"Risk Off.....And Beware Gurus In Sheep's Clothing"

The finance industry loves Gurus.

Modern media carries the can for much of this. Vast information pipelines, products of new technology and social media, cry out for instant, byte-sized commentary from entertaining sources.

Most people know the Bible verse: "*Beware of false prophets*". Much Biblical exegesis then omits the critical next lines: "*...which come to you in sheep's clothing, but inwardly they are ravening wolves*". To extend the metaphor, today's ravening wolves in sheep's clothing are the "calls to action" supplied by myriad web sites, social media and unlicensed "experts". Hip, hype, hop. The banks, never ones to trail far behind a Magic Money Machine, usually inflame the problem by creating their own in-house Gurus; owlish, PhD-decorated, tweedy former academics, less well paid than the well-shod and smooth-permed rainmakers who create the need for their content. Two fates await those who "call the market" (an action, by the way, which also increases in-house turnover). Successful bank Gurus break out of the banks, start up and get rich. Gurus who make bad market calls end up in a form of corporate exile. In a reputation fistfight between a bank and an in-house Guru, it's usually the bank that wins. Most bank Gurus are Profit-Prophets right now.

But reliable prophets can be very valuable. Over 40 years, Bruce and I think we've nailed the best.

Two of them -both independent, both successful over 4 decades, both with credible academic underpinning and, critically, a consistent internal methodology- are of one mind right now.

Gavekal in Hong Kong points to the return of an inflationary mind-set. This threatens the equity bull ("*serene as a Tibetan monk*") of our QE-dominated period. Covid Crisis funding has led to money printing 30 times the size of the Marshall Plan that re-energized Europe after WW II. This has led to inflation passing from financial assets to consumer assets (CPI), then on to Big Oil, a rough double since Vaccine November. Oil price doubles *always* lead to economic slowdown. Reducing global liquidity must lead inexorably to negative investor reaction and..."Risk Off".

Michael Howell of CrossBorder Capital in London sings a similar song. Global liquidity, his major field of study, peaked in Q4 2020. 6 to 7 months later -that's now- you can expect a slowdown. Asia and China are slowing. So is Germany on today's figures. The Reserve Bank of Australia is already tapering bond buying (reverse QE by another name). Howell admits that supply chain disruption may cause higher prices, but the trend is clear. 85% of QE has come from 2 central banks: the Fed and the ECB. Watch them closely, but take some remedial action in portfolios. *This is not a recession. It is a slowdown.* Abundance of debt will not allow rates to rise much. But with debt this big, liquidity is needed all the time to feed it and, thus deprived, equities will struggle.

It's time to re-focus portfolios on growth equities and tack back from the last year's emphasis on cyclical equities. Favour tech, healthcare, consumer staples, e-commerce, and some more secular recovery themes. Gold should offer safety. Be wary of banks, cyclicals...and sheepish Gurus.

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