IceCap
Asset Management Ltd.

Our view on global investment markets:

December 2018 – "Where's Hugh Grant?"

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Actually, Love is all around

The room was deflated. There was no confidence, zero self-esteem, and even the famous stiff upper lip was missing.

Once again, the British were bowing to yet another sovereign state.

Nelson would have been furious. Churchill would have snowballed into a spitting rage. Thatcher would have coiled to launch a counter attack.

Those were the days.

Today, surveying the room, the Prime Minister understood what was at stake. Something had to change. It was time to stand up to the bully.

He would do it for his girlfriend.

He would do it for his sister.

He would do it for his country.

Slowly, there was a deep breath, a pause, and then it happened.

Channelling the spirits of Shakespeare, Churchill, The Beatles, Connery, Potter and both of David Beckham's feet provided Hugh Grant with the courage to stare down the bully and respond with the one thing that works against a bully – strength.

The fictional British PM from the lovely British film, "Love Actually" would go on to lift the self-esteem & self-confidence for all of Britain.

Reality, is a different story.

Britain is once again being bullied and this time by the European Union (EU).

Sadly, neither Nelson, Churchill, Thatcher or even Hugh Grant for that matter are around to stand up for everything that once before put Great in front of Britain.

In some ways, Britain shouldn't feel too badly about lacking a backbone – after all, since the creation of the EU, Brussels has been bullying everyone who dared to stand in its path towards its dream of an administrative, centrally planned utopia.

In 2008, the Irish voted AGAINST the Lisbon Treaty dealing a major set-back to Brussels and its goal of gradually centralizing control of Europe.

The EU responded by calling the vote a "triumph of ignorance" and demanded the Irish vote again, and again until they got the vote right.

The Irish relented, and voted again to make things right.

In 2012, Italy faced a moment of truth. Its government was completely shut-out of funding markets. No one would lend them a penny. And with the 3rd largest debt load in the world – Italy desperately needed to borrow money, just to repay previous loans that were coming due.

To me you are Perfect

After weeks, and then days and then late night hours, then Prime Minister, Silvio Berlusconi made the decision that he would pull Italy out of the Eurozone, and devalue a new Italian Lira.

It was the only solution.

Instead – the bullies in Brussels once again took action and before most Italians tasted their morning macchiato, Berlusconi was bullied right out of office and replaced with a Brussels appointed technocrat.

Imagine an unelected entity removing a country’s elected head of state. Unthinkable – unless of course, your country is a part of the EU.

The list of EU bullying goes on and on and on.

Portugal – bullied.

Spain – bullied.

Greece – bullied.

Cyprus – bullied.

But, as everything moves in cycles – the days of Brussels, France and Germany dictating to the rest of the EU are over.

Push-back against the status quo and the political establishment is not only gathering steam – but it is spreading across the EU.

In Spain, Catalonia stood up to the Brussels-controlled Madrid and did the unthinkable – they wanted a peaceful vote on whether Catalans wanted to be an independent country.

Ironically, just as the Irish were encouraged to vote – Brussels and Madrid did everything in their power to discourage Catalonia from voting.

That’s what a bully does – it changes the rules and playing field to always suit itself.

This time however, Brussels' bloody crackdown on a peaceful public vote horrified the internets around the world.

In the end, the bully stopped the “outcome” of the vote, but it left the fight battered in the polls of global public opinion.

Others took notice.

> Hungary's Orban tells Germany: 'You wanted the migrants, we didn't'

In Hungary, no one wanted any part of the EU migrant policies dictated by Brussels. Prime Minister Viktor Orban declared Angela Merkel unilaterally created the crisis, and his country would have nothing to do with Germany’s problem.

I know it seems an insane person

Poland, Slovakia and the Czech Republic also agreed with Orban, and united they stood tall, erected walls and told the bullies in Brussels where to go.

This time, the bullies in Brussels relented and gave in to the Eastern European countries.

The Italians were next to keep the momentum going.

Their newly elected coalition is giving Brussels the fits.

Brussels demanded an EU approved budget.

Italy told them it was their money and they’ll spend it and tax it as they wish.

Brussels then told Italy to accept more migrants.

Italy said no, closed their waters and borders and sent all migrant boats to Spain and France.

And no matter how hard the Brussels bullies push back – the Italians, push back even harder.

With Brussels reeling and dealing with these new headaches – it clearly wasn’t prepared for what would happen next.

Enter Germany – the original home of the Euro and the real home of the EU central command .

Angela Merkel has always been seen as the de facto leader of the EU.

What Merkel wanted – Merkel got.

And she got 13 years of ruling the EU – outlasting leaders from France (especially France), Italy, Spain, Britain and others.

Yet, as everything (especially politics) runs in cycles – Merkel too is showing she is not immune to the volatile swings and movements engulfing the world.

While many are now familiar with unhappy voters rising to the polls across “other” European countries – most are completely unaware that the same is happening in Germany.

Germany's Merkel suffers humiliating election defeat in Bavaria as fringe parties win big

Recent German elections produced the unthinkable – a clear and present danger to the celebrated political career of Merkel.

First her coalition party was clearly defeated in a regional election.

And then Merkel too, faced her own day of reckoning as her own party voted her down on key recommendations.

Picked wrong Englishman?

Politics

Merkel Dealt Unprecedented Blow by Rebels as Caucus Chief Ousted

Realizing her *German* political future is over – she bravely announced she would not be running for any re-elections.

And just like that - there she was, gone.

With Merkel’s power diminished, Brussels will now have to rely upon French President Macron as the new bully in town.

Seems like a great idea – except, just as Merkel lost support, so too is Macron.

The celebrated nouveau leader of Europe’s rise to the top has now come crashing down harder than an ill prepared soufflé.

With current approval ratings running lower than that of previous French President Hollande (and THAT is saying something), Macron knew he needed something to right the ship.

Instead, his political ship was just capsized, rolled, and swamped – all at the same time.

As most are aware by now, France was rocked by national protests against Macron’s new fuel taxes.

What started out as a protest in rural France, quickly dissolved into thousands rioting and looting up and down the Champs-Élysées.

Ordinarily, the head of state would declare a national emergency, release the military and put an end to this moral inconvenience.

However, in Macron’s case – just as Merkel became a sheep for slaughter, so too would Macron.

In other words, Macron did not have the political capital (or will) to follow through with his climate-saving, fuel tax increase.

Instead, Macron caved.

The tax has now been delayed indefinitely, and to compensate for the lost tax revenues – something else will have to be taxed in its place.

Evidential Proof

And with France ranking highly amongst the most socialist-leaning countries in the world, the target of the new replacement tax is easy - the rich.

> **French government reconsiders wealth tax as protests intensify**
>
> **Solidarity tax on wealth may be reimposed amid widening gilets jaunes movement**

Which of course, will absolutely lead to yet another round of unintended (yet, easy to predict) consequences.

It is already well known that France is not a tax-friendly country for neither corporations nor high income earners.

Just a few years ago, then President, Francois Hollande’s tax budget imposed a 75% tax on anyone earning more than EUR 1 million.

Somehow, the negative reaction from the business community was completely unexpected by the French government and it forced them to abandon the tax plan.

At the time, IceCap wrote that the inconsistency on tax policies would force companies and individuals to re-think setting up shop in France.

Well, if somehow the Hollande 75% tax scare wasn’t enough to frighten away the international business community – the new Macron wealth tax will be enough to scare the merde out of everyone.

As you can imagine – every “wealthy” family in France is reading this news today and they’ve already started packing their bags.

Of even greater significance, this recent crisis for France has far reaching effects outside of the French business community.

The days of Brussels bullying other EU member states is OVER.

Which also means, the status quo of the EU and Eurozone is absolutely going to change.

If the EU holds together, power will be decentralized.

The financial outcome must therefore also change.

The IceCap view on the Eurozone is crystal clear, 100% consistent, and further confirmed by the recent events in Germany and France.

The bully has been bullied, and times have now changed.

Be prepared.

Definitely go for England!

Stock Markets

The selling frenzy that began in October continues.

Recall, IceCap is asset class agnostic – we neither love nor hate any investment market. Instead, we believe (and know) there are times to be invested in specific markets, and there are times not to be invested in specific markets.

Also recall, in our October 2018 IceCap Global Outlook we announced that we sold equity positions by nearly 1/3.

In other words, IceCap reduced client exposure to equity markets by a significant amount.

Unlike the majority of investment managers – and especially unlike every big box bank, IceCap did not sit on our hands, fingers and thumbs and "talk" our way through difficult client meetings.

Instead, we walked the walk.

It is true, we were not able to completely protect client capital. Yet, we have been able to soften the jarring blows.

And when we say jarring – we mean jarring.

As usual, perspective is needed.

2018 Year to Date performance by the broadest markets continues to show only 1 market with its head above water – the USA.

While US equities hover just above the magically 0% number, other national stock markets would give a year's supply of QE (Quantitative Easing) to be even close to that number.

Elsewhere, broad market returns range from -4% to -10% and lower.

Yet, this is where the devil is in the details.

Few investors invest in the boring, broad markets.

Instead, the big mutual fund firms, the even bigger insurance companies, and the gigantic big box banks all sell their clients on the investment adventure of a lifetime – the "search for yield".

Now, the reason the majority of the investing public are searching for yield, is entirely due to global central banks reducing overnight interest rates to 0%, and negative %, and then printing money (QE) to help reduce longer-term interest rates.

Effectively, these central banks lowered interest rates everywhere.

Academics said this would stimulate the economy.

Realists said this would force savers to invest in other higher yielding investments which would expose many of them, for the first time in

With any luck, by next year

their investments lives – to unusual risk.

Many "search for yield" investors, piled head first into emerging market bonds. In 2018, these bond markets are down -10%.

How's that for a safe investment.

Other "search for yield" investors, jumped into high yield bonds. In 2018, these bond markets are down -5%.

How's that for another so-called safe investment.

It gets worse.

Other "search for yield" investors believed in the buy stocks for dividends story.

In Canada, these energy dividend paying stocks are down -20%.


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Canadian energy stocks now back to 2003 levels. Investors should thank central banks for flattening the yield curve and thank clueless advisors for steering them into these funds. Remember: there's no #FreeLunch

11:07 AM - 23 Nov 2018

And in Europe, these bank dividend paying stocks are down -25%.

And if the "search for yield" in obscure bond markets and odd dividend paying stocks wasn't your thing – then the appeal of preferred shares was definitely appealing.

Except, the mathematical laws of investing proved yet again there is no manufactured risk-free lunch in the investment world, and especially in the preferred share world.

In 2018, these preferred share strategies are down -10% in the United States and -16% in Canada.

Using this as perspective, broad market returns of -5% and worse, are not as bad as the returns experienced by those in the safe "search for yield" adventure.

Currently for IceCap portfolios, our equity models are stabilizing. This suggests the price action of the current stock market correction are neither deteriorating further, BUT nor are they improving significantly.

For now, we are retaining our equity and cash positions and will continue to objectively assess whether our next equity market move will be to either decrease or increase our allocations.

Of course, EVERY market is connected one way or another. And, despite everyone talking about stock markets – we'll next show what will really shape global markets.

Without hope or agenda

Asymmetrical Risk-Return Relationships

Want to know why the house always wins in Vegas?

It's because the odds, or probable outcomes are always in favour of the house, or put another way – the gambler always has the deck stacked against him.

This concept is called the asymmetrical risk-return relationship, and it also exists in the investment world.

The average investor is told that stocks always go up over the long-run.

Although the long-run is rarely defined, and it's never the same for every person or every market; this expression is effectively trying to describe an asymmetrical risk return relationship.

This relationship is one where the expected positive returns from the stock market significantly exceed the expected negative returns from the stock market.

The same is also true for the bond market.

When bonds are paying you interest payments of 3% a year – you expect to receive at least 3% as your return, and never anything less than that – after all, it's a BOND and bonds are safe.

And THIS is the key concept that the majority are missing, fail to understand, or are simply not allowed to discuss.

What we mean by this is that in the bond world, virtually every investor has been told that bonds are always safe, you'll always get your money back, and they are meant for conservative investors, and investors who want to keep a little somethin'-somethin' for a rainy day.

Of course – IceCap is telling you, this is wishful thinking.

2018 is not the same as 2008, 1999, 1989 or even 1982 for that matter.

The financial world we live in today is COMPLETELY different than any other moment in time ever experienced by anyone in the investment world.

For two reasons.

First over the last 38 years, long-term interest rates have steadily declined from nearly 20% all the way to 0%.

This is important, because as long-term interest rates decline steadily – bond market returns increase steadily.

This trend has reversed, and so too will the investment experience for everyone investing in the global bond market.

Second, the debt super cycle borrowing binge was all enabled by unchallenged, free wheeling governments fueled by low interest rates on borrowed money.

The Creation of Asymmetrical Risk-Return Opportunities Across Bond Markets

Reason #1
36 Yrs of interest rates declining from 20% to 0%

+

Reason #2
36 Yrs of borrowing fueled by interest rates declining from 20% to 0%

What happens when long-term interest rates rise rapidly?

- Bond prices decline rapidly
- Borrowers ability to borrow decreases rapidly
- Stress across funding markets escalates rapidly
- Decline in bond prices will be multiples of the interest payments received from your bonds

But the truth is, I’m in love

Yet these two, very easy to see and very easy to understand facts are completely missing from the investment industry, the investment media and most disappointing of all – the universities and colleges who are churning out CFA seeking millennials by the boat load.

Recently, we’ve had several conversations with larger pension funds who all recounted how increasingly their bond fund managers have turned into 30 year olds.

While, there’s nothing wrong with a little youth movement every now and then – there is something wrong when these young guns are charging through fixed income presentations extorting their 10 years industry experience and pounding the table on the incredible opportunities they expect to occur in the land of bonds.

[redacted] CFA®, M.SC.
Vice-President and Portfolio Manager, Fixed Income [redacted]
[redacted] is a member o [redacted] Fixed Income team and a portfolio manager for the firm's Corporate Fixed Income strategy. He has 10 years of industry experience, and has been with the firm and a predecessor since 2009. Prior to joining the

To be clear – there’s now an entire generation of investment professionals around the world who’s entire career (both professional and academic) has occurred during a period dominated by:
- 0% interest rates
- negative% interest rates
- QE and money printing
- bank bailouts
- and sovereign debt bailouts

Why is this important?

This is important because the industry as a group creates, forms and distributes risk-return expectations for every dollar in the investment universe.

When markets are charging dead ahead into an all-certain event, the investing public looks for leaders. It looks for dynamic wisdom. It looks for 5-dimensional thinking.

Instead, the industry is increasingly being lead by fearless leaders who’ve earned exactly zero stripes, no investment scars, and who are not compensated to see the investment world for what it is – a complex, interconnected relationship between and amongst multiple factors which always move in sync (positive and negative correlations) <u>during</u> significant turning points.

While everyone today is closely watching equity markets – and justifiably so from a daily movement perspective, the majority do not realize the market magician is using the oldest trick in the book – distraction with the slight of hand.

In the world of magic – there really isn’t any magic. Instead, the slight of hand, moves just enough to distract the audience from what is really happening.

And yes, corrections in equity markets are very unsettling and as

I left Elton John's

described earlier, IceCap certainly does takes them seriously.

Yet, unlike the majority, we have not taken our eye off the ball, nor have we become distracted by the emotional market churning noise.

And we most certainly, have not been lulled into a sleeping comfort by the new generation of bond managers.

Instead, we share with you the market trick at hand – the asymmetrical risk-return relationship currently offered to every investor in the world.

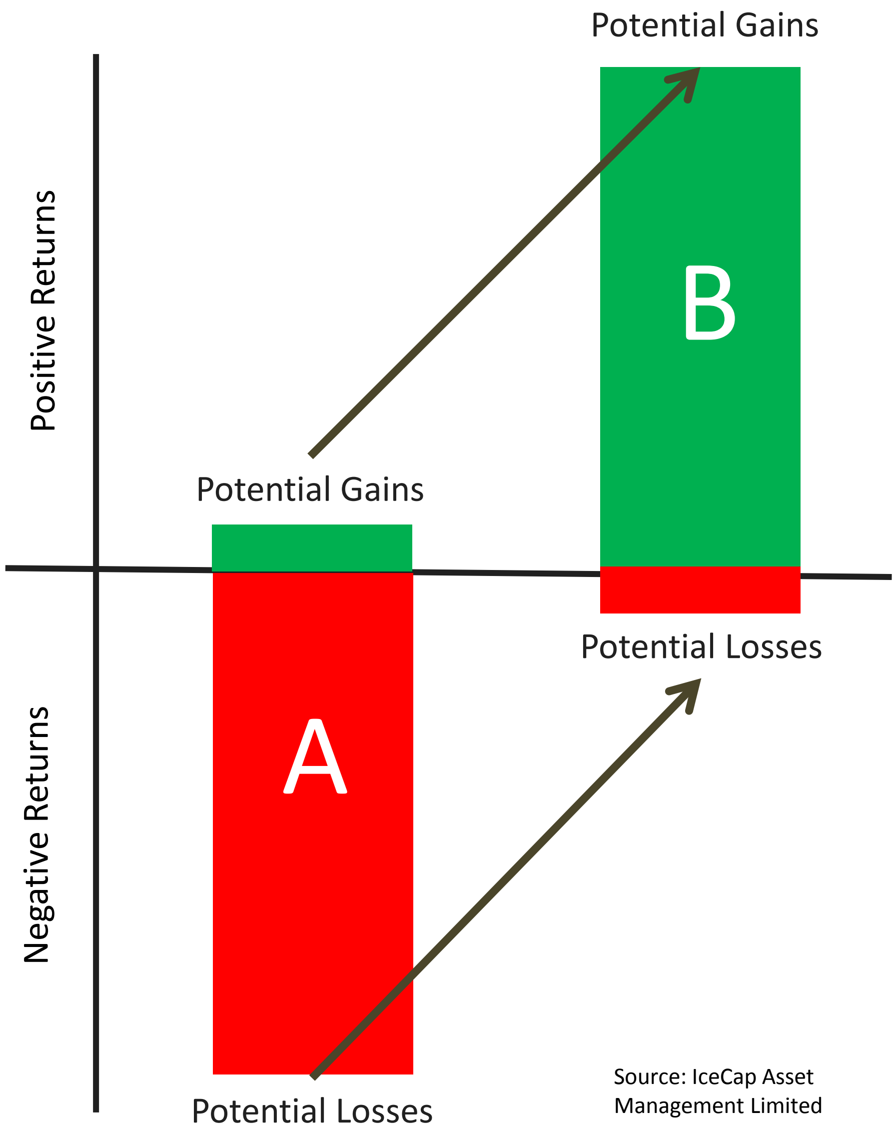
Our **diagram** on this page illustrates the return expectations for the bond market.

The "A" column is representative of current global fixed income markets.

The upside to investing in low-risk bond strategies is approximately 3%. Yet, as IceCap's expectation for a crisis in sovereign debt escalates, the expected losses will be 20% or more.

We tell you with certainty – these are the kind of odds you normally would only find in Vegas.

In bond markets today, the sellers of bonds are pulling the wool over the eyes of the buyers of bonds.



Source: IceCap Asset Management Limited

I had an uncle called Terrence once

And we're sorry to tell you, everyone today including mutual fund investors, target date funds, life cycle funds, and especially pension funds are set-up for long-term losses in their fixed income strategies.

We'll next show you why this fixed income market environment cannot be avoided. It will happen.

That's the bad news.

The good news is, it doesn't have to happen to you.

IceCap is developing a strategy that will turn the tables on this asymmetrical risk-return relationship.

In other words, investors can benefit from this asymmetrical risk-return relationship in the bond market.

In simple terms, IceCap through a partnership with another Firm (US-based) is creating a strategy that will allow investors to shift from the "A" column to the "B" column.

We are receiving interest from investors from all over the world including individuals, pension funds, banks and family offices.

If you'd like to hear more – please contact:
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Special Announcement

IceCap Asset Management and **Santiago Capital** are partnering to offer accredited and qualified investors an opportunity to participate in a new fund.

IceCap Asset Management has consistently, and coherently demonstrated a unique and accurate perspective of global financial markets.

Specifically, our research continues to confirm that escalating stress will develop across global fixed income and currency markets.

Having identified the problems, and symptoms – we are now offering a solution to investors who understand these global dynamics and wish to potentially benefit from expected market movements.

Those with preliminary interest, should contact directly:

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Telephone: +1-902-492-8495

Arrivals Gate at Heathrow

Actually, news is all around

Yes, equity markets continue to soak up every minute on headline news medias.

Yet, the global bond market continues its relentless march toward a certain, spectacular event.

First up with a warning, comes from none other than the Warren Buffett owned Moody's:

CORPORATE BONDS

Moody's warns of 'particularly large' wave of junk bond defaults ahead

- Since 2009, the level of global nonfinancial companies rated as speculative, or junk, has surged by 58 percent, to the highest proportion ever.
- Moody's warns that even though default rates are low now, future periods of stress will cause a "particularly large" wave of defaults.
- Debt for U.S. companies has surged 49 percent since the crisis, with many higher-rated firms using it to buy back shares and issue dividends.

Granted, Moody's is the same Moody's who failed to warn anyone about the 2008-09 credit crisis.

But that was a different time.

Back then, Moody's was competing furiously with Standard & Poors to earn as much in ratings fees as possible.

In other words, their hands were so deep into the cookie jar – they were completely blinded by the monetary sugar-high.

Clearly knowing they are now in the cross-fire of the regulators, Moody's is on point with their warning of potential defaults in one of the "searching for yield's" favourite market - the High Yield Bond sector. Which of course is also known as the Junk Bond sector.

Years from now, when High Yield investors are still asking how the industry misplaced their shirts, regulators will undoubtedly show its teeth and ask the industry why it subtly changed the name of these funds from "Junk" to "High Yield'.

The answer of course is because who in their right mind would invest their hard earned savings in something called "junk"?

High Yield definitely sounds better, much better.

But let's be honest here, there's no way you'll hear that from the industry.

Meanwhile, other announcements from the bond world should also be catching your eye.

I Love that word "relationship"

It seems even the self-proclaimed world's safest banks cannot escape the oncoming stress in the sovereign debt world.

STREETWISE

CIBC's Caribbean arm at risk of writeoffs after Barbados debt default

Bank is particularly exposed through loans and securities worth a half-billion U.S. dollars

And, let's not forget the outright disaster engulfing the once shining, bluest of blue chips – General Electronic:

GE Bonds Keep Plunging, Pushing Through All-Time Lows

By Natalya Doris
November 15, 2018, 4:23 PM GMT-4 *Updated on November 15, 2018, 6:04 PM GMT-4*

A few years back, I remember attending a presentation by GE's investor relations team. Back then, the story was – "GE is AAA rated, has the best management team on the street and the best business models money can buy."

After the presentation, I privately commented to the presenter – "I don't get it. Seems to me, GE is a manufacturer of industrial and consumer goods who increases their low margins by providing aggressive vendor financing."

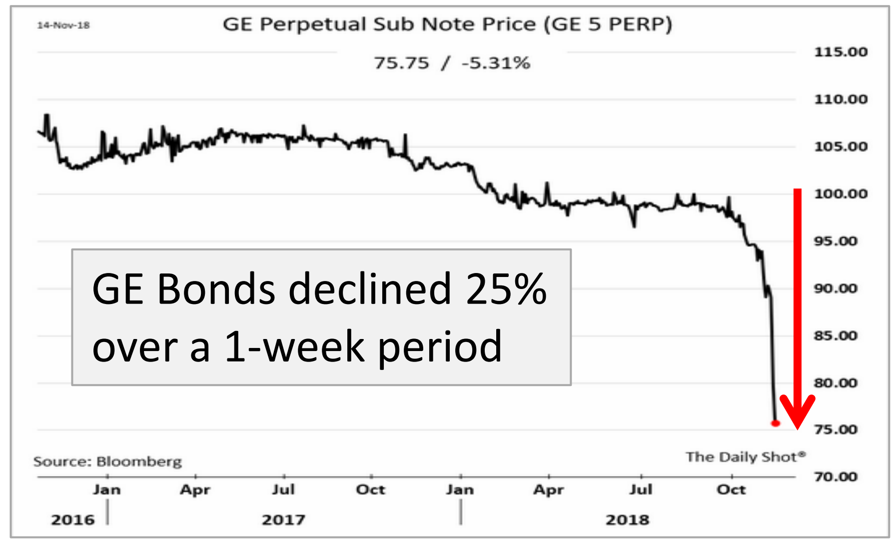
The response was as expected – "blah, blah" and then more "blahs" about the business model, management team and credit rating.

Now, here we are years later and investors are realizing that debt, debt levels, and borrowing rates DO matter.

As well – there never was a "best management team" etc.

Yes, GE stock and GE bonds have been absolutely decimated by its inability to continue on with its financial "competitive advantages".

Yet, the single, biggest lesson all investors (not just GE investors) need to acknowledge here is the rapid decline in the value of GE's bonds.



Here's an important message from your Uncle Bill

If any charts, diagrams or observations should rush a chill down your safe bond spine – this is it.

Remember – GE wasn't a high yield, or junk bond. It used to be a AAA rated issuer of debt. It was the real deal.

Of course, the bond bulls will proclaim GE is a stand-alone story. It's a star that lost its shine.

Well, over the last year IceCap has shared with clients and readers numerous stand-alone fixed income stories that are developing into entire universes with illumination problems.

One or two isolated events related to stress within bond markets are indeed stand-alone stories.

But when we consistently see stress building across the global yield curve, amongst both sovereign/government debt and private sector debt – you should take notice.

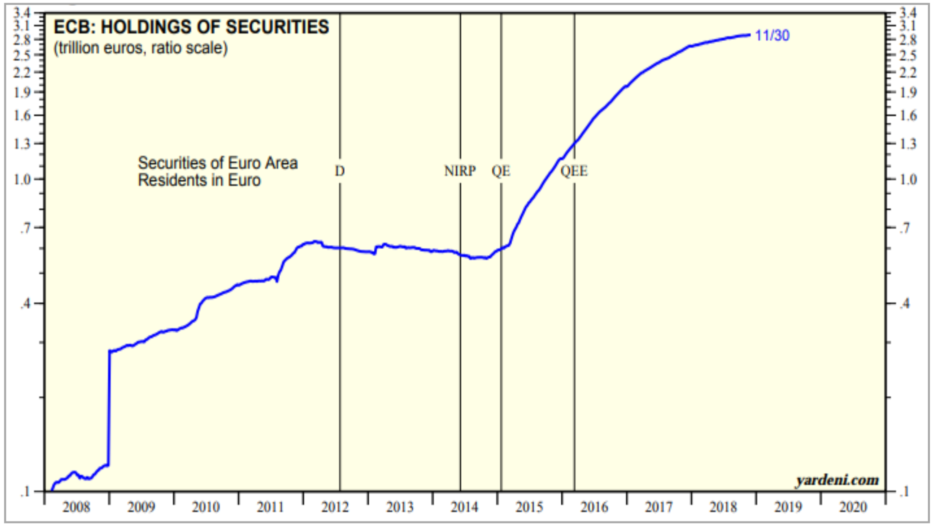
Taking Notice

IceCap has identified numerous stress points across the global yield curve.

Yet, the one pressure point that continues to flash **red** is the **Eurozone**.

The deep troubles across this common currency zone continue to grow deeper and wider.

Note the following:



This chart shows the cumulative growth in money printing by the European Central Bank (ECB).

We've shared before how in 2009 global central banks declared the only way to save the system was to print money.

When we first heard this announcement – we thought maybe, central banks would actually send everyone cheques every week to encourage them to spend, which would help the economy eventually grow and upright the ship.

Naturally, common sense doesn't exist in the academically dominated world of central banks.

Worse than the total agony of being in love?

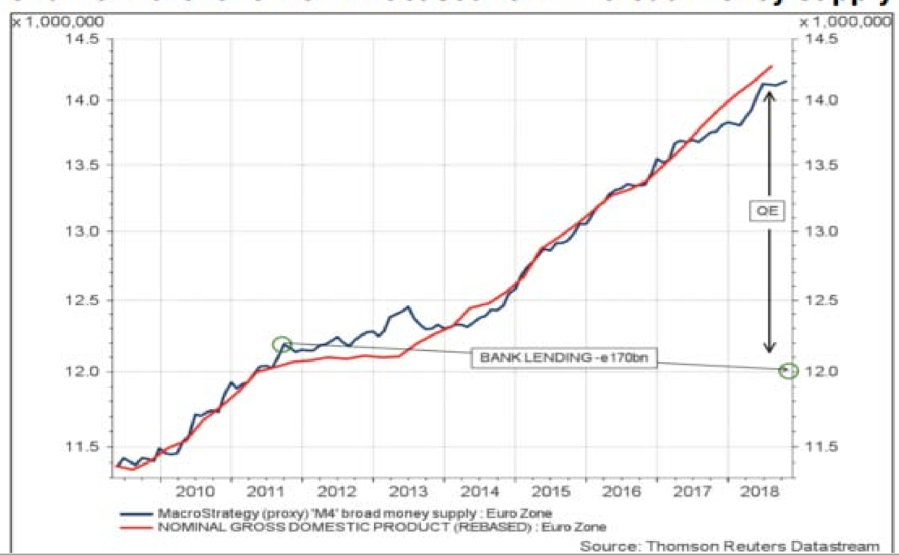
Instead of printing money and giving this money to the average Joe, the central banks decided instead to print money and give it to governments.

Put another way – instead of letting consumers, capitalism and the invisible hand solve the crisis, central banks decided that our governments would know better how to spend these printed monies.

Nearly 10 years later, the ECB continues to print money – and with very little effect.

Here we show the growth of the Eurozone economy and the growth of

Chart 5: Eurozone NGDP rebased to 'M4' broad money supply



the Eurozone money supply. Clearly since the 2009 crisis escalated, the economy and money supply grew hand and hand.

Yet, the chart also shows the growth in European bank lending.

And this is what catches our eye.

As a result of IceCap's well documented and less enthusiastic financial view towards the Eurozone - we often receive unsolicited 'advice' from other investors proclaiming the Old World to be in terrific shape, everything is fine and to see otherwise, simply means we do not understand what it is to be European.

Now if being European means, one is unable to objectively conclude when the financial foundation of a currency sharing, non-debt consolidating, and non-fiscal consolidating currency union is rotting at the core – then yes we agree.

Of course, most investment professionals know that a healthy economy is one supported by healthy bank lending growth.

Yet, one can see from this chart that despite the Eurozone economy growing since the 2009 crisis, bank loan growth actually been in decline.

This isn't good. In fact it's not even close to being not good – it's outright frightening.

It's a self-preservation thing

Effectively, the ECB is the life support machine and the Eurozone has been plugged in and barely staying alive.

Every time the ECB prints money, it uses this money to buy bonds issued by the 19 countries who make-up the Eurozone monetary union.

The chart on page 15 shows that as of last week, the ECB has printed money and purchased over EUR 3 TRILLION in government bonds.

The reason this is important and how/why it ties into the IceCap discussion about asymmetrical risk-return opportunities is as follows:

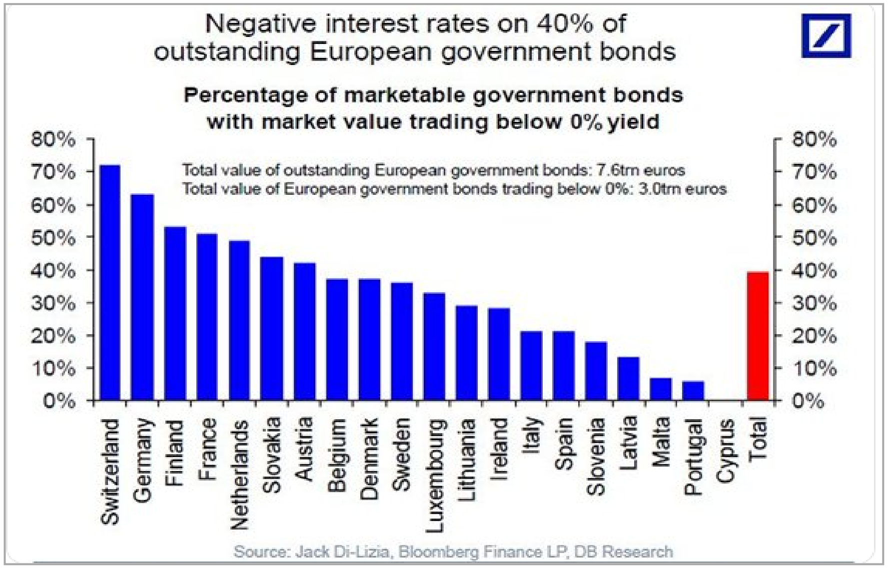
- the ECB buying government bonds has resulted in private investors being crowded out of the Eurozone sovereign bond market

- 40% of European government bonds now yield NEGATIVE %

Just to be clear, this chart (next column) should be front and center on every investment managers report, on every mutual fund report and certainly on every pension fund CEOs report.

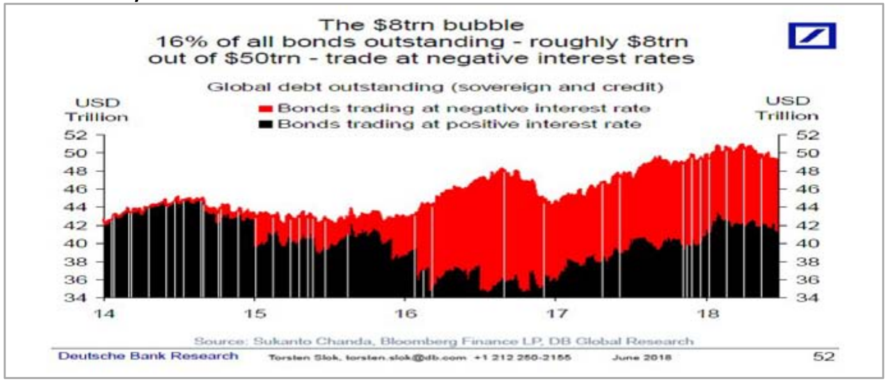
But it isn't.

Instead, the fact that 40% of European sovereign debt pays NEGATIVE interest to its investors, or put another way – over EUR 3 TRILLION in European government bonds are priced with a NEGATIVE yield is completely lost upon most investors.



We can tell you with certainty, this is the clearest sign that European sovereign debt is in one, very big bubble. And this is trouble.

If that doesn't catch your fancy, here's another perspective of the same story:



Beautiful Aurielia

And what makes this chart even more interesting, is that it’s prepared by an European bank (the largest one actually), and it actually uses the word “Bubble”.

From a market perspective – the crisis here occurs as soon as the yields on all of these NEGATIVE yielding bonds begins to turn positive.

We know this. The ECB knows this. And the market knows this.

Meaning, effectively – it’s a waiting game.

The ECB and Mario Draghi know private investors have zero interest in buying European sovereign bonds (or any bond for that matter) with NEGATIVE yields.

Put another way – the ECB knows there is no market for this stuff.

To make matters worse – the ECB also knows that the Euro sovereign states issuing these bonds (Italy, France etc) cannot operate their governments if interest rates rise higher.

After all, each Eurozone country is running a deficit, plus they all have mountains of past debt coming due.

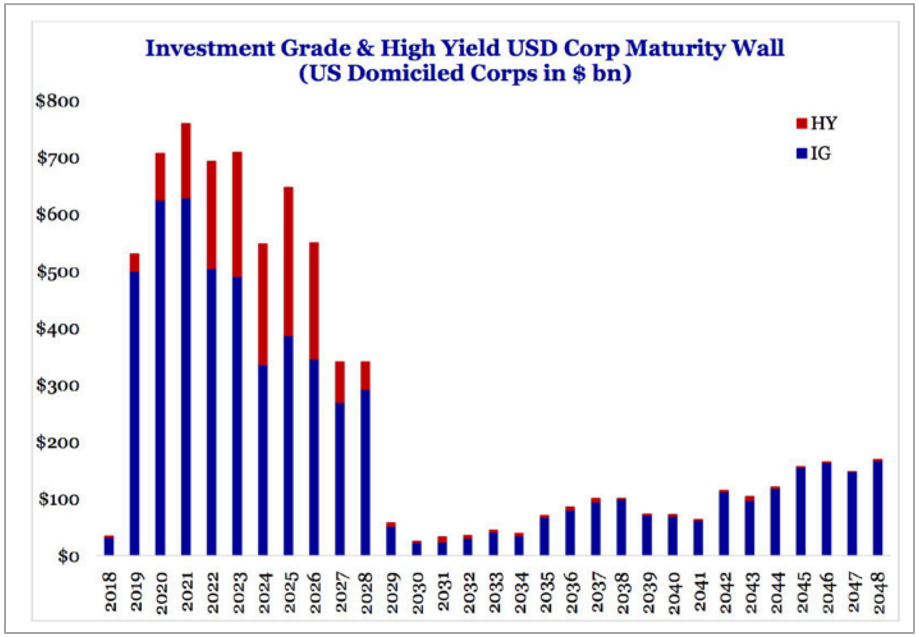
The only way this European economic fantasyland is holding together is due to the ECB manipulating interest rates to NEGATIVE levels.

Eurozone countries and governments cannot absorb higher interest costs. Higher rates becomes the end of the Euro story.

But it just won’t be contained in Europe.

Other plain, easy to see hurdles exist elsewhere.

This chart below details the “maturity” wall facing borrowers in the high yield (junk) bond market, and any increase in interest rates will make life very difficult for these companies.



I'm so excited.

The Last Word

The chatter about an impending recession is true – we agree.

Mind you, don't get caught up in the media-definition of recession having to be NEGATIVE GDP growth over two consecutive quarters.

Global growth below 3% qualifies as a recession.

China growing below 5% qualifies as a recession.

The point is that, the global economy has been slowing now for a while, and if not for the American tax cuts – growth would have been grinding even slower.

Traditionalists are quick to argue that slower growth and recessions are bad for stocks.

IceCap is telling you this isn't always the case.

There are periods of slowing growth when stocks are doing well and there are also periods when economic growth is doing very well and stocks are declining.

The point we make is that the investment world is not 1-dimensional.

The far bigger concern with the on coming recession/slower growth economy is the impact on government tax revenues.

Slower and lower growth means less tax revenues.

Less tax revenues means bigger deficits.

Bigger deficits means more borrowing.

Pretty bad stuff here. But the one ingredient that will really make this recipe toxic is rising interest rates.

Higher rates will make it more expensive for governments to borrow – which causes deficits to deteriorate even further.

In conclusion – the world is absolutely headed for an economic slowdown. However, it will be a slowdown unlike any other slowdown we've previously experienced.

Financially, this makes us excited.

And we suspect, it may even cause Hugh Grant to sing and dance as well.

Yep, solid gold

Our Strategy

Bonds

No changes. Our primary concern remains focused on the probability of long-term rates surging due to re-escalation of sovereign debt crises. Some of our best investment ideas are on the short side within different fixed income markets. See Page 12 for opportunities.

Stocks

Changes – in October we decreased equities significantly. Remaining objective about whether to decrease further or increase significantly.

Currencies

We continue to remain structured to benefit from a strengthening USD. The combination of increased global demand for USD and tightening economic/social/political conditions is creating a high probability of foreign capital seeking safety, protection and liquidity in USD. It could surge.

Commodities

We missed the rally in crude. Yet, we didn't chase it at the top either.

A strengthening USD is not yet optimal for a bull market in gold.

We have no positions in oil or gold at this time. Stay patient.

As always, we'd be pleased to speak with anyone about our investment views. We also encourage our readers to share our global market outlook with those who they think may find it of interest.

Keith Dicker, CFA founded IceCap Asset Management Limited in 2010 and is the Chief Investment Officer. He has over 25 years of investment experience, covering multi asset class strategies including equities, fixed income, commodities & currencies.

Keith earned the Chartered Financial Analyst (CFA) designation in 1998 and is a member of the Chartered Financial Analysts Institute. He has been recognized by the CFA Institute, RealVision, MacroVoices, Reuters, Bloomberg, BNN and the Globe & Mail for his views on global macro investment strategies. He is a frequent speaker on the challenges and opportunities facing investors today, and is available to present to groups of any size.

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