

# ΣIM MONTHLY

November, 2021

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# 1 Macro Synopsis

High shipping rates, low demand, and structural issues over the past couple years have climaxed into a supply chain crisis which is affecting market dynamics and threatens political and geopolitical equilibrium. Inflation creates growing financial difficulties for those most in need while puppet-master decisions are brining about the collapse of western nations as vaccine mandates, green energy politics, and poor monetary policies collide with the good of the people. The cautionary global economic and market outlook raises the level of real assets' investment appeal.

## ⚠ Key risk factors

Predicting yield curve is pivotal in the short-term. High inflation is likely to produce low real yields, interest rates are not expected to reach a level conducive to achieving previous years' average.

## Investment Outlook

Indicator	China	India	EU	US
FX	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Equities	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Rates	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Volatility	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Yield curve	➡ ➡	➡ ➡	➡ ➡	➡ ➡

Global equity markets are expected to experience ongoing volatility while equity is likely to remain flat, albeit with ongoing potential increase in China. US and Chinese rates potentially returning to their downward trend as economic progress remains sluggish even if inflation remains.

## Economic Outlook

Indicator	China	India	EU	US
Debt creation	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Inflation	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Unemployment	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Consumption	➡ ➡	➡ ➡	➡ ➡	➡ ➡
Profit margin	➡ ➡	➡ ➡	➡ ➡	➡ ➡

US unemployment levels improved slightly, however inflation, consumption, and profit margin remain at levels unsuitable to propel the economy forward. Chinese consumption has improved slightly, but has yet to positively affect profit margins.

## Precious Metals & Commodities

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	➡	➡	➡	➡	➡
Outlook	➡	➡	➡	➡	➡
Trend	➡	➡	➡	➡	➡

Commodities retain a positive outlook as inflation persists. Copper's outlook has seen an uptick, while oil has declined. Commodities and precious metals remain appealing from an investment perspective for their value as real, tangible assets.

## Sector Opinion & Credit Risk Assessment

Sector	Current	Outlook	Trend
Energy	+	+	➡
Materials	+	+	➡
Industrials	=	+	➡
Consumer discretionary	-	--	➡
Consumer staples	+	=	➡
Healthcare	-	-	➡
Financials	-	--	➡
Information technology	=	-	➡
Communication services	=	-	➡
Utilities	+	++	➡
Real estate	-	-	➡

Credit type	Change
Investment grade	➡ ➡
High-yield government	➡ ➡
High-yield corporate	➡ ➡
Leveraged loans	➡ ➡
Inflation linked	➡ ➡

Financial Liquidity

China

Indicator: -0.83  
Smoothed: -0.41

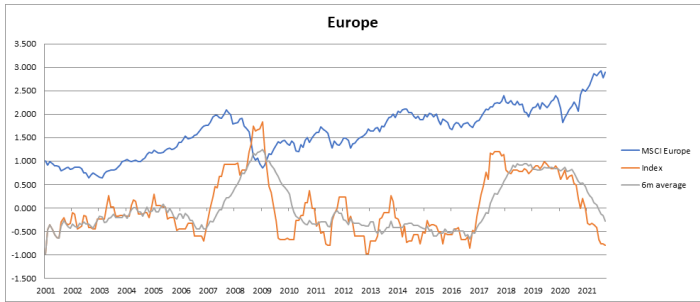
China's financial liquidity remains at healthy levels although with the upcoming uncertainty in the bond market, the indicator could quickly change.



EU

Indicator: -0.79  
Smoothed: -0.28

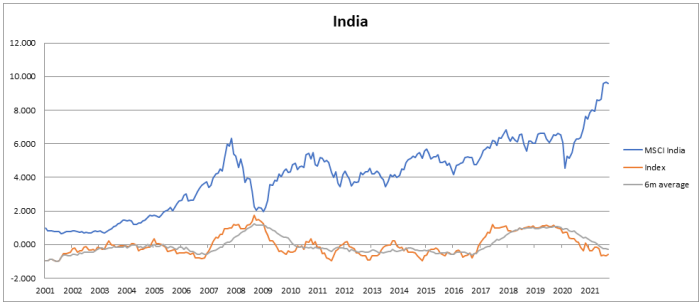
Liquidity in the EU remains well balanced with ongoing lowering risk in the short and mid-term.



India

Indicator: -0.56  
Smoothed: -0.3

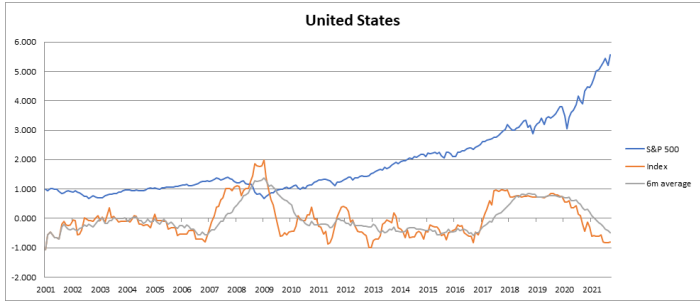
India's risk, while slightly higher, has lowered and remains well within the bounds of low risk due to a slight tapering of market interest.



US

Indicator: -0.8  
Smoothed: -0.5

US liquidity risk has lowered further due in part to ongoing easing of QE coupled with a massive reverse repo.



Market Sentiment

China

Current: -2.3  
6m average: -1.2  
12m average: 0.8

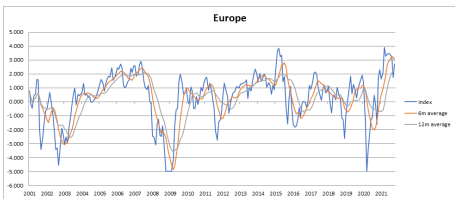


China

Monetary uncertainty in China continues to increase as the ongoing troubles surrounding the real estate market is ravaging China's bond markets.

EU

Current: 2.7  
6m average: 3  
12m average: 2.4

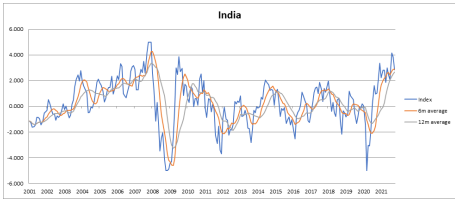


EU

European monetary uncertainty has increased given the ECB's decision to avoid raising rates in the near future. Its ongoing QE program is keeping liquidity high and fueling inflation.

India

Current: 2.8  
6m average: 2.8  
12m average: 2.7

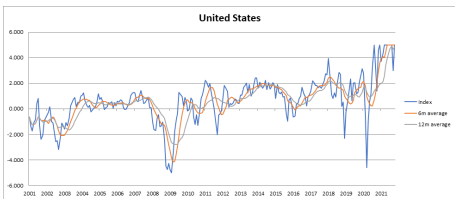


India

India's monetary uncertainty has greatly decreased as the risk of over-liquidity due to heightened market interest has subsided.

US

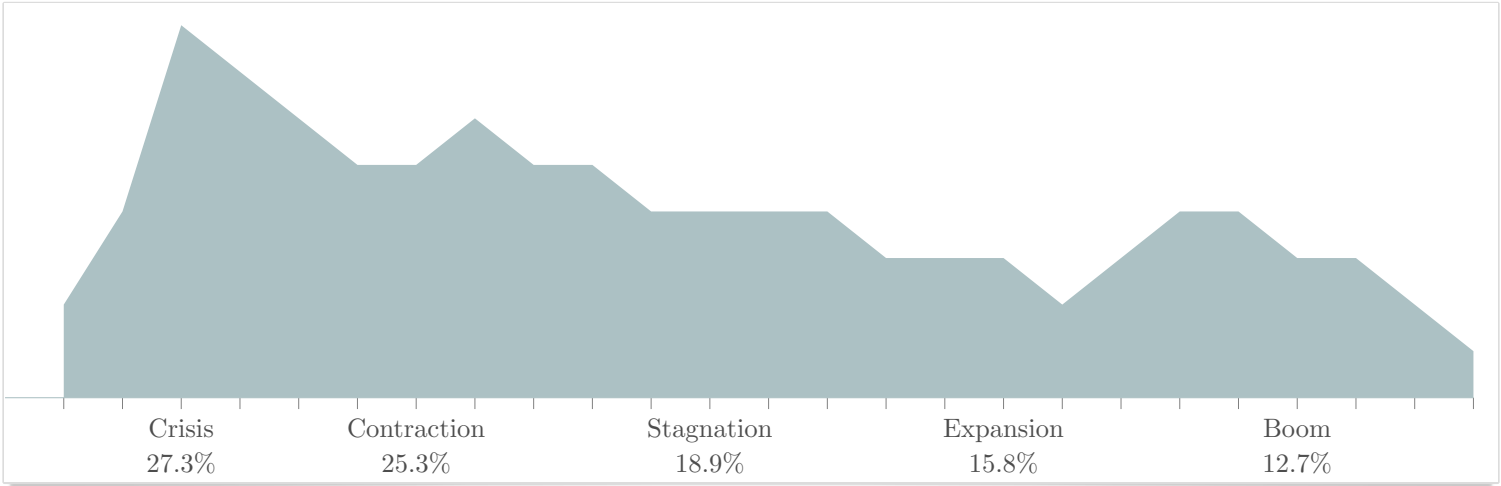
Current: 5.0  
6m average: 5.0  
12m average: 4.9



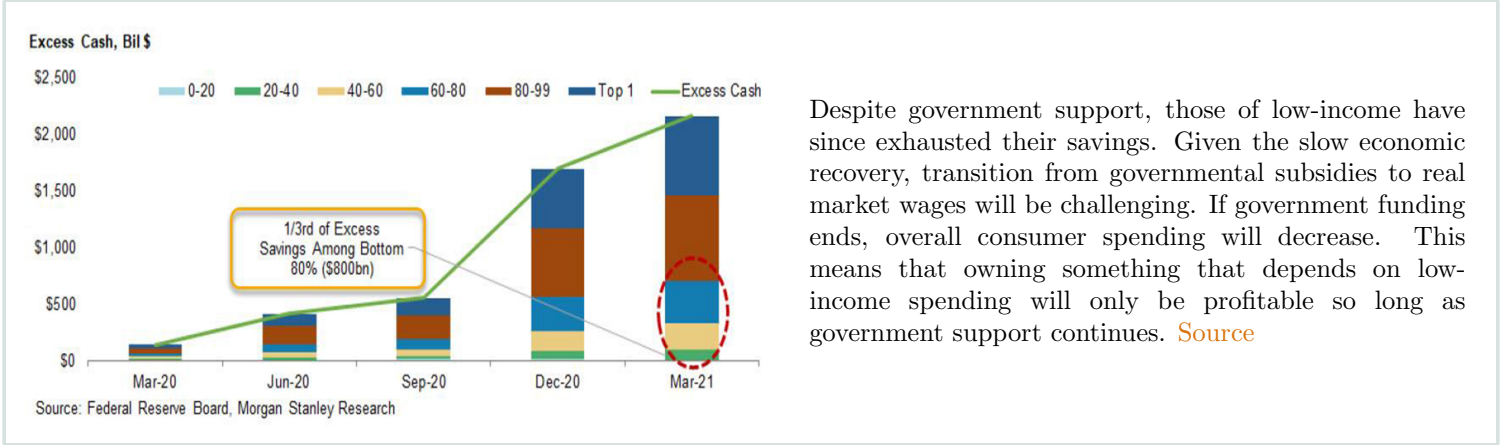
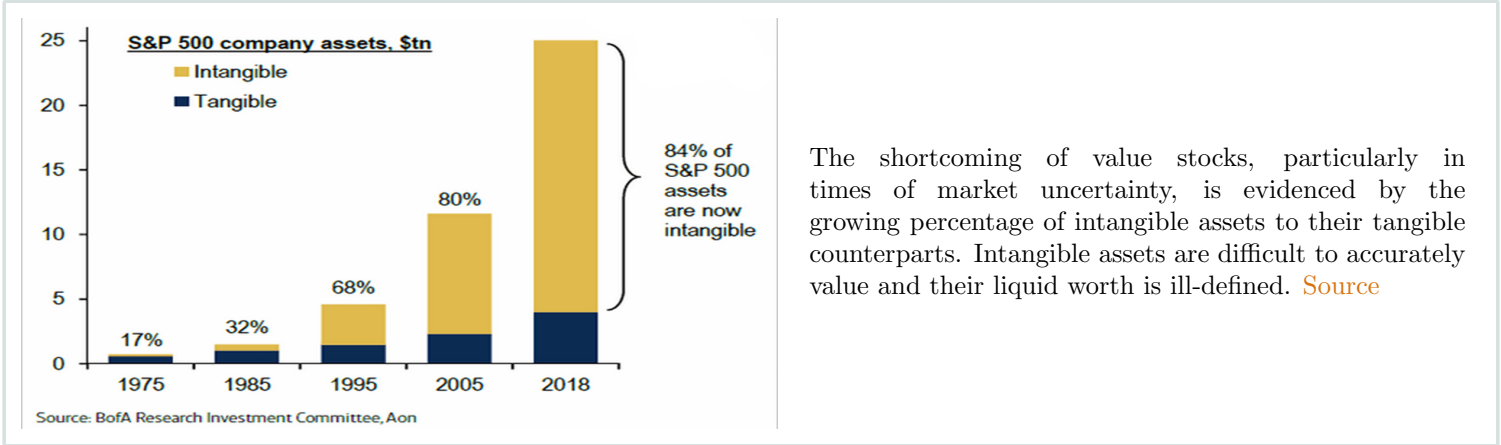
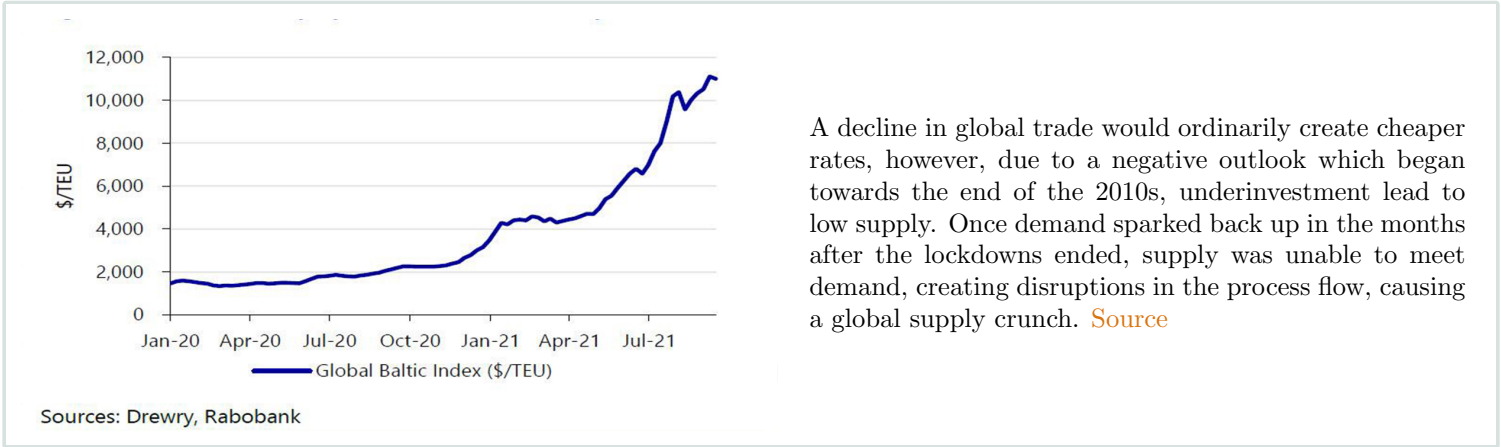
US

Monetary uncertainty in the US is up again, due to ongoing, excessive debt creation. Monetary policies are ensuring the level remains elevated.

Market Environment



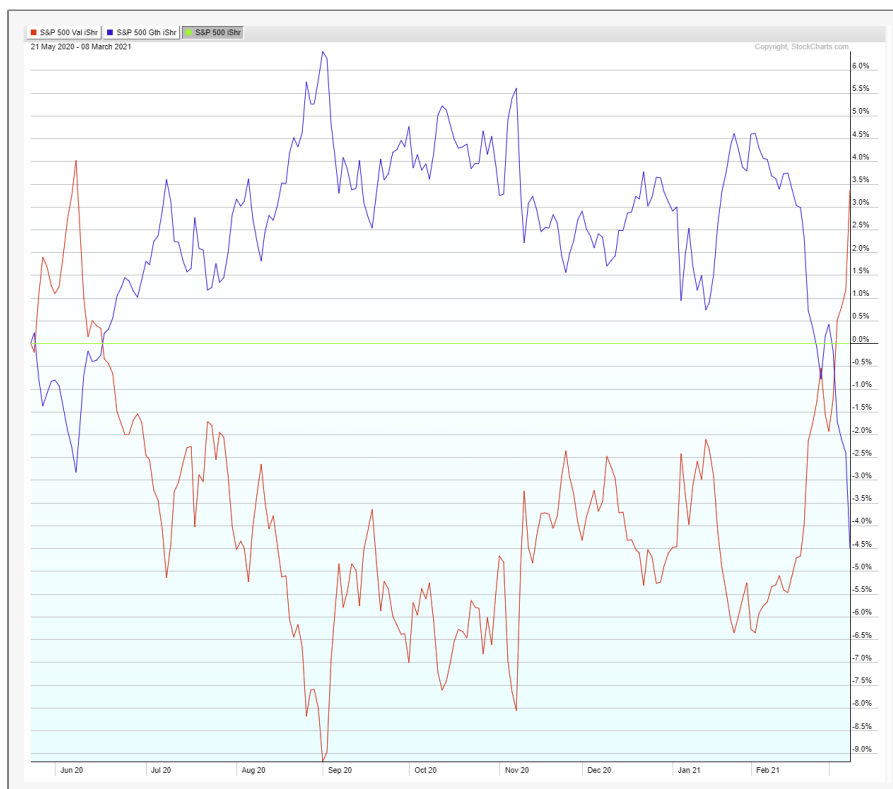
Highlights



## 3 Qualitative Analysis

### 3.1 Rotation: from Growth to Value to Real Assets

Early 2021 brought about a rotation from growth to value assets, a first sign of waning optimism in terms of future cash flows. But how much true value is there in value stocks?

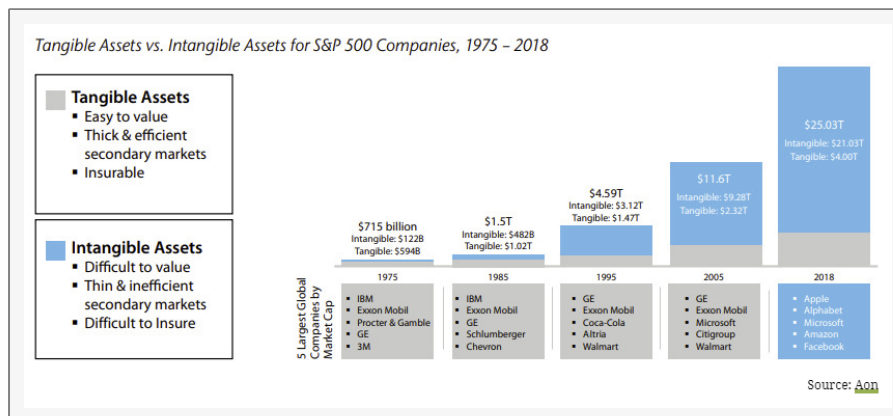


The performance between “*growth*” and “*value*”. Source

Business valuation has become increasingly complex in the digital era, with statistics showing the growing trend of companies’ intangible assets far outweighing their tangible ones. Accurately valuing intangible assets poses difficulties given their “value” comes from perceived future benefits or company worth. Furthermore, tangible assets are easily converted into cash whereas intangible assets possess a less-defined liquid worth. Purely relying on cash flow can give a skewed perspective on true value, which is worsened by creative accounting practices and loosely-disclosed, rising corporate debt (1), not to mention how quickly cash flow can change for cash-heavy, hard asset-light businesses in a crisis scenario.



Those buying equity as a “real asset” investment must consider that tangible real assets only make up about 15% of what they are buying, and of that 15% a mere 5 percentage points, on average, comprises of true real assets. Therefore, even when switching from growth to value, what one buys is mostly hope and belief.



If one were to ask themselves whether current inflation will remain for the foreseeable future, and answer that question with a "yes", the next question to logically follow would be: which companies would have the ability to raise their prices in order to cover the increased expenses? But here we also run into an issue as production prices and labour costs are currently outstripping consumer prices (2).

So where does that leave an investor? With increasing global uncertainties such as we are currently seeing, there may be times where an investor cares less about investments generating high returns and more about ensuring they own assets which will retain their value over time, come what may, and which require little to no ongoing expenses.

Given growing market uncertainty and shaky value stock fundamentals, some investors are beginning to look at assets that don't get valued based on their cash flow but on their intrinsic value, such as commodities, and its most extreme candidate of non cashflow-based valuation —gold (3). Real assets have shown remarkable ability to hedge in times of rising inflation (4).

With value stock on one end and gold on the other, there exist in between other real assets which investors may find interesting. One example of a low to no-cost method of "storing" one's wealth is fully financed productive land which the investor could cultivate themselves for personal consumption. While rather "unsexy" in times of fast-growing economies and expansion of debt, when looking at the long term perspective, productive land was, and remains, in the portfolio of wealthy "old money" families (5).

💡 In conclusion: chasing leveraged, fast growing companies might be a good booster for one's portfolio, however a wise investor will keep a decent part of their wealth in tangible real value, accepting their relatively poor, boring performance in growth times for the uncertain times when the boring suddenly becomes exciting. And it looks like that's exactly where we are heading.

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## 3.2 Supply and Inflation

The shipping and supply crisis, which began when container shipping rates skyrocketed towards the end of 2020, seeped into dry bulk then into liquified natural gas (LNG), and has snowballed into a full-on supply chain nightmare which is expected to be ongoing through 2022 and into 2023 (1). Spot rates for LNG have climbed as high as 86% WoW and are expected to continue to rise in the short-term (2). The issue, beginning as far back as summer 2019 as long-lasting underinvestment combined with a decrease in global trade, was catalysed

by the lockdowns which downscaled demand and consequently wreaked havoc on supply. It now spans market dynamics, politics, structural issues, the weather (3), and the rising cost of marine fuel (4).

Labour (5) and supply shortages are being felt in multitudinous sectors (6), with a shortage in one creating a shortage in another (7), as the interconnectedness and therefore inter-dependability (8) of how our world is constructed begins to disassemble (9). Governments are no longer able to sell the "temporary" and "transitory" narratives (10) as inflation and shortages are apparent in the hiked prices —such as the global price of food, which the UN reports has risen more than 32% since September 2020 (11)— and empty shelves (12).

Major hedge funds and commodity merchants are finding that the instability of the global supply market has changed the rules for even well-established arbitrage trading strategies with the unexpected surge in European gas prices has left them vulnerable to hefty margin calls (13). Commodities prices continue to rise (14), with nickel (15), copper (16), and fertilizer (17) amongst those seeing their value increase as supply dwindles.

Uranium is joining the commodity rise after Kazakhstan, the world's biggest producer of natural uranium, announced the launching of a physical uranium fund, with the goal of a private or public offering —timing and details, market-dependent, generating potential interest from sectors such as clean energy, sovereign and commodity funds, and state-owned enterprises, and increasing the likeliness of a major surge in uranium prices (18).

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### 3.3 The Deconstruction of Western Economies

*What has destroyed every previous civilization has been the tendency to the unequal distribution of wealth and power. —Henry George*

It is safe to assume that Logic has left the building when governments around the world put health workers on suspension in the midst of a pandemic (1), forbid ports and agricultural workers from working during a global supply crunch (2), and worsen unemployment rates in a country struggling with economic recovery (3).



When vaccines are being hailed as the only way out of the pandemic (4) —an assessment unduly optimistic given the underwhelming durability of the Covid vaccines (5)— one becomes forced to ask why, during a global health crisis, isn't **better health** the primary topic of discussion by governments, media and professionals, given historic and current evidence for actions such as regular exercise being a first line of defense (6)?

Governments and medical professionals are also ignoring the immunity the 222,000,000 people who have recovered from Covid (7) have acquired (8) and their consequent low probability of reinfection (9) and are focusing instead on quarantine camps (10), jail threats (11) and forced unemployment (12), spawning a two-tier (13), caste-like (14) society.



The green wave, which incited governments to abandon nuclear energy (15) in exchange for "sustainable" options, has exposed a vulnerable underbelly (16) which, coupled with the globalizing energy crisis (17), is leaving much of Europe with sky-high prices (18) and insufficient energy (19) in a worsening situation (20). Due to climate politics and low demand, there has been little investment in increasing supply and new projects. Adding the practical and geopolitical complexities surrounding gas and power supply into the picture (21), the probability of Europe solving the crisis on its own becomes extremely unlikely.

Some governments are attempting to return to nuclear energy (22), with Macron even making that a part of his upcoming reelection campaign (23). However, given the time and capabilities required to build new nuclear plants, Europe may be looking at a difficult winter ahead with few solutions other than becoming beholden to Russia, either for gas via Nordstream 2 or its transportable nuclear plants (24).

With monetary policies that made America's poor even poorer (25), stimulus checks that funded the unemployment problem (26), the historical anomaly of a pandemic provoking inflation (27), the destruction of small businesses (28), the war on self-sustainability (29), and the climate crusade being little more than a pipe dream for some (30) and a cash cow for others (31), it becomes apparent those pulling the strings are more invested in lining their pockets while tearing apart the fabric of western nations in a manner reminiscent to the Roman proscription in the epoch of 133 and 30 BC (32).

The western economic demise, it would seem, has been a long time coming (33).

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### 3.4 Turkey's Imminent Hyperinflation

Turkey is on its way to state-enforced hyperinflation. Similar to Yugoslavia under Milosevic (1) and in Israel 1985 (2), Erdogan, who's effectively running Turkey's central bank (3), has enabled his supporters to receive massive loans which they and their clan use to buy up all strategic assets (4). Inflation in Turkey has reached such heights (5) that the cost of living has become a struggle for the majority of its people. To raise international capital, Turkey is selling its gold reserves (6), but the game is almost up.

Erdogan has been reducing dollar dependency for some time now, by switching the international credit system to national currencies and gold (7), which has been the goal of all SCO states (8). When hyperinflation hits (9), the currency will collapse completely, impoverishing the masses and leaving only the expanded clan around Erdogan with sufficient assets to then rebuild a new economic system, based on the oligarchic model and with the support of China and Russia.

In terms of timeframe, things should become clearer towards the end of 2021 or at latest within 2022. In this context, Turkey will likely turn its back on NATO (10) and expand its regional power ambitions to divert attention from the internal collapse. However, a real war is not feasible due to a lack of opponents. To the north, Turkey is bordered by the EU and Russia, to the south, by Iran, Iraq and Syria. Given that Syria is protected by Russia (11) and Iran and Russia work closely together, the only option would be to divide Iraq.

In conclusion, there is likely to be a soon-coming national collapse through hyperinflation, and upon the economic rubble and ruin, a sham democracy among the Erdogan oligarchs will rise.

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### 3.5 Opinion Piece: "The Science"



There's a dangerous trend emerging surrounding the understanding and use of the word "science".

According to Science Council, a "membership organization for professional bodies and learned societies across science (1)", science is defined as "*the pursuit and application of knowledge and understanding of the natural and social world following a systematic methodology based on evidence*" (2). They further delineate what scientific methodology comprises of:

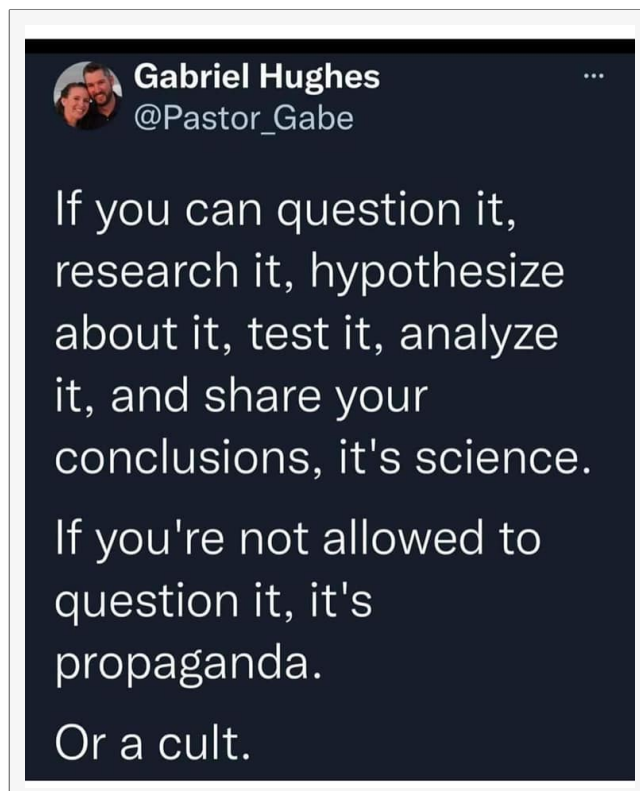
- Objective observation: Measurement and data (possibly although not necessarily using mathematics as a tool)
- Evidence
- Experiment and/or observation as benchmarks for testing hypotheses
- Induction: reasoning to establish general rules or conclusions drawn from facts or examples
- Repetition
- Critical analysis
- Verification and testing: critical exposure to scrutiny, peer review and assessment

Critical analysis has been described as "crucial to the survival and renewal of all fields of enquiry" and is credited with keeping academic disciplines alive "through constant reflection, debate and refinement of ideas" (3), while scientific scrutiny is said to "help ensure that evidence meets high standards, that all relevant lines of evidence are explored, that judgments are not based on flawed reasoning, and hence, that science moves in the direction of more and more accurate explanations" (4).



These statements elucidate the vital role which critical analysis and exposure to scrutiny play in ensuring the dependability of science.

When science stops being a method at which to arrive at a conclusion, and begins to be hailed as "settled" or "indisputable", we eradicate the very essence of what science is. When science takes on the cloak of "divine authority", and any scientist becomes beyond questioning (5), we have left the realm of science and entered that of religion. And when science becomes political, it no longer serves any purpose but to impose its bias on an increasingly indoctrinated population (6) while eliminating all credibility it may have once held (7).



Finally, even science that has been allowed to undergo rigorous critical exposure and scrutiny is not able to determine the moral judgement or value of its findings. Science may tell us the likeliest outcome of a choice, but it cannot quantify whether that choice is objectively right or wrong, as that is to be determined by each individual's values, preferences, and risk-reward analyses (8).



*"In a free society, it is not always important that individuals reason well, it is sufficient that they reason; from their individual thought, freedom is born." —Montesquieu*

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