



# ECOGNOSIS ADVISORY LTD

From the Greek: ΟΙΚΟΝΟΜΙΚΗ ΓΝΩΣΙΣ (Economiki Gnosis, Knowledge of Economics). Ecognosis is a global financial, economic advisory and information service, covering economic and financial developments, equities, fixed income, forex, commodities and other assets. Econotes is a research publication available free on our internet site and to the public in Hong Kong. It is not a solicitation for business and neither does it contain investment suggestions on specific and named securities including any buy, sell or hold advice. It is written by Dr. Andrew F. Freris based on 52 years of market experience which includes senior positions with GT Capital, Salomon Brothers, Bank of America and BNP Paribas as well as senior academic posts with universities in London and in Hong Kong

Level 20, One International Finance Centre, 1 Harbour View Street,, Central, Hong Kong. Tel: 852 3167 4591, Mob 852 9738 0944, Email: afreris@ecognosisadvisory.com, Website: www.ecognosisadvisory.com, FB: @ecognosis

ECONOTE No. 97 Why the year 2020 and CV19 taught us nothing

31/12/2020

## Summary

It is completely natural that at the end of a momentous year, questions should be asked as to what lessons can we take away from a period that showed destruction of human lives and of financial assets. The equally natural reaction is, that lessons learned, will be valuable when facing future similar circumstances. The assessment of these issues relies on subjective appraisal, basically one's own Weltanschauung, a fancy German way of saying "point of view". I am definitely not an exception and, hence, it is only fair to readers who are making the huge compliment of reading me, to indicate where I come from. I believe that people do not learn lessons from history or experience but simply ensure that, next time, they don't get caught rather than change their way of acting. People collect points of view over time, which do not change, but simply adapt to ensure minimum damage and survival.

## Investment Conclusions

The persistence of the aberration called cryptos is very useful and indicative in helping us understand the behavior of the financial markets in 2020, namely the disconnect between major markets and the real world. Cryptos based on nothing, earning nothing and backed by nothing still attract investors. This is similar in the way that equity valuations in major markets, not based on the parlous state and outlook of the real sectors of these economies, hit record highs. This behavior can be partially explained by the injection of liquidity by central banks, which, since 2007, has proven that more money only causes asset and not CPI price inflation, burying once and for all monetarism. And thus, paradoxically, equities and fixed income did, and may continue to do well. Rationality, clearly, is in short supply.

## Why 2020 and CV19 did not teach us anything

(a) True pandemics happen rarely, the last big one being the Spanish flu which killed millions by 1920. There are now no people alive to remember it and act on the experience. In any case, the huge rise of air travel means that, once an infection starts now, it can not be easily if at all, controlled. So the next pandemic will very likely find us equally unprepared to respond fast and globally. Think about it, if Trump had won, very little centralised response would have taken place in the US in 2021 until it looked like the CV19 could kill millions rather than thousands. The US would have also stayed out of WHO and thus refused to participate in globally coordinated action.

(b) Economically speaking, the initial response of governments to the economic impact of CV19 was modelled to that of their response to the 2007-9 crisis. Primarily it was pumping money in the financial markets and not to people's pockets, despite the fact, that, the CV19 was not a financial crisis. Only later on in 2020 money was given directly to people and not to banks.

(c) With the possible exception of the EU, there has been near zilch true international cooperation and coordination to face and deal with CV19. Watch the scramble for vaccines and the utter disarray of opening and closing frontiers, imposing and unimposing quarantines, lock downs and letting loose, and all with inexorably rising infections. However, climate policies and politics offer some hope of global action on CV19 at some stage.

(d) And to add insult to injury, the S&P ends at record high despite the absence of strong indications that 2021 will witness a global recovery of sorts. Fig. 1 shows that the Nikkei, Shanghai Comp and Brazil's Ibovespa ended the year up, while the Footsie and HSI down.

This small sample of diverse performance only accentuates the disconnect between markets as well as with the real world, as CV19 is now truly pandemic affecting all countries in the world. As for the pathetic and shambolic UK, whose citizen I am, the markets are down despite the dawning of the national liberation with the Brexit done and fisheries, that mainstay of the UK economy, protected. What a perfect time to cast off loose and face a hostile and frightened world with the temptation of trade deals with the UK!

Fig 1. S&P (red), Nikkei (or), Shanghai (yel), FT (blu), Ibo (gr), HSI (br), 2020=100



Source: Bloomberg.

## But perhaps we exaggerate ?

**Aha ...! but 2020 may have taught us or reminded us of something**  
 As always the poor will pay for the immediate costs ( loss of jobs, of opportunities and of small businesses) AND will also pay for the longer term costs, especially for the growing fiscal deficits to pay for CV19 relief and the eventual repayment of government loans. Be noted that either inflation will lower the real cost of these loans or higher taxation will repay them. As the majority of individual countries' tax systems are basically regressive , and inflation always hits the poor most ( little or no ownership of real estate etc ), the poor will also pay for these longer run costs. And all that, on top of the immediate impoverisation of the already poor. (Fig.2.)The poor not only always lose, but proverbially "they can not even quit the game". Kind of a malevolent "Hotel California"....

### And so what of 2021 ?

More of the same as in 2020 with spreading of the infection, more state help ( truly necessary), more adjustment to living with the CV19 but not learning its lessons. For the latter, watch the obstinate resistance of people in the US and UK to wear masks. Hopefully under Biden, some form of return to global cooperation will take

### BOX: The devil is in the details, to vaccines and back

**"VACCINE EFFICACY** is the percentage reduction of disease in a vaccinated group of people compared to an unvaccinated group, using the most favorable conditions. It is best measured using double –blind, randomized, clinical controlled trials, such that it is studied under "best case scenarios." **VACCINE EFFECTIVENES** differs from vaccine efficacy in that vaccine effectiveness shows how well a vaccine works when they are always used and in a bigger population whereas vaccine efficacy shows how well a vaccine works in certain, often controlled, conditions." ( Wikipedia)  
 "As we have alluded to, the development of a vaccine that shows **efficacy** in clinical trials is only the beginning of a process to manufacture, deploy and monitor the effectiveness of a new vaccine." ( Paediatric Respir Rev.Sept 2020)

I am an economist and not a virologist. But sheer common sense points that these vaccines are our best shot but, for now, they are basically untried on a large and differentiated population and under real world and not lab conditions. Hence optimism is not based on data but just on optimism

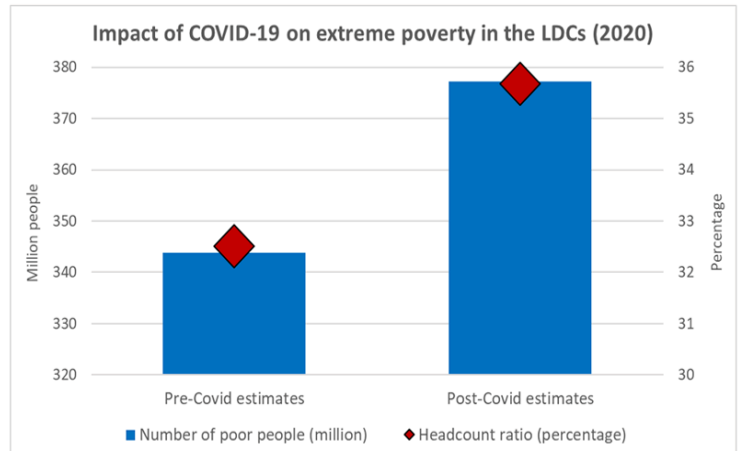
place, not because everything depends on the US, far from it, but because of the example that a country can go crazy for four years but then out of sheer self interest can return to sanity and to the global fold. As to the highly expected impact of the vaccines, my virologist friends tell me that this infection will go on till most of us are infected and/ or protected by truly functioning vaccines. For the latter, the "proving period" that they do work, based on the performance and experience of past vaccines, can be as long as 2-4 years. (Factbox)

### What do I tell my clients?

Assuming that they are listening. ( Remember the joke, I think, about president Nixon, that "There was no silent majority...it was just Nixon that was deaf...")

1. One bright spot is the expected acceleration in investment in green energy and its symmetrical negative outlook for fossil energy.
2. Working from home will not be the "new norm" it is the new norm and it may well spawn more technological improvements to make working from home more efficient. Taking your PC home and using Zoom and Skype are not exactly breakthroughs in technology !
3. Entertainment at home has not yet seen what true growth and competition mean. Plenty of room here, too, for innovation in programming and delivery.

Fig.2: Poverty and CV19



Source: UNCTAD, May 2020

## Conclusions of sorts

China will continue to benefit from its early recovery, but not Hong Kong which depends on China's tourism and, hence, depends on the rate and control of infection which is, clearly unpredictable. S.Korea has done well so far, as has Taiwan, and both will also benefit from China's recovery as will Australia, notwithstanding the trade spat so far.

Equities in these markets should benefit.

Fixed income faces the management of the fiscal deficits and the re-leveraging of the corporate sector in response to the CV19 depression. This means a "fence seating" recommendation of careful sector and company selection in order to reduce the expected credit risk, which bring us back to green energy and, hence, to true and not fake green bonds.

And please, oh please, keep out of cryptos. Nothing has changed in the last three years, cryptos are still backed by nothing. China's digital currency is not the seal of approval of cryptos as it is not a crypto because it is backed by real RMB ! Why people buy cryptos and drive their prices to new heights ? Because they expect other people to buy them. Case rests, as do my musings on economics and the meaning of the life. Last word goes to Banx from the FT who nails it spot on !

Andrew Freris ( writing completed on 31/12/2020)

