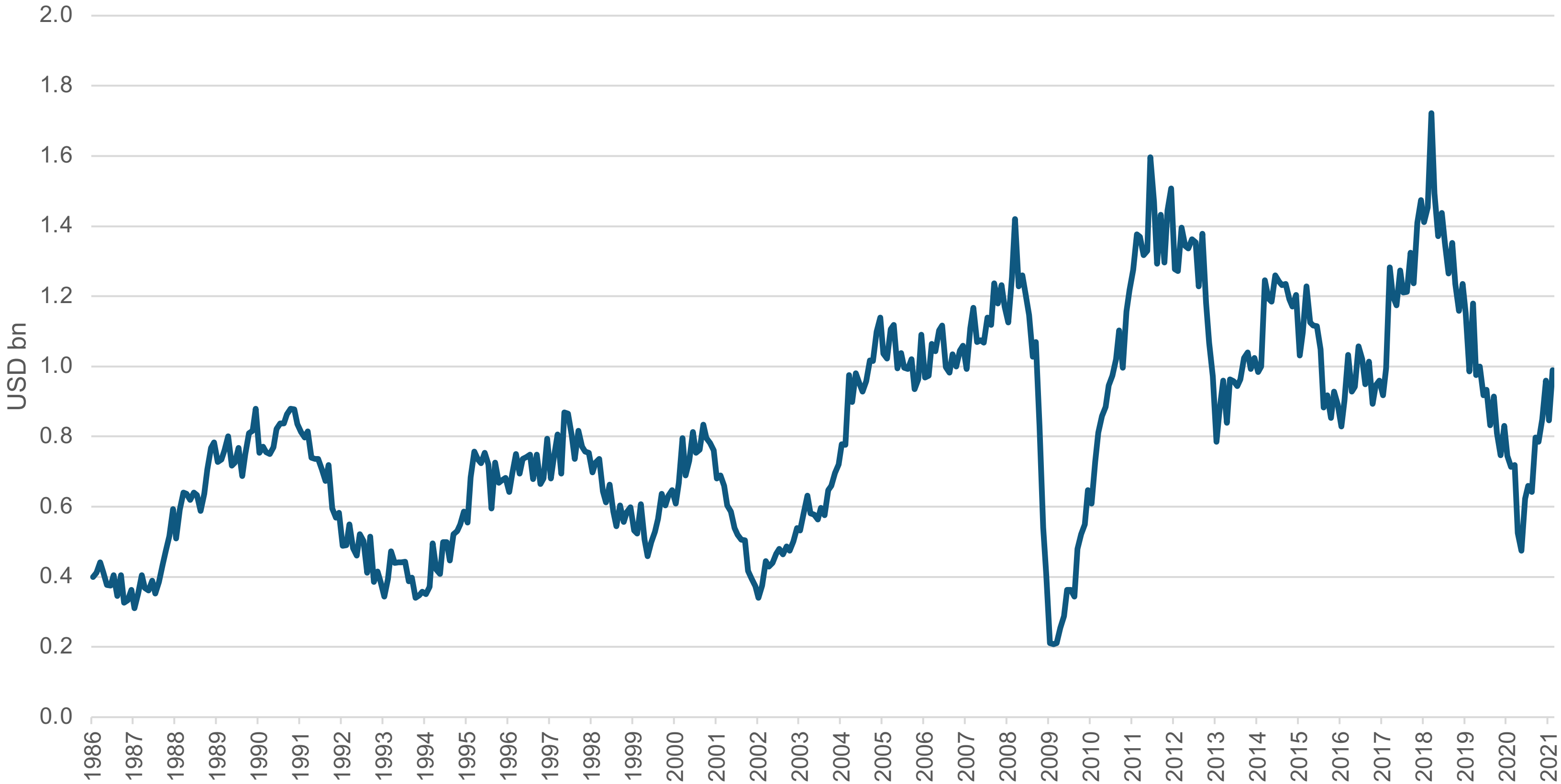
The ratio of the GSCI to equities is slightly off its all time lows



Source: Bloomberg. The ratio of the Goldman Sachs Commodity Index to the S&P500 is shown, on a log scale. Monthly data to 26 February 2021.

Japanese machine tool orders – just getting going?

Near their *lows* of 2016



Source: Bloomberg. Monthly data to February 2021.

S&P 500 Value versus Growth – just getting going?

Only just above the lows of all time

Source: Bloomberg. Data to 10 March, 2021. Ratio of S&P Value over Growth sub-indices, simple ratio shown.

US equity markets are not cheap

US equities versus select prior bubble episodes.

	USA 1929	USA 1967	Japan 1989	USA 2000	China 2007	USA 2007	USA 2020
Market cap to GDP	100%	75%	140%	153%	126%	138%	170%
Cyclically Adjusted P/E (CAPE)	33	24	77	44	40	27	31

Source: Minack Associates; https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?locations=CN-US-JP; https://dkuvshinov.com/wp-content/uploads/2018/09/big_bang_latest.pdf; https://www.advisorperspectives.com/dshort/updates/2020/10/06/market-cap-to-gdp-an-updated-look-at-the-buffett-valuation-indicator; http://www.econ.yale.edu/~shiller/data.htm. Total market cap used for mkt cap to GDP; S&P 500 used for CAPE, as of October 2020.

Secular stagnation is the wrong narrative

Low inflation is not a law of nature

The world has changed for investors

Time to swap safety for economic sensitivity

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Q&A

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