



Artificial Intelligence in Asset Management

13 FUNDAMENTAL REASONS HOW SMART HUMAN INVESTORS COMPREHEND THE RECENT SIGNALS OF ARTIFICIAL INTELLIGENCE ALGORITHMS TO SELL STOCKS

1. OMICRON SPREAD & VACCINE MANDATES

LET'S START WITH THE OBVIOUS: THE CORONAVIRUS AND ITS GROWING NUMBER OF VARIANTS. THIS YEAR, THE S&P 500 HAS ENJOYED MORE THAN FIVE DOZEN RECORD-HIGH CLOSES. THE EXPECTATION HAS BEEN THAT INCREASING U.S. AND GLOBAL VACCINATION RATES WOULD ALLOW BUSINESS TO GET BACK TO NORMAL. BUT WITH EACH NEW VARIANT OF COVID-19, THE POTENTIAL ARISES FOR ADDITIONAL LOCKDOWNS, RESTRICTIONS, SUPPLY CHAIN CONCERNS, AND A POSSIBLE DECREASE IN CONSUMER OR CORPORATE SPENDING. FOR WHAT IT'S WORTH, THE DELTA VARIANT'S EMERGENCE IN MAY LED TO A SHORT-TERM MARKET HICCUP THAT WAS FAIRLY QUICKLY PUT IN THE REARVIEW MIRROR. THE SAME COULD BE TRUE FOR THE OMICRON VARIANT, BUT WE SIMPLY DON'T KNOW ENOUGH ABOUT IT AT THE MOMENT FOR WALL STREET AND INVESTORS TO BE CONFIDENT BUYERS OF STOCKS. IN ADDITION, NUMEROUS STRICT VACCINE MANDATES ACROSS EUROPE AND THE US FORCE THOSE EMPLOYEES OUT OF THE LABOR MARKET WHO ARE NOT WILLING TO SUBMIT THEMSELVES AND OBEY THE RULES. A SHRINKING LABOR FORCE WILL THEREFORE NOT ONLY REDUCE THE NUMBER OF NURSING STAFF IN HOSPITALS, BUT ALSO CREATE AN INFLATIONARY PRESSURE ON LABOR COSTS ACROSS ALL INDUSTRIES.

2. HISTORICALLY HIGH INFLATION

SOME LEVEL OF INFLATION (I.E., THE RISING PRICE OF GOODS AND SERVICES) IS EXPECTED IN A GROWING ECONOMY. HOWEVER, THE 6.2% INCREASE IN THE US CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS IN OCTOBER MARKED A 31-YEAR HIGH. THE PROBLEM WITH INFLATION IS THAT IT HAS THE POTENTIAL TO SAP CONSUMER AND ENTERPRISE BUYING POWER. EVEN THOUGH WAGES ARE GOING UP FOR WORKERS, MUCH OF

THEIR BUYING POWER COULD BE STRIPPED AWAY BY RISING RENT/HOME COSTS, MARKEDLY HIGHER ENERGY PRICES, AND EVEN ABOVE-AVERAGE FOOD INFLATION. IF THE NEXT FEW INFLATION REPORTS FROM THE U.S. BUREAU OF LABOR STATISTICS COME IN AT OR ABOVE 6% OVER THE TRAILING 12-MONTH PERIOD, THE LIKELIHOOD OF THIS SURGE IN PRICES BEING TRANSITORY STARTS GOING OUT THE WINDOW. WALL STREET WON'T LIKE THAT ONE.

3. CHINA HOUSING MARKET CONTAGION

TRUST FIRMS THAT HAVE ISSUED AT LEAST \$5 BILLION IN HIGH-YIELD PRODUCTS LINKED TO CHINA EVERGRANDE GROUP ARE BRACING FOR A CASCADE OF LOSSES AFTER THE CASH-STRAPPED DEVELOPER SAID IT MAY NO LONGER BE ABLE TO MEET ITS FINANCIAL OBLIGATIONS. AT LEAST THREE FIRMS, INCLUDING CITIC TRUST CO., CHINA FOREIGN ECONOMY AND TRADE TRUST CO., NOTIFIED CLIENTS OVER THE PAST FEW DAYS THAT THEY RISK MISSING PAYMENTS ON EVERGRANDE PRODUCTS DUE TO THE DEVELOPER'S STRAINED FINANCES AND WILL TAKE LEGAL ACTION TO PROTECT INVESTORS. AT LEAST FIVE TRUST COMPANIES HELD EMERGENCY MEETINGS OVER THE WEEKEND TO DISCUSS HOW TO HANDLE POTENTIAL DISPUTES WITH INVESTORS. THE MEETINGS ILLUSTRATE HOW A KEY GROUP OF ONSHORE EVERGRANDE CREDITORS ARE RESPONDING TO A FRIDAY STATEMENT FROM THE DEVELOPER IN WHICH IT FORMALLY ACKNOWLEDGED FOR THE FIRST TIME THE NEED TO RESTRUCTURE OFFSHORE DEBT. SHOULD EVERGRANDE BE DECLARED IN FORMAL DEFAULT ON ITS BONDS, A WAVE OF CROSS DEFAULTS COULD BE TRIGGERED.

EVERGRANDE COUNTS TRUST COMPANIES, WHICH POOL MONEY FROM WEALTHY INDIVIDUAL INVESTORS, AS AN IMPORTANT SOURCE OF FUNDING, ACCOUNTING FOR ABOUT 40% OF BORROWINGS AT THE END OF 2019, WHEN IT LAST DISCLOSED THE FIGURES. WHILE THE FIRMS HAVE BEEN REDUCING THEIR EXPOSURE TO EVERGRANDE AND ITS PEERS SINCE THEN, THEY CONTINUE TO BE MASSIVE LENDERS WITH AT LEAST \$12 BILLION IN DEVELOPER-LINKED TRUST PAYMENTS DUE JUST THIS MONTH.

THE RISK OF CONTAGION INTO THE \$3 TRILLION TRUST INDUSTRY WILL ADD PRESSURE ON POLICY MAKERS TO EASE THE CRUNCH IN THE REAL ESTATE SECTOR, WHICH HAS ALREADY TRIGGERED PROTESTS BY HOME-BUYERS AND INVESTORS IN WEALTH MANAGEMENT PRODUCTS SOLD BY EVERGRANDE AND ANOTHER EMBATTLED DEVELOPER KAISA GROUP HOLDINGS LTD.

EVERGRANDE HAS DONE BUSINESS WITH MOST OF THE 68 TRUST COMPANIES IN CHINA. IT HAD \$1.8 BILLION IN TRUST LOANS MATURING IN THE FOURTH QUARTER, WITH ANOTHER \$5 BILLION DUE OVER 2022 AND 2023. THE DATA ONLY COVERS TRUSTS SOLD TO RETAIL INVESTORS AND NOT SO-CALLED SINGLE TRUSTS, WHICH ARE PRIVATE PLACEMENTS AND MAKE UP THE BULK OF EVERGRANDE'S FINANCING THROUGH THE PRODUCTS.

IF HOLDERS OF AN EVERGRANDE BOND DECLARE IT IN FORMAL DEFAULT "CROSS DEFAULTS" WOULD BE AUTOMATICALLY TRIGGERED FOR THE FIRM'S OTHER DEBT INSTRUMENTS.

EVERGRANDE IS PLANNING TO INCLUDE ALL ITS OFFSHORE PUBLIC BONDS AND PRIVATE DEBT OBLIGATIONS IN A RESTRUCTURING THAT MAY RANK AMONG THE NATION'S BIGGEST EVER. GRACE PERIODS FOR INTEREST PAYMENTS ON TWO NOTES FROM SCENERY JOURNEY END MONDAY AND COULD MARK THE FIRM'S FIRST DEFAULT ON PUBLIC DEBTS.

SOME INVESTORS IN ITS TRUST PRODUCTS ARE HIGH-NET-WORTH CLIENTS OF COMMERCIAL BANKS, WHICH MEANS THE SPILLOVER COULD EXTEND BEYOND THE ALREADY EMBATTLED TRUST SECTOR.

4. ENERGY PRICE VOLATILITY

CRUDE OIL COULD ALSO SPELL DOOM FOR WALL STREET OVER THE NEXT THREE MONTHS. IF THE PRICE SHOOTS TOO HIGH, CONSUMERS AND BUSINESSES EITHER PURCHASE LESS FUEL OR, IF POSSIBLE, FOR BUSINESSES, PASS ALONG HIGHER FUEL COSTS TO CUSTOMERS.

ON THE OTHER HAND, IF CRUDE PRICES TANK ON FEARS OF ANOTHER VARIANT, IT CAN HURT JOB CREATION IN THE ENERGY SECTOR AND EVEN REDUCE OVERALL CONFIDENCE IN THE U.S. OR GLOBAL ECONOMY.

IN OTHER WORDS, THE OIL MARKET NEEDS TO PROVIDE SOME SEMBLANCE OF STABILITY OVER THESE NEXT THREE MONTHS. IF THE PER-BARREL PRICE ONCE AGAIN JUMPS ABOVE \$80, INFLATION FEARS COULD DOMINATE. MEANWHILE, IF IT FALLS BELOW \$50, SECTOR-WIDE INVESTMENTS COULD BE CURTAILED.

5. HAWKISH FED

THE TONE AND ACTIONS OF THE FEDERAL RESERVE COULD ALSO CAUSE THE STOCK MARKET TO CRASH OVER THE NEXT THREE MONTHS.

FOR MUCH OF THE PAST DECADE, THE NATION'S CENTRAL BANK HAS BEEN EXTREMELY ACCOMMODATIVE. THIS IS TO SAY THAT INTEREST RATES HAVE BEEN KEPT AT OR NEAR HISTORIC LOWS, WHICH HAS ALLOWED GROWTH STOCKS TO BORROW CHEAPLY IN ORDER TO HIRE, ACQUIRE, AND INNOVATE. FURTHER, THE FED HAS FAIRLY AGGRESSIVELY BOUGHT LONG-TERM TREASURY BONDS AND MORTGAGE-BACKED SECURITIES TO ENCOURAGE LENDING AND CONFIDENCE IN THE HOUSING MARKET.

BUT WITH INFLATION SOARING, THE FED IS GOING TO HAVE NO CHOICE BUT TO EVENTUALLY RAISE INTEREST RATES AND BEGIN SLOWING ITS BOND-BUYING PROGRAM. TO PUT THINGS MILDLY, INVESTORS HAVE BEEN SPOILED WITH A LONG STRETCH OF HISTORICALLY LOW LENDING RATES. ANY TALK OF A FASTER-THAN-EXPECTED RATE HIKE COULD QUICKLY SINK THE S&P 500.

6. US DEBT CEILING IMPASSE

KEEPING POLITICS OUT OF YOUR PORTFOLIO IS GENERALLY A SMART MOVE. BUT EVERY ONCE IN A WHILE, POLITICS CAN'T BE SWEEPED UNDER THE RUG.

WE'RE CURRENTLY LESS THAN TWO WEEKS AWAY FROM THE DEC 15 DEADLINE WHEN THE FEDERAL DEBT LIMIT WILL BE HIT. IF WE REACH THE DEBT LIMIT WITHOUT A DEAL IN CONGRESS, THE TREASURY DEPARTMENT WOULDN'T BE ABLE TO BORROW. THIS MEANS SALARIED FEDERAL EMPLOYEES MAY NOT GET PAID AT A TIME WHEN INFLATION IS RISING, AND THE U.S. ECONOMY IS STILL FINDING ITS LEGS FOLLOWING A WICKED (BUT SHORT) RECESSION. IT MAY EVEN MEAN THE U.S. DEFAULTING ON SOME OF ITS DEBTS, WHICH COULD ADVERSELY AFFECT ITS CREDIT RATING.

TO BE CLEAR, THIS ISN'T THE FIRST RODEO FOR LAWMAKERS WHEN IT COMES TO A DEBT-CEILING STANDOFF. BUT THE LONGER CONGRESS WAITS TO RESOLVE THINGS, THE MORE LIKELY IT IS THE DEBT CEILING COULD WEIGH ON EQUITIES.

7. RECORD MARGIN DEBT

GENERALLY SPEAKING, MARGIN DEBT, THE AMOUNT OF MONEY BORROWED FROM A BROKER WITH INTEREST TO PURCHASE OR SHORT-SELL SECURITIES, IS BAD NEWS. ALTHOUGH MARGIN CAN MULTIPLY AN INVESTORS' GAINS, IT CAN ALSO QUICKLY MAGNIFY LOSSES. WHILE IT'S PERFECTLY NORMAL TO SEE NOMINAL OUTSTANDING MARGIN DEBT GROW OVER TIME, THE SPEED OF ITS INCREASE IN 2021 IS VERY ALARMING. AS OF OCTOBER, ALMOST \$936 BILLION IN MARGIN DEBT WAS OUTSTANDING, ACCORDING TO THE FINANCIAL INDUSTRY REGULATORY AUTHORITY. THAT'S MORE THAN DOUBLED SINCE THE MIDPOINT OF THE PREVIOUS DECADE.

MORE IMPORTANTLY, MARGIN DEBT ROCKETED HIGHER BY MORE THAN 70% EARLIER THIS YEAR FROM THE PRIOR-YEAR PERIOD. THERE HAVE ONLY BEEN THREE INSTANCES SINCE 1995 WHERE MARGIN DEBT SURGED OVER 60% IN ONE YEAR, ACCORDING TO ANALYTICS FIRM YARDENI RESEARCH.

IT HAPPENED JUST BEFORE THE DOT-COM BUBBLE BURST, MONTHS PRIOR TO THE FINANCIAL CRISIS, AND IN 2021. THAT DOESN'T BODE WELL FOR THE STOCK MARKET.

8. RUSSIAN INVASION OF UKRAINE & ENERGY CRISIS

THE CIA HAS SHARED INTELLIGENCE INCLUDING MAPS WITH EUROPEAN ALLIES THAT SHOWS A BUILDUP OF RUSSIAN TROOPS AND ARTILLERY TO PREPARE FOR A RAPID, LARGE-SCALE PUSH INTO UKRAINE FROM MULTIPLE LOCATIONS IF PRESIDENT VLADIMIR PUTIN DECIDED TO INVADE. THAT INTELLIGENCE HAS BEEN CONVEYED TO SOME NATO MEMBERS OVER THE PAST WEEK TO BACK UP U.S. CONCERNS ABOUT PUTIN'S POSSIBLE INTENTIONS AND AN INCREASINGLY FRANTIC DIPLOMATIC EFFORT TO DETER HIM FROM ANY INCURSION, WITH EUROPEAN LEADERS ENGAGING DIRECTLY WITH THE RUSSIAN PRESIDENT. THE DIPLOMACY IS INFORMED BY AN AMERICAN ASSESSMENT THAT PUTIN COULD BE WEIGHING AN INVASION EARLY NEXT YEAR AS HIS TROOPS AGAIN MASS NEAR THE BORDER. THE INFORMATION LAYS OUT A SCENARIO WHERE TROOPS WOULD CROSS INTO UKRAINE FROM CRIMEA, THE RUSSIAN BORDER AND VIA BELARUS, WITH ABOUT 200 BATTALION TACTICAL GROUPS, POTENTIALLY AROUND 170,000 SOLDIERS, DEPLOYED FOR WHAT THE PEOPLE DESCRIBED AS AN OPERATION IN ROUGH TERRAIN AND FREEZING CONDITIONS, COVERING EXTENSIVE TERRITORY AND PREPARED FOR A POTENTIALLY PROLONGED OCCUPATION. MOSCOW HAD ALSO CALLED UP TENS OF THOUSANDS OF RESERVISTS ON A SCALE UNPRECEDENTED IN POST-SOVIET TIMES. THEY EXPLAINED THE ROLE OF RESERVISTS IN ANY CONFLICT WOULD BE TO SECURE TERRITORY IN A LATER PHASE AFTER THE TACTICAL BATTALIONS PAVED THE WAY. BIDEN AND PUTIN ARE SCHEDULED TO HOLD A SECURE VIDEO CALL DURING THIS WEEK.

A RUSSIAN INVASION OF UKRAINE WOULD NOT ONLY RESULT IN HEIGHTENED GEOPOLITICAL TENSIONS, BUT POTENTIALLY ALSO TRIGGER AN ENERGY CRISIS BETWEEN THE EUROPEAN UNION AND RUSSIA. TOGETHER WITH BELARUS, RUSSIA COULD BLOCK THE MAJOR PIPELINES WHICH TRANSPORT GAS FROM THE EAST VIA UKRAINE TO EUROPE AND USE ITS NATURAL RESOURCES AS A HOSTAGE FOR NEGOTIATIONS OVER ECONOMIC SANCTIONS.

9. THE UNWINDING OF THE MEME-STOCK TRADE

TWICE A YEAR, THE FEDERAL RESERVE RELEASES ITS FINANCIAL STABILITY REPORT, WHICH EXAMINES THE RESILIENCE OF THE U.S. FINANCIAL SYSTEM AND OUTLINES SOME OF THE BIGGER NEAR-TERM AND LONGER-TERM RISKS WORTH MONITORING. IN THE LATEST REPORT, THE NATION'S CENTRAL BANK EXAMINED THE POSSIBILITY THAT YOUNG INVESTORS PUTTING THEIR MONEY TO WORK IN MEME STOCKS LIKE AMC, ENTERTAINMENT AND GAMESTOP COULD HEIGHTEN VOLATILITY AND DISRUPT THE MARKET.

THE REPORT POINTS OUT THAT THE YOUNGER INVESTORS INVOLVED IN THESE TRADES "TEND TO HAVE MORE LEVERAGED HOUSEHOLD BALANCE SHEETS." LOSSES IN THE MARKET WOULD LEAVE THESE FOLKS MORE VULNERABLE TO MEETING THEIR DEBTS. PLUS, WITH THESE INDIVIDUAL REGULARLY BUYING OPTIONS, RISK IS FURTHER MAGNIFIED.

THE FED ALSO NOTES THAT SOCIAL MEDIA INTERACTIONS, INCLUDING THE TRANSMISSION OF BIASED OR UNSUBSTANTIATED CLAIMS ON MESSAGE BOARDS, COULD LEAD TO INCREASED VOLATILITY AND A "POTENTIALLY DESTABILIZING OUTCOME."

10. HIGH VALUATION

VALUATION BY ITSELF IS OFTEN NOT ENOUGH TO SEND THE STOCK MARKET OVER THE EDGE. BUT WHEN MARKET VALUATIONS REACH HISTORICALLY HIGH LEVELS, IT'S AN ENTIRELY DIFFERENT STORY.

ON DEC 1, THE S&P 500'S SHILLER PRICE-TO-EARNINGS (P/E) RATIO WAS 38, AND IT HAD RECENTLY HIT 40 FOR ONLY THE SECOND TIME IN 151 YEARS. THE SHILLER P/E TAKES INTO ACCOUNT INFLATION-ADJUSTED EARNINGS OVER THE PAST 10 YEARS.

FOR COMPARISON, THE AVERAGE SHILLER P/E FOR THE S&P 500 DATING BACK TO 1870 IS 16.89. HOWEVER, IT'S NOT HOW FAR ABOVE ITS HISTORIC AVERAGE SHILLER P/E THAT'S WORRYING. IT'S THAT FOLLOWING THE PREVIOUS FOUR INSTANCES WHERE THE SHILLER P/E TOPPED 30, THE S&P 500 EVENTUALLY WENT ON TO LOSE AT LEAST 20% OF ITS VALUE. WHEN VALUATIONS GET OVER-EXTENDED, AS THEY ARE NOW, HISTORY HAS SHOWN THAT CRASHES BECOME COMMONPLACE.

11. TAIWAN CONFLICT AND SUPPLY CHAIN ISSUES

CHINA'S PRESIDENT XI JINPING HAS RECENTLY SAID THAT "REUNIFICATION" WITH TAIWAN "MUST BE FULFILLED", AS HEIGHTENED TENSIONS OVER THE ISLAND CONTINUE.

MR. XI SAID UNIFICATION SHOULD BE ACHIEVED PEACEFULLY BUT WARNED THAT THE CHINESE PEOPLE HAD A "GLORIOUS TRADITION" OF OPPOSING SEPARATISM. IN RESPONSE, TAIWAN SAID ITS FUTURE LAY IN THE HANDS OF ITS PEOPLE. TAIWAN CONSIDERS ITSELF A SOVEREIGN STATE, WHILE CHINA VIEWS IT AS A BREAKAWAY PROVINCE. BEIJING HAS NOT RULED OUT THE POSSIBLE USE OF FORCE TO ACHIEVE UNIFICATION.

MR. XI'S INTERVENTION COMES AFTER CHINA SENT A RECORD NUMBER OF MILITARY JETS INTO TAIWAN'S AIR DEFENSE ZONE IN RECENT DAYS. TAIWAN'S DEFENSE MINISTER HAS SAID THAT TENSIONS WITH CHINA ARE AT THEIR WORST IN 40 YEARS.

SPEAKING AT AN EVENT MARKING THE 110TH ANNIVERSARY OF THE REVOLUTION THAT OVERTHREW CHINA'S LAST IMPERIAL DYNASTY IN 1911, HE SAID THAT "NO ONE SHOULD UNDERESTIMATE THE CHINESE PEOPLE'S STAUNCH DETERMINATION, FIRM WILL, AND STRONG ABILITY TO DEFEND NATIONAL SOVEREIGNTY AND TERRITORIAL INTEGRITY."

"THE HISTORICAL TASK OF THE COMPLETE REUNIFICATION OF THE MOTHERLAND MUST BE FULFILLED, AND WILL DEFINITELY BE FULFILLED," HE COMMENTED.

MR. XI FURTHER ADDED HE WANTS TO SEE UNIFICATION OCCUR UNDER A "ONE COUNTRY, TWO SYSTEMS" PRINCIPLE, SIMILAR TO THAT EMPLOYED IN HONG KONG.

BUT TAIWAN'S PRESIDENTIAL OFFICE SAID THAT PUBLIC OPINION WAS VERY CLEAR IN REJECTING ONE COUNTRY, TWO SYSTEMS. IN A SEPARATE STATEMENT, TAIWAN'S MAINLAND AFFAIRS COUNCIL CALLED ON CHINA TO ABANDON ITS "PROVOCATIVE STEPS OF INTRUSION, HARASSMENT AND DESTRUCTION".

SINCE TAIWAN'S LEADING SEMICONDUCTOR MANUFACTURING COMPANY (TSMC) HAS A GLOBAL MARKET SHARE OF 53%, CHINA'S INTEREST IN CONQUERING TAIWAN COULD ALSO BE DRIVEN BY STRATEGIC ECONOMIC INTENTIONS. A CHINESE INVASION OF TAIWAN COULD THEREFORE IMPEDE THE PRODUCTION OF SEMICONDUCTOR CHIPS AND AGGRAVATE THE GLOBAL SUPPLY CHAIN CRISIS.

12. FOOD SHORTAGE & ELECTRICITY OUTAGE

A PROLONGED ENERGY CRISIS IS EXPOSING THE VULNERABILITY OF FOOD SUPPLY CHAINS AND ELECTRICITY GRID STABILITY.

AS SOARING GAS AND POWER PRICES HAVE HIT INDUSTRIES ACROSS EUROPE, FERTILIZER PLANTS HALTED OR CURBED OUTPUT IN THE PAST MONTHS, THREATENING EVEN HIGHER CROP NUTRIENT COSTS AND POTENTIALLY SMALLER HARVESTS IF FARMERS CUT BACK ON THE KEY INPUT.

IN THE U.K., IT ALSO RAISED THE SPECTER OF AN ALMOST IMMEDIATE SHORTAGE OF CARBON DIOXIDE, A BY-PRODUCT OF FERTILIZER PRODUCTION AND WIDELY USED BY THE FOOD AND DRINK INDUSTRY.

A LACK OF CO2 WOULD FORCE SLAUGHTERHOUSES, WHICH USE THE GAS TO STUN ANIMALS, TO CLOSE. IT'S HITTING GROCERY STORES, TOO, BECAUSE CO2 IS USED IN PACKAGING TO EXTEND THE SHELF LIFE OF FOOD AND FOR THE "DRY ICE" THAT KEEPS ITEMS FROZEN DURING DELIVERY, AS WELL AS GIVING SODA AND BEER THEIR FIZZ. ABOUT HALF OF EUROPE'S AMMONIA CAPACITY IS PROBABLY AT RISK OF SHUTTERING OR CURTAILING OUTPUT, OR ALREADY CLOSED. TIGHTER FERTILIZER AND CO2 MARKETS MAY FURTHER PUSH UP GLOBAL FOOD PRICES WHICH ARE ALREADY NEAR A DECADE-HIGH.

AT SOME POINT FARMERS MAY REFUSE TO BUY THE NUTRIENT OR EUROPE WILL INCREASE IMPORTS. IN CHINA, AUTHORITIES HAVE BEEN URGED TO ENSURE STABLE PRICES AND PRIORITIZE SUPPLIES OF RAW MATERIALS AND ENERGY TO CHEMICAL FERTILIZER COMPANIES. FOOD PRICES IN AFRICA HAVE RISEN ABOVE A CRITICAL BENCHMARK WHICH INDICATES THE LIKELIHOOD OF SOCIAL UNREST AND CIVIL WAR. IN THE EU, THE CONSUMER IMPACT OF THE POWER CRUNCH HAS ALREADY HAD POLITICAL REVERBERATIONS AS ELECTRICITY BILLS SOAR IN THE FACE OF LOW GAS RESERVES AHEAD OF THE WINTER. THE TRANSITION TO RENEWABLES HAS FURTHER AGGRAVATED THE ELECTRICITY SHORTAGE. GERMANY IS SHUTTING DOWN ITS NUCLEAR PLANTS IN JANUARY 2022 AND IS REDUCING COAL OUTPUT TO MEET THE UN GREENHOUSE GAS EMISSION REDUCTION GOALS. FACING A “DARK WINTER” SCENARIO WITH LITTLE SUN AND WIND, GERMANY AND OTHER EUROPEAN COUNTRIES WILL BE HEAVILY DEPENDENT ON THE NATURAL GAS SUPPLY OF RUSSIA. AN ENERGY SHORTAGE WITH A PROLONGED SUBSEQUENT ELECTRICITY OUTAGE COULD RESULT IN THE ELECTRICITY GRID TO COLLAPSE (“BLACKOUT”).

13. MISSING SECOND LEG OF A BEAR MARKET

A FINAL REASON THE STOCK MARKET COULD CRASH OVER THE NEXT THREE MONTHS IS HISTORY. SPECIFICALLY, IF INVESTORS ARE OF THE BELIEF THAT HISTORY REPEATS ITSELF, THE S&P 500 COULD BE IN TROUBLE. DATING BACK TO 1960, THERE HAVE BEEN NINE BEAR MARKETS. FOLLOWING EACH OF THE PREVIOUS BEAR-MARKET BOTTOMS, EXCLUDING THE CORONAVIRUS CRASH, WE WITNESSED EITHER ONE OR TWO DECLINES OF AT LEAST 10% WITHIN 36 MONTHS. IN OTHER WORDS, BOUNCING BACK FROM A BEAR MARKET BOTTOM IS A PROCESS THAT OFTEN HITS SPEED BUMPS. BUT SINCE THE MARCH 23, 2020 BOTTOM, IT'S BEEN AN ALMOST STRAIGHT SHOT HIGHER FOR THE S&P 500. IF WALL STREET AND INVESTORS WERE TO BET ON HISTORY REPEATING, THEY MIGHT LIGHTEN THEIR PORTFOLIOS IN EXPECTATION OF A DOUBLE-DIGIT PERCENTAGE PULLBACK OR CRASH.

“IF YOUR VISION IS BLINDED BY THE SHADOW OF THE DARK NIGHT, WHY NOT USE YOUR THIRD EYE TO ENLIGHTEN YOUR MIND?”

HUMANS & MACHINES – THE CONVERGENCE TO EXCELLENCE

SOURCES:

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