INVESTMENT NOTES - March 13th, 2019
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We were very busy last week and a lot of news came out on Thursday and Friday which revealed decisions made by the ECB, American politicians, China and the Fed. Here are the five key takeaways and the effects they might have on the market:

1. Senator Warren announced it is time to break up large US IT companies on anti-trust grounds. This is inevitable given their size, market dominance, low amounts of taxes paid relative to profits and the timing of the political cycle. This wins on both the right (who is concerned with privacy issues) and the left. This movement will gather popular support and will hurt some of the social media stocks in particular. Already the FAANG stocks are lagging within the tech sector and cyber, cloud based security products are in (we hold the Cyber Security stock UCIT in the fund). Social media stocks are losing thousands of subscribers which should effect their pricy valuations.

2. Politicians around the world last week voiced their belief that the Fed, the ECB and BOJ can buy any amount of debt which those politicians create via government spending and there are no negative consequences. However, for example, in the USA when every $1 in new GDP requires $3 of new government debt, the end of the credit cycle is near and the effects of its ending are not priced in risk assets. We are starting to use private equity valuation on our investments with more focus on balance sheets which should be a good approach for the future.

3. Another worry is that Fed Chairman Powell is going to appear on 60 minutes- a very popular news magazine program in the US. The question is why? Does he need to reassure the American public? If so, what does he need to reassure them about?

4. The Shanghai index fell 4% on Friday halting the runaway bull market of this year. It was then announced over the weekend that Premier Xi would not be going to mar a Lago in late March to sign a trade deal. A trade deal is discounted by the markets- but now we are not sure of the timing. Brookings announced that Chinese GDP has been over inflated for years (not a surprise), economic data out of China is weakening and we know the Chinese are buying fewer cars and phones. This creates a squeeze on global GDP reflected in weak German factory orders and lower employment numbers in the US- both reported on Friday.

5. Also on Friday, the ECB reversed field, moving from QT to a new TLTRO in their news conference. Although the TLTRO (2 years) is not as long as the prior version of four years, it still has the same effect on European banks – no yield spreads makes it hard to make money. DBK and Commerzbank are rumored once of again of merging and that is just the tip of the iceberg. Germany is in trouble- with banking and factory orders weak, the US pushing for a large increase in German defense spending that they cannot afford unless they reduce the trade surplus (or strengthen the Euro)- could this be Trump's objective?

Where is the breaking point for a system where banks have no spreads and institutions such as pension funds and insurers who need income, cannot find it and need to pay to have their money in banks. Will banks then become disintermediated and a new system rises?

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