INVESTMENT FOR WEALTH

General report

Comments for September 2014

On the dawn of a Kondratieff Winter amid growing disbelief in central banker powers

If we look at the recent macro-economic figures, a clear tendency towards LOWER GROWTH and MORE DEFLATION RISKS becomes clear. The Eurozone exacerbates this movement and Draghi is flirting with a promise of full blown QE. Abenomics is more and more recognized as a complete failure for Japan. As the US economy is worldwide seen as the last man standing on the path of a credible growth track, the dollar becomes more and more a safe haven refuge. It is clear that this isn't favoring the emerging markets as it pushes commodities down and puts their currencies under a lot of stress. With lower oil prices, the risk of seeing even Saudi Arabia evolving in a powder keg ready to explode is increasing. At $75/barrel the shale oil and gas industries risk to go bust in cascade, ruining even the US growth. In such an environment there is a real risk that the fear of ebola spreading becomes the straw to break the camel's back.

And so it's no wonder that market participants succumb to a mood change.

At last the market begins to understand that central bank policies are becoming powerless to change the real economy. Indeed, what can be done on rates when they are already at zero or negative? How do you stop the growth of public debt when the economy falls in a deflationary recession? This, considering the bad track record on balancing the budget deficits in recent years when there was still some growth and lowered rates. Add to that, austerity – a euphemism for normal budget discipline – has now become outlawed, partly out of fear for social disorder and partly because of growing anti-euro movements. France and Italy are obvious examples, but even the German fortress seems to be under attack now. How to solve the youth unemployment and the dilemma of a massive, underpaid and unwanted part-time job market in a Eurozone economy that is losing the competitiveness battle globally? By lowering salaries? By lowering taxes and voluntary more budget deficits? And yes, new technologies – think internet retailing, 3d printing, robotization in the manufacturing sector etc. – have already pushed the world job market under heavy stress and could continue to do so for a long time.

The market acknowledges that the only thing the ECB can do is to enter the currency war, disguised under a pro-growth quantitative easing monetary move. But as we can learn from Japan, success for the world growth is not at all certain to follow. What Europe can gain from a lower currency, risks to be lost by emerging markets on the altar of a too strong dollar. Never before have emerging economies been more indebted in US dollars as today. Even the Fed monetary policy will lose its power on rates for its domestic economy, as the yield on the bunds becomes the anker for treasury yields. The spread between bunds and treasuries is already stretched. How will the Fed 'normalize' US rates - before the US business cycle pops - in order to have its monetary tools available again to help its economy? If the dollar moves up too strongly, its hands will be tight. Some analysts already see the S&P 500 suffer from the actual dollar position. Further infighting between central bankers will only expose the deceit of their powers more quickly. Indeed, after the Raghuram Rajan attack on Bernanke we now see more and more criticism on ZIRP and QE by Fed board members. The bitter infighting between European central bankers at the ECB is also coming more to the forefront, as the ECB is now a politicized entity supporting deficit spending in contradiction to its mandate. Russian and Chinese central bankers are also becoming more aggressive opponents of Western central bankers. Overall volatility will thus move up and up on these divergences in macro views.

Conclusion

We see the US dollar up, world growth down and after the current (minor in our scenario) correction in the equity markets stops, an over performance for US assets in a last blow off top. Afterwards the whole world economy will be dragged down by deleveraging and imploding debts and currencies.

Public debt defaults will no longer only exist in the periphery, think Venezuela and Argentina but also touch the hart of Western economies. Social security claims will become untenable. Pension promises will be broken. Only a worldwide financial reset will end this coming

Kondratieff Winter in our scenario.

Gold has resisted the best of all commodities on this low-growth-higher-dollar move although it is still losing ground. Once central banks' credibility sees some additional loss of confidence we think gold will move up even amid higher dollar rates. The ECB is the most vulnerable followed by the BOJ to see its power defeated by a reassertion of the free market forces. We thus continue to believe that our predilection for precious metals will protect your patrimony when the timeline is fulfilled.

Performances and trading

iW Alternativ SIF – Low Risk

The fund has decreased by 5,8% in September, NAV 9.422,88 EUR.

iW Alternativ SIF – Commodities

The fund has decreased by 22,1% in September, NAV 361,32 EUR.

iW Alternativ SIF – Real Value Growth

The fund has decreased by 12,6% in September, NAV 65,50 EUR (I), NAV 64,16 EUR (P)

Best regards,
The fund manager