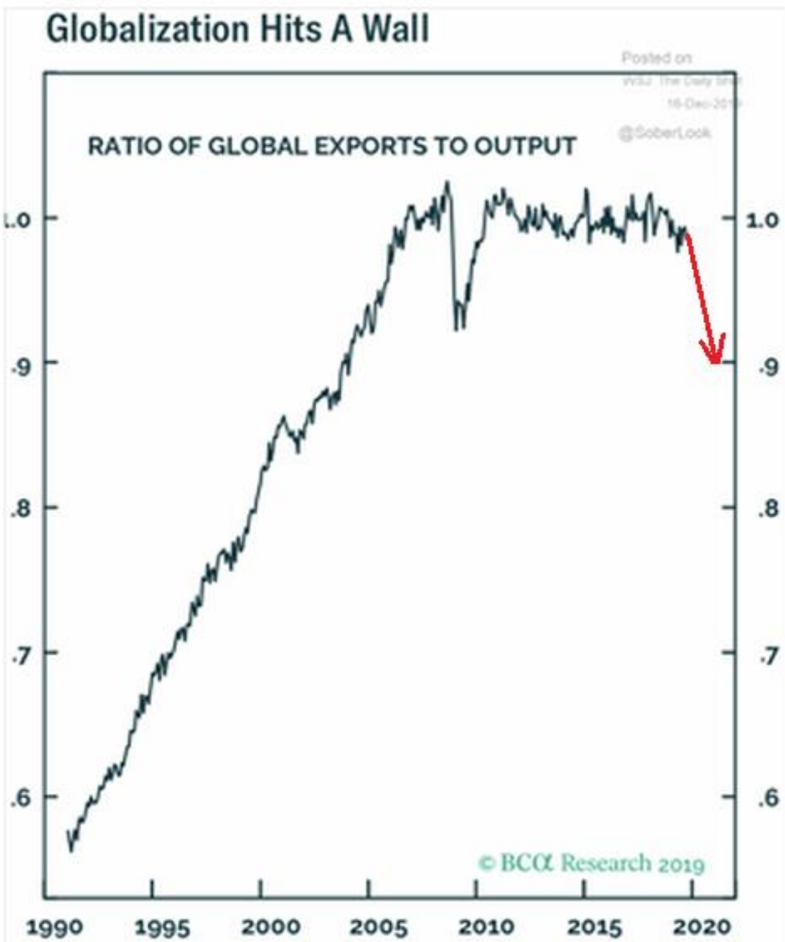
Eastern Financiers

Brave New World

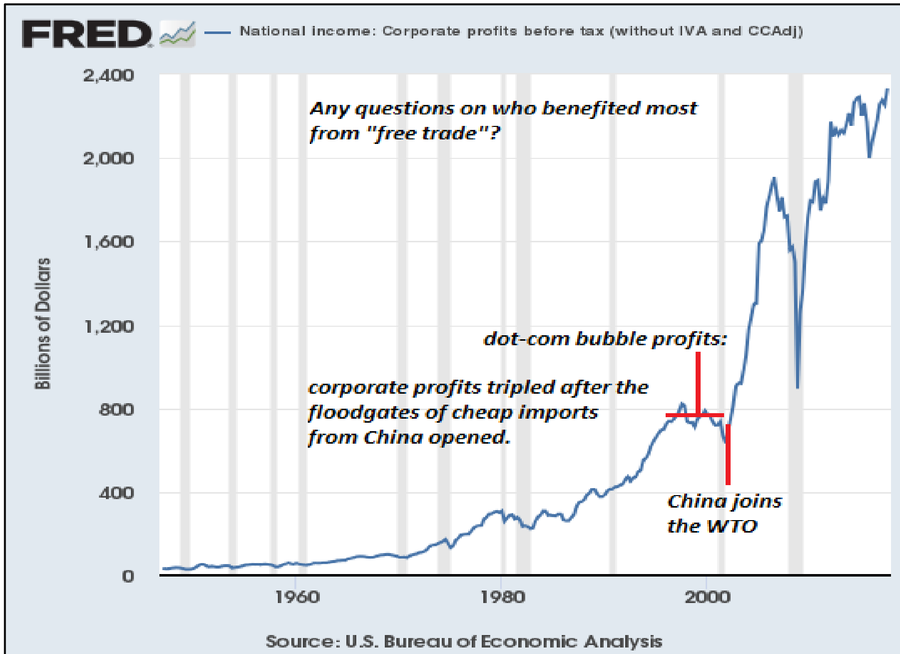
Edition 18

Deglobalization is Inflationary

- Entire point of globalization is to 1) lower costs as a means of maximizing profits and 2) find markets for surplus domestic production. Both serve to export deflation as offshoring production keeps prices stable. Securing production from the threats of geopolitical blackmail, civil/economic disorder in the producing nations or broken supply chains requires moving essential supply chains back to the security of the domestic economy.
- Globalization enabled mobile capital to swoop in, buy up local assets, create new markets for credit and imported goodies and then sell at the top before all the external costs of globalization came due and the credit bubble burst.



source: https://www.zerohedge.com/markets/can-six-myths-keep-market-going



notes by charles hugh smith 4/18 www.oftwominds.com

Inflation isn't transitory or within the control of central banks. The forces at work are far beyond the reach of central bankers. Cost of credit matters, but so does the supply chain. This could lead to pricing arbitrage between commodities based on the demand supply metrics (ex – natural gas in US vs. Europe). The asset allocation of this decade will be far different from that of the past 40 years.

Transitioning to Stagflation!

- The table shows the historical returns of assets in stagflations compared to returns the rest of the time. Looking further forward, this stagflationary environment is ripe for instability and volatility over the coming decade as policy makers will be challenged to achieve their mandates with pressures on them coming from all sides.
- To make matters worse, policy makers seem to have an inadequate understanding of the forces at work, which raises the odds of continued policy errors.
- “If a stagflation is accompanied by a tightening that drives risk premiums and discount rates up, the impacts are far worse, though the rank ordering of effects across assets is similar. On the other hand, if the policy response favors stimulating to support growth, assets tend to do well for some period of time even in stagflations.” (Source: Bridgewater Associates)

There are Inflation themed ETF like TIPS; Gold themed ETF like GLD and Commodity themed ETFs like XME and RAAX available for investment by resident Indian investors.

Global Asset Performance by Environment

	Sharpe Ratio			Excess Return (Ann)		
	Stagflation	Other Periods	All Periods	Stagflation	Other Periods	All Periods
Frequency of Environment	18%	82%	100%	18%	82%	100%
Assets						
Inflation-Linked Bonds	1.02	0.50	0.57	4.5%	2.2%	2.6%
Gold	0.67	0.10	0.23	17.6%	1.8%	4.5%
Broad Commodities	0.58	0.17	0.28	10.5%	2.4%	4.1%
Nominal Bonds	-0.20	0.63	0.44	-1.2%	3.5%	2.5%
Corporate Spreads	-0.66	0.33	0.18	-3.1%	1.8%	1.0%
Real Estate	-0.68	0.63	0.38	-13.8%	11.8%	7.3%
Global 60/40 Portfolio	-0.70	0.82	0.49	-6.6%	6.5%	4.1%
Equities	-0.72	0.67	0.39	-10.2%	8.6%	5.1%

Is the Commodities bull market over?

- Last few weeks saw large outflows from commodity stocks, questioning the 'bull market' and 'supercycle' thesis building around this cyclical industry. But, volatility and risk are two different narratives, so asset classes like 'commodities' are known to be notoriously volatile, while 'traditional' bonds may be not.
- But, from risk perspective in the present situation, commodities seem far less risky than bonds –
  - ✓ We have a decade of underinvestment in the sector
  - ✓ There is no clear supply coming on stream — from anywhere — and thanks to government overreach, additional or new capex is not taking place
  - ✓ And then we also have an international war brewing (and geopolitical tensions are never bearish energy assets)
- Each of the previous three sell-offs during the energy bull market (we are now in one) created an excellent entry point for investors who understood the market. (Source: Capitalist Exploits)

There are Energy themed ETFs and ETNs like OIL, XLE, OIH; Material themed ETF like XLB and Metals themed ETFs like XME available for investment by resident Indian investors.

US – Housing & GDP correlation

- Outside the periods of high fiscal spending, US economic growth and housing are highly correlated. In % GDP terms, housing along with related services and ancillaries contributes to ~15-18% of the GDP with a multiplier effect across various discretionary and non-discretionary spends. Good part here is since summers of Covid 2020, new homes under construction has risen by 40%; highest level in 50 years.
- However, housing tends to be cyclical further accentuated by the slow nature of construction and over past 50 years a housing slowdown has led to rising unemployment, finally culminating into recession.
- US's biggest homebuilder has reported increase in cancellations jump from 17% to 24% last quarter. Whats worrisome is 2/3rd of new construction is not completed yet and sales have been falling.

New homes under construction to Sales ratio is highest since 1974 & 2 year rate of change in new construction is 50% higher than anything seen in past 50 years. Every prior spike in this ratio was associated with recession, increasing the odds of US economic bust.

Source: Macro Intelligence 2 partners

Russian alternative to LBMA

- Russian alternative to LBMA - MWS (Moscow World Standard) because LMBA is accused of systematically manipulating precious metals markets to depress prices. (Russia has fixed the price of gold in rubles at 5000₽/g i.e~ $2,447.17 /troy ounce vs. current LBMA fix of $1737.84)
- Prices will be fixed either in the national currencies of key member-countries or using new monetary units for international trade—for instance, the new BRICS currency proposed by Putin.
- Proposed member nations - Eurasian Economic Union, China, India, Venezuela, Peru & other South American countries, Africa (largely countries that control the resources for these metals). US + other hostile nations produce ~22% of world's gold vs. 62% from Eurasian Economic Union, BRICS, Africa, Peru and Venezuela.

SPUTNIK russian satellite news agency

Russian Ministry of Finance proposes to establish Moscow standard for precious metals to replace London standard

July 28, 2022, 09:34

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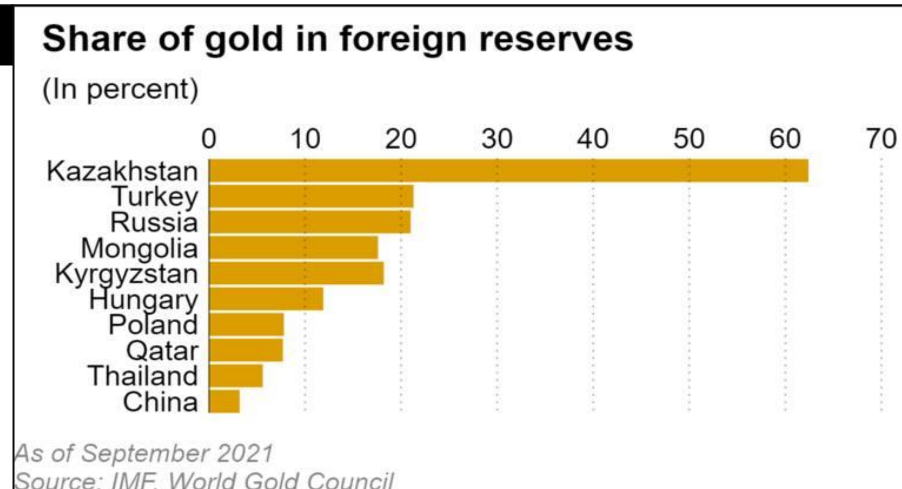
Russian Satellite News Agency, Moscow, July 28. The letter from the Russian Ministry of Finance to industry participants held by the Satellite News Agency shows that the Ministry of Finance proposes to develop a new international standard for the precious metal market - the Moscow World Standard (MWS) to normalize the operation of the precious metal industry. . MWS should be a functional replacement for the London Bullion Market Association (LBMA) standard.



Will the proposed standard lead to a new unparalleled price discovery for precious metals? You can now own precious metal ETFs like GLD, SLV, SIL, PPLT.

Team

Mr. Ritesh Jain

Director

Master of Business Economics (MBE)

Executive MBA - Haskayne School (Calgary)

He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

Ms. Chanchal Agarwal

Head - Products

Chartered Accountant

CFA Charterholder

She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the ‘Top 100 women in Finance”. She has featured in the Audio talk series ‘Show me the Money’ by Meghna Pant (available on Audible Suno). Her article reflecting on ‘What stops women from investing’ was published in The Hindu Newspaper.

Management

Mr. Ajoy Agarwal
Founder, Chairman & Managing Director

One of the pillars of the Indian investment advisor's fraternity.

Over the last five decades, his contribution to the growth of financial literacy is immense, led by un-biased, focused and disciplined approach with strong emphasis on ethics and creating a sense of ownership amongst the employees.

Mr. Abhishek Agarwal
Director

Having started his career at the grass-roots level of the financial services industry, his dedication and strategic planning has enabled EF to enter into several remote towns across Eastern India, thus spreading its wings with a large network of company-owned branches.

Mr. Ambrish Agarwal
Director

Aiming to change the speculative, traditional ways of trading by developing a sustainable, investment-based dealing platform.

His contribution helped catapult EF into the league of players actively catering to the discerning Institutional and High Net worth investors who are well aware of global developments and thus very demanding.

Thank You

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