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Market Watch with RMH

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From Louis-Vincent Gave of GaveKal Research, the worldwide bond market is in the biggest bubble of all time, as there is no other way to understand $15 Trillion in negative yields (bond yields that are below zero, i.e., negative). With 36 years of investment experience I see the following:

- Fear is in the market, Europe is slowing down, and will be dependent upon how the emerging markets do, as that is who their major trading partners are. To stimulate the economies of Europe, the European Central Bank is buying the debt of all of the countries, forcing bond yields to levels below zero. Even Greece had negative yields for their bonds last week! The U.S. did not.
- When the tensions between the U.S. and China were headlines, a buying panic ensued as investors sought bonds for safety, driving bond yields down and bond prices up. Problems in the Hong Kong democracy movement did not help either.
- The bond market is in the midst of a bubble that is made possible as investors know they will be able to sell their debt, to central banks. This is a poor trade that will eventually have a day of reckoning as all bubbles pop. Today's purchasers of government bonds with a negative yield have a guaranteed loss. What happens when the Central Banks stop their purchases? Yields will rise, bond prices will go down.

A follow up to the analysis above, deals with insurance companies, pension funds, university endowments, seniors, retirees and their current asset allocation rebalancing. Within the next 5 - 10 years, the return from government bonds could be in the low single digits or negative. This is causing rebalancing out of bonds and into alternative assets, equity markets, private equity, private placements, and real estate. This low interest rate scenario encourages borrowing, and helps risk assets (stocks, high yield bonds, private equity…..) as funds flow into these sectors. It is my fear, when low interest rates no longer help returns, we will see asset prices decline.

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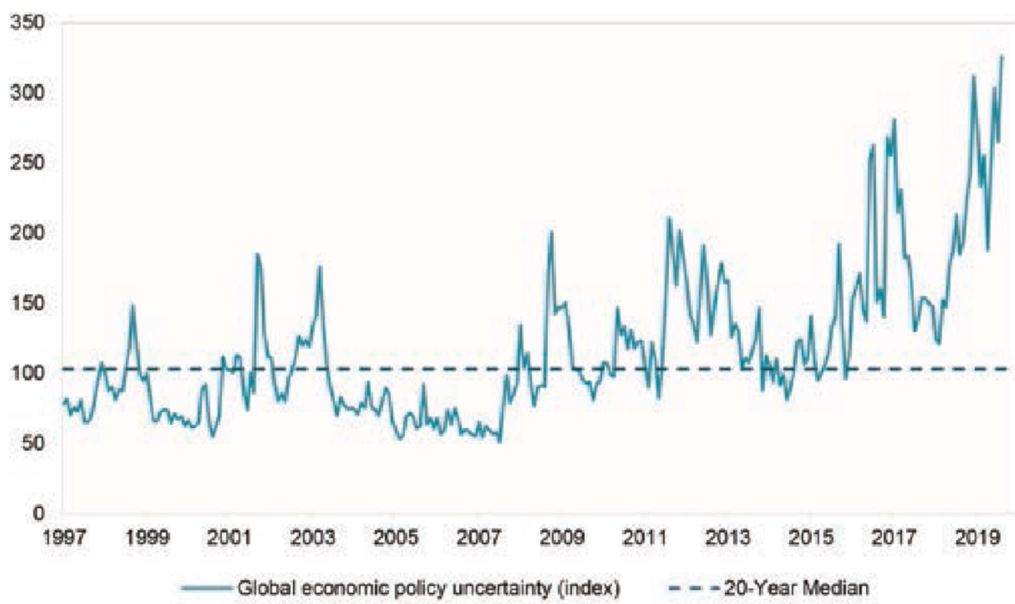
The last several months, we have made comments and analyzed Brexit. What I surmise is that we will be in for several surprises until the end of the month. Even then, we will still have uncertainty, as an election may be forced in the UK through 2020.

Currently, global policy uncertainty is at an all-time high, as seen in the chart below from Bloomberg and Epoch Investment Partners. Some of the issues we are facing include:

- Cold War 2.0
- Honk Kong democracy protests
- German recession
- Rising protectionism
- Brexit
- Iran belligerence
- Central banks largesse
- Slowing global trade



Until a number of the above factors get resolved, we will continue to see lower global interest rates, slower global trade and lower earnings. However still positive earnings in the U.S. and the rest of the world. This will translate to a slowdown, not a recession. On the plus side, a strong labor market remains, productivity is unlikely to turn negative, low inflation, personal consumption is still strong, and energy prices continue to be low compared to past periods.

I was on a conference call with Epoch Investment Partners listening to their summary of the situation with China and they referred to it as: "Cold War 2.0; Trade is the Battle, Tech is the War, Values are the Stakes". As you may recall in past monthly commentaries, we have suggested the trade deal between the U.S. and China would be a series of small steps and small agreements, as the differences between the two countries are quite wide. The term Cold War 2.0 refers to the new containment policy to be put in place to contain China, as compared to the previous one to contain Russia. It is unlikely any shots will be fired; however the stakes are very high, which the U.S. and the rest of the world are just waking up to.

In the U.S. there is the following:

- Free Market Capitalism
- Emphasis on private property, freedom of speech, and the rule of law
- Bill of Rights and our Constitution

In China there is the following:

- Autocratic Structures
- Emphasis on Command and Control

If we get a trade deal it at best will represent a temporary truce as the three key issues are;

- Market Access
- Intellectual Property protection
- Opaque industrial subsidies

We thank you all for taking the time and reading "Market Watch." It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us. Please feel free to always reach out with questions, thoughts, or comments. If there are ever any topics you wish us to explore, please share.

On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH's focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Mundinger, CFA

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Sources include the following:

Louis-Vincent Gave – 10/02/2019 interview
Mark Grant Seeking Alpha – Oct 21, 2019
Epoch Investment Partners, conference call Oct 10, 2019
Joe Ziddle – Blackstone