

On 1st January, 2022 the world had the realistic expectation that our latest global threat, the COVID-19 coronavirus, could finally be managed. With vaccination, we could once again imagine that life would return to a more bearable, if not more enjoyable “new normal”. Little did we know that a diminutive Russian leader had already hatched aggressive military plans that would test the world’s resolve in a very different way. Since the GFC, Western nations, like grazing antelopes, have been oblivious to the perils of a changing global political and economic landscape. We have been distracted and weakened by historically typical “end of empire” financial woes and consumption decadence, preoccupied by climate extinction and “woke” obsessions. Meanwhile opportunistic totalitarian nations, like hungry lions, have spotted a divided herd and vulnerable prey. In plain sight, Russia occupied Georgia in 2008 and annexed Crimea in 2014 with little push back from the West. In a brazen breach of promise, China has all but expunged democracy in Hong Kong, committed atrocities in Xinjiang and assumed control of the South China Sea. The predators now have Ukraine and Taiwan in their sights. Both Russia and China have become empowered, ruled by strong men. Each is critical to global commodity, energy and production supply lines. Each has contempt for the Paris Climate Agreement. Each seeks to take back what they believe was always theirs. Each has no tolerance of international interference and no fear of an impotent NATO treaty, a hapless Washington and rudderless EU. Sadly, the tired West has no Volodymyr Zelensky to stand up to them. It would be foolish to ignore Putin’s nuclear threats or China’s potential economic punishment to the world. Tyrants can and will unleash their fangs when provoked or obstructed. From this point on, the co-operative, globalised community that has delivered us an economic peace dividend since 1991, is over. The world appears set to be re-aligned into two distinct systems and trading blocks, communist/totalitarian and neo-socialist/democratic. The Fourth Turning has begun. National security, self-sufficiency and less trust is the new order and will cost money to implement. In one way or another, each of us will experience the fallout of the new world order. Without free trade, what we each buy, sell, make, consume or experience will cost more, from fuel and food to first aid kits. You may have already noticed. Yet never fear, the geniuses that have run the world into the ground still believe we can keep on spending money, manage inflation and leave interest rates low so we can enjoy our prosperity a little longer. *Winter is coming.*

Borrowers Breathe Easy - Interest Rates Will Not Break You in 2022

Cause and Effect

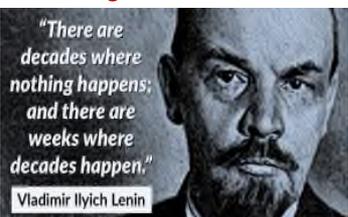
For many years we have written that the natural and inevitable consequence of easy money and low interest rates is inflated asset prices. The longer it persists, the more entrenched is the belief that over priced assets are “normal” and the more we bid them higher. This is not an original thought and hardly a revelation to readers tired of hearing it. Still, it is precisely how investment bubbles form. Since no two economic booms are identical, we fail to recognise the common risks they carry, explaining why people *rarely identify investment bubbles, until they burst*. Repeatedly.

Over the last 18 months we have discussed the consequences of the extraordinary amounts of money created by all governments and given directly to households and corporates alike. It is of course **INFLATION**. Ultra low interest rates and quantitative easing (QE) to “**save the economy**” after the GFC, seemingly had no inflationary effect. This led governments into a money printing frenzy in response to COVID-19, believing they too could test the laws of economics to “**save the system**”. (Strange. People feel comfortable with sky high asset prices, but governments feel they need to save them?).

They were wrong. We now know inflation is real and demand way too hot for COVID disrupted supply. Rising energy costs and **The Great Resignation** in many industries across the world has lead to labour shortages, wage increases and cost increases embedding systemic demand, supply and cost pressures. The FED and RBA believed these factors to be **transitory**. Some are, but many are not, leaving them seriously behind both the yield curve and the inflationary curve, not unlike the inflationary mess of the 1970’s .

Interest rates have been kept too low for too long, again. The working from home revolution and insatiable propensity to borrow at **emergency** interest rate settings has resulted in an unexpected **debt and asset price explosion** across the planet, catching regulators unprepared. Spending government handouts on imported goods did not help. In January 2022 the penny finally dropped and interest rate increases began to be discussed, predictably leading global equity markets to fall ever since. **Cause and effect**— we know increasing interest rates **WILL** decrease asset prices.

Then along came ex-KGB officer Putin and the dilemma of this decade.



Russia’s invasion of Ukraine is a watershed moment in time, challenging sovereignty, individual freedom and a rules based world order, established in 1949.

Is it our wake up call that **life can be threatened by BOTH man and nature?**

Maslow’s Heirarchy of Needs

Maslow’s Heirarchy Of Needs is a theory that puts forward that all people are motivated by five basic needs. Take a moment to study a simplified illustration presented below. Consider **the things you value most** in your life and where they sit on the hierarchy of needs.

We suspect that most would be within the top 4 layers, with the bottom layer taken as a given. **War changes everything.** Nothing is a given.

Imagine an uninvited army coming to your homeland with tanks and guns forcefully insisting on the surrender of your property or your life.



Although trade and financial sanctions and the freezing of Oligarch assets may hurt, they won’t stop a tank or save a life. Russia’s seizure of Ukraine shifts control of key assets. This is where the consequences of globalisation start to get tricky. Having surrendered itself dependant on external energy, how far can Europe really go to defend a cause, at the expense of its own people and their livelihoods? Can a “green” EU challenge the very nation that supplies the energy to keep its lights on and fires burning? After all, Russia’s dirty and expensive coal, oil and gas provides reliable energy when clean, renewable but intermittent energy from solar and wind FAILS. Damn!

A Brief History of Ukraine

It is almost impossible for those of us who are Australian born, to grasp the essence of a people with a 2,000 year (plus) history of civilisation. A history of being the victor and the vanquished, lord and serf, free and captive.

Geographically located between Europe to the West, modern day Russia to the East, the Black Sea and the Dnieper River, Ukraine has found itself to be forever a pawn in the rise and fall of empires. From nomadic Pontic steppes

