



Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 34th year of service to the investing public of South Africa



Volume: 34
Issue: 1

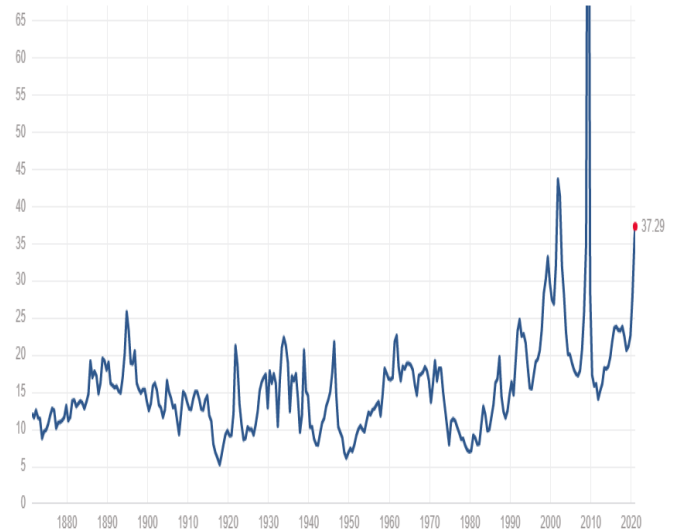
08 January 2021

I usually try to start my first column of a New Year in a positive mood – unlike the Grinch who stole our Christmas and New Year parties – but, putting the best spin I can upon it, I still feel an overwhelming need to caution readers that there is a dangerous bubble waiting to burst out there in the global marketplace.

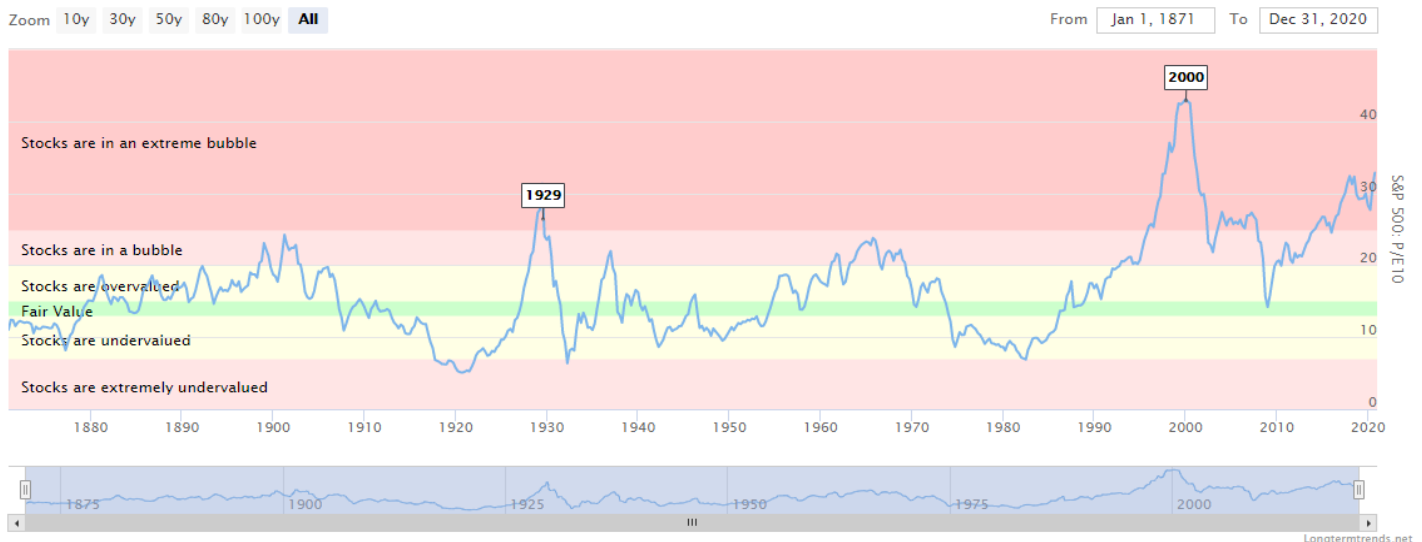


In justification of that claim, consider the graph on the right which tracks the price earnings ratio of the world's single most important share index, the S&P500. As you can plainly see, it is already at its third highest level in its entire history since they began plotting it in January 1871 - at 37.29 it's twice its mean level of 15.87

There is, however, another valuation method which market professionals have long come to trust. It is known as the Shiller PE ratio or the Cyclically Adjusted PE Ratio (CAPE Ratio). Here, instead of dividing by the earnings of *one* year, this ratio divides the price of the S&P 500 index by the average inflation-adjusted earnings of the previous 10 years in order to eliminate the obvious distortion of historic data due to the inevitable upward creep of inflation which strips money of its buying power. But here you need to recognise that I, and many other observers, believe that the way the US officially calculates its inflation rate effectively understates the true number which might lower that peak somewhat. Nevertheless, the CAPE Ratio graph below makes it clear that, other than the 2000 "Dot Com" bubble, Wall Street has NEVER been as expensive. It is, as the red band indicates, officially in an "extreme bubble":



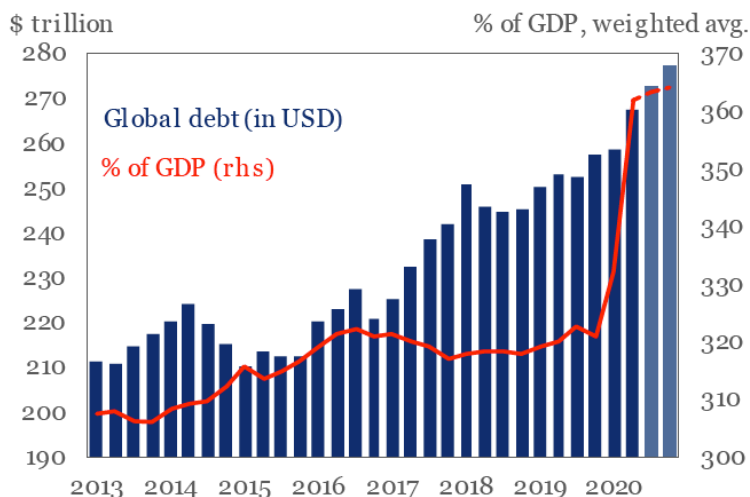
Shiller S&P 500 PE Ratio



Inevitably then, it has to burst sometime in the future and, depending upon the severity of that burst, the economies of the Western world will probably be plunged into an even more dire recession than they already are. The only question is when?

Now, it is important to recognise that world governments are all in outright war mode. That is, they have pulled out every stop to keep their economies afloat while we collectively fight, what is arguably the worst pandemic this planet has ever experienced. During a war, nations habitually mobilise every resource that they can, regardless of the cost, because the first objective is to defend themselves. But afterwards they have to count the cost. To fight this debt, the world's already deeply-indebted, governments have nevertheless binged on debt like never before as my next graph illustrates. Global debt was on track to exceed \$277-trillion in 2020, or 365 percent of global GDP. Excluding the financial sector, debt will be a slightly more modest \$210-trillion, but that is still 274 percent of global GDP and massively up from an already huge \$194-trillion last year when the figure stood at 240 percent.

Chart 1: Global debt topped \$272 trillion in Q3 2020

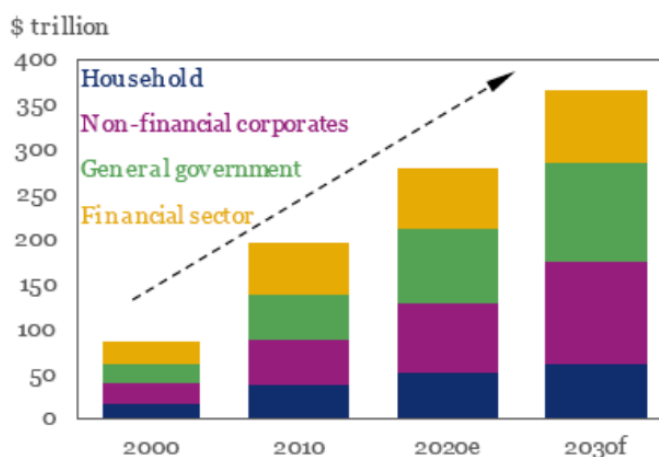


Source: IIF, BIS, IMF, National sources

On its current trajectory it is likely to surpass \$360-trillion by 2030!

Now you need to recognize that before anyone can borrow money, the money itself has to actually exist. So, in the obvious absence of significant GDP growth – i.e., as a result of the collective labours of mankind, where is this extra money coming from? Well, the plain answer, of course, is that the world's central banks have collectively thrown caution to the wind and have been “printing” the stuff on a scale never before seen even during the two world wars. Usually this would result soon afterwards in a surge of inflation but they have been printing so much money that even inflation is being dampened down along with economic growth. But it cannot be dampened forever and, once it starts its likely to be a runaway event...and it has started!

So, the obvious question is whether governments are the only ones taking up all of this debt? Well, the next graph on the right makes it clear that everyone is taking advantage of the situation. The natural laws of supply and demand ensure that if you increase the supply then the commodity becomes cheaper, and so money has understandably never been as cheap as it is now. Understandably too, many borrowers are busy re-arranging their debt burdens by substituting low-cost money for older higher-interest debt and that is an obviously sensible thing to do. But it is so cheap that they have also been buying things they would previously not have afforded and that might also be fine from the borrower's point of view if the interest rate is contractually pegged at the current low rates. But most small borrowers; like householders who are also currently bingeing on mortgage debt to fund home purchases that they ordinarily could not afford, are simultaneously creating a bubble in the housing market.



Source: IIF, BIS, IMF, National sources

Ben Aris, writing for BNE Intellinews, notes that the surge in borrowing has been led by the Developed Markets which saw debt surpass 432% of GDP in the third quarter of 2020, up by half from a year earlier. The US accounted for nearly half of the rise, with total debt on track to hit \$80 trillion in 2020, as the IIF reports, up from \$71 trillion in 2019.

Government borrowing accounted for most of the increase, with general government borrowing up \$3.7-trillion and non-financial sector corporate borrowing up \$1.7 trillion. The Eurozone also borrowed heavily, adding \$1.5-trillion to government debt to bring the total outstanding debt to \$53-trillion in the third quarter of 2020, although this is still a bit less than the all-time high of \$55 trillion set in the wake of the last crisis in the second quarter of 2014. Debt in other mature markets rose by over \$3.7-trillion to \$65-trillion in the first three quarters of 2020.

However, the Emerging Markets have also been piling on debt as chart 3 on the right illustrates with South Africa a significant inclusion in the list.

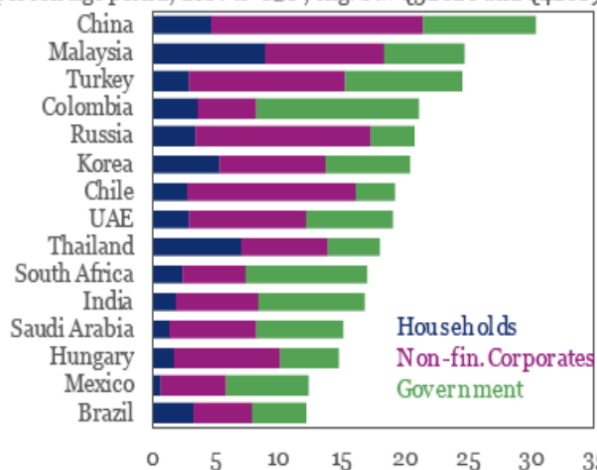
EM debt is fast approaching 250% of GDP, up from 222% in the fourth quarter of 2019 to reach 248% in the third quarter of 2020.

Most of the EM debt is dollar-denominated and worth \$76 trillion, although countries like Russia have moved to reduce the share of dollar-denominated debt and have been trying to promote the settlement of international trade contracts in other currencies.

Most of the rise was driven by a surge in non-financial corporate debt in China. Excluding China, the dollar value of EM debt declined from \$31 trillion in the fourth quarter of 2019 to \$29.3 trillion in the third quarter of 2020. The fall in the debt had more to do with exchange rate dynamics and widespread devaluations vs the dollar than to deleveraging in EMs.

Chart 3: Unprecedented surge in debt ratios across EMs

percentage points, debt-to-GDP, chg. btw Q3 2020 and Q4 2019

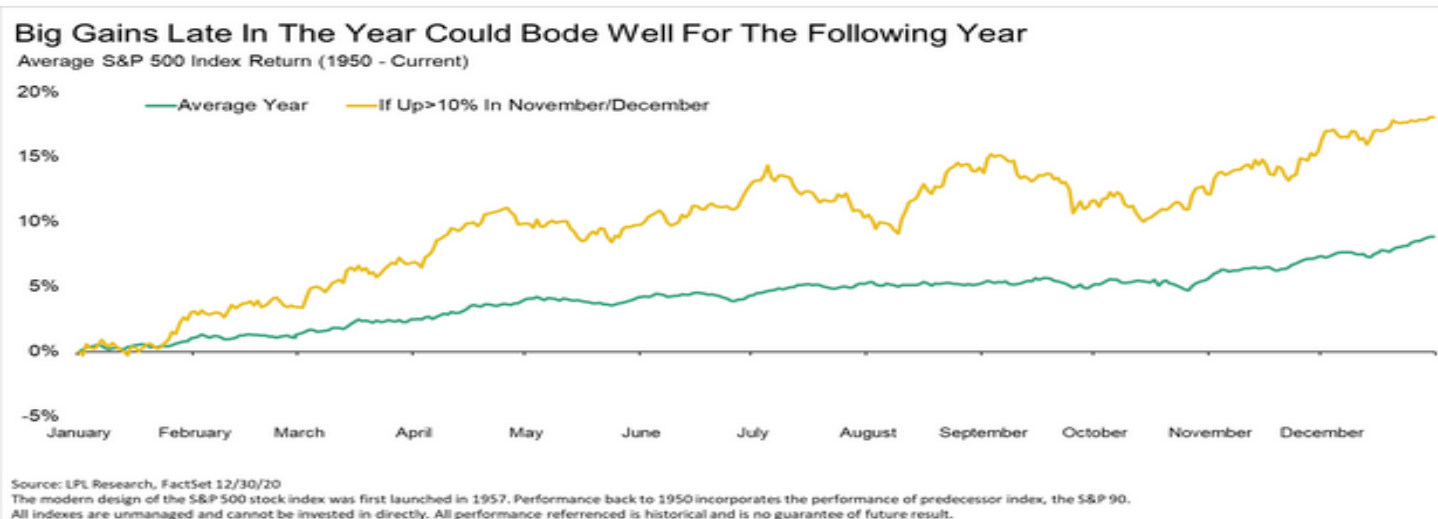


Source: IIF, BIS, IMF, National sources

So, in the light of this background, what does the recent share market surge mean for the immediate future? Well, they printed so much money last year that after everyone else in the line of borrowers had taken a dip, there was still a whole lot more available and, as always it flowed directly into the world's securities markets. Thus, the good news is that the Wall Street's S&P 500 Index rose more than 14 percent in November and December, ending a tumultuous year at a new all-time high of 3,756.07 — gaining a total of 16.3 percent in 2020. A ten percent or more gain in the final two months of the year has led to a higher S&P 500 the following year every single time since World War II. "In fact, January was also higher every single time as well.

On the five previous occasions the index has climbed more than 10 percent in November and December: 1954, 1962, 1970, 1985 and 1998, the S&P 500 has gained an average of more than 18 percent the following year. The index also climbed in all five Januaries, rising an average of 3 percent.

The below chart shows what a year typical looks like after a 10 percent or more November/December rally.



Sooner or later, however, the party has to end and the first sign will logically be an up-turn in international interest rates. Thus, even though interest rates are still at historic lows, they have in fact been rising steadily throughout 2020 as my next graph of US 30-year sovereign bond yields shows:



Over the past quarter century, US long bonds have fallen from a peak yield of 7.17 percent in April 1997 to a low of 1.18 percent on August 7 last year. But note that, since that low point, the yield has already risen by 47.46 percent and it is showing no sign of slowing.

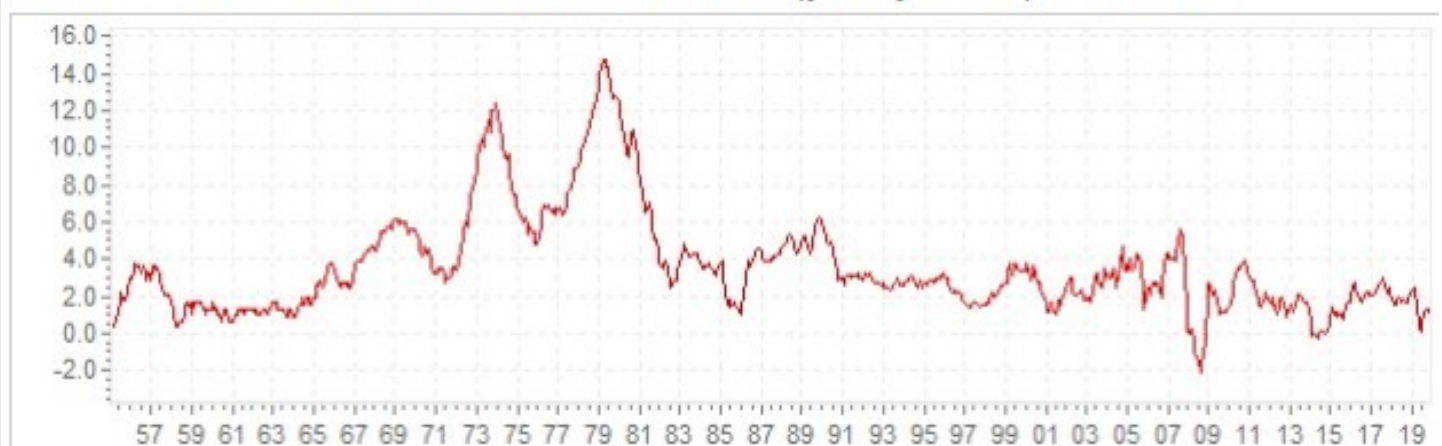
If that looks like a small blip on the chart, just pause to consider what a 47.46 percent increase in the cost of a household mortgage would do to the local housing market where bonds currently cost 6.85 percent for borrowers with the best credentials. Care to do the maths and you can see the increase would be to 10.1 percent. On the current median house price in South Africa, that implies that the mortgage interest alone would rise from R5 606 a month to R8 266.

Given a median South African salary of R21 432, that implies that for the average South African the monthly cost of a roof over his head would rise from 26.16 percent of gross salary to 38.6 percent. It has shattering implications for the inflation rate for a start. And remember this is only the beginning!

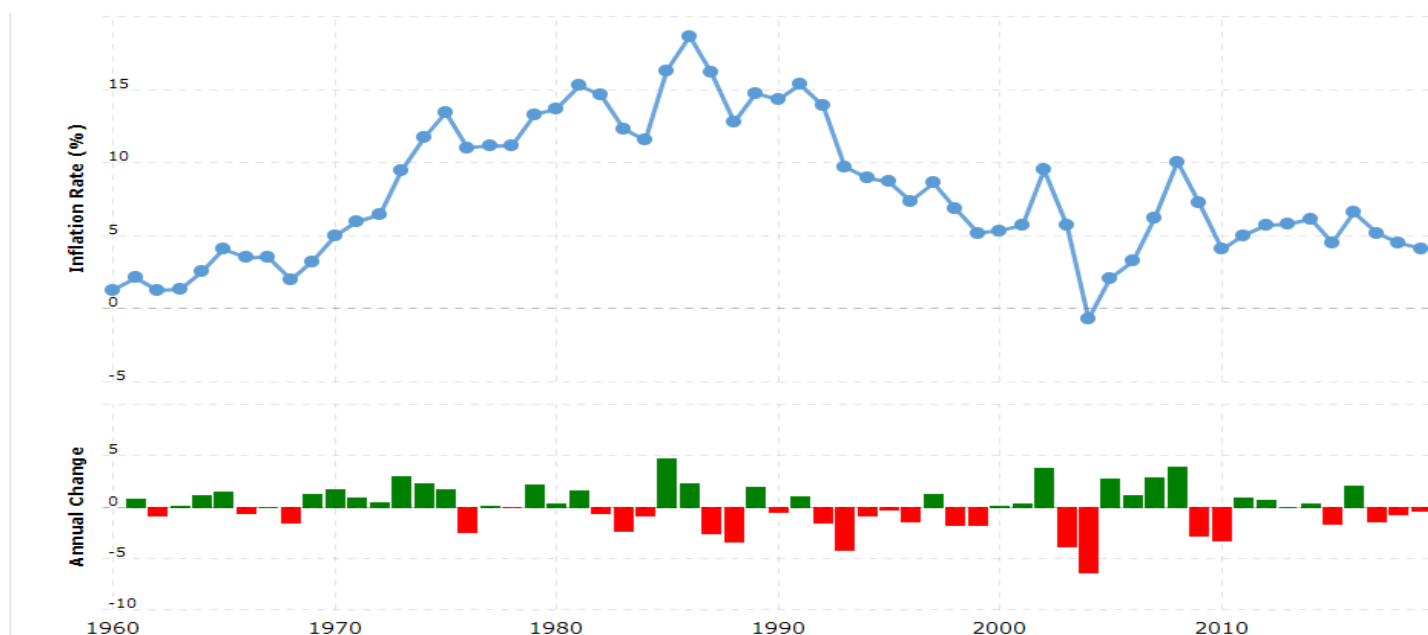
The big question is how will it all end? So readers need to recognize that there is only one-way governments have ever been able to clear their accumulated debts without resorting to punitively taxing their people and that is by allowing inflation to erode the face value of their issued bonds. So it is obviously in the interest of heavily-indebted governments like ours to fan the flames of inflation once the pandemic is behind us. So with vaccines rolling out everywhere, it is arguably safe to say that the pandemic will be behind us sometime later this year and then most world government priorities are likely to begin to focus upon the next big problem: DEBT.

So, to take one of the world's biggest borrowers, the USA with an average 2020 inflation rate of 2.29 percent – already up 20 percent on the 2019 figure of 1.91 percent, the graph below illustrates how inflation peaked at 13.29 percent in 1979.

Chart – historic CPI inflation United States (yearly basis) – full term



As the next graph illustrates, South Africa has tended to be rather more volatile in its inflation history, having endured a series of much higher peaks and valleys. From an historic low of 1.22 percent in 1959, it rose successively to peak at 15.28 percent in 1981 before falling back briefly to 11.5 percent in 1984 but by 1986 it was back to 18.66 before sliding back steadily to a historic low of -0.68 percent in 2004. But by 2008 it was back at 10.04 percent and then began an erratic decline to its present 3.24 percent.



Since investors always require a “real” return on a bond investment i.e., a yield greater than inflation, the consequence for SA sovereign bonds was to climb to a peak yield of 18.38 percent in September 1998 before retreating once more and reaching a record low of 6.09 percent in May 2013.

The graph below tracks our 10-year bond yields since January 1997 during which the yield fell from a September 1998 peak yield of 20.51 percent to an April 2013 low of 6.01 percent before heading up again to its current 8.69 percent:



Now you need to recognise that the cost of money to fund your mortgage or your business overdraft ripples directly from the interest rate government is forced to pay to attract loan capital to fund those day-to-day operations which exceed what it is able to raise through taxation.

It is thus easy to understand why both monetary inflation and the creditworthiness determinations of the Ratings Agencies which together determine the sovereign bond rate, also directly impact ordinary citizens. These two sovereign bond rate drivers, in fact, are the direct drivers of a hidden tax upon citizens!

To put that simply, if the Government mismanages its spending and thus has to borrow in the sovereign bond market, ordinary householders end up paying more for their household bonds and their car hire purchase agreements just to name a few of the many ripple effects.

Now you need to further recognize that South African interest rates behave like a snake in a tunnel. Internal issues might determine how the snake writhes within the tunnel, but the tunnel itself writhes according to the dictates of the global debt situation. So, imagine if you wish, what will happen when global debt becomes so intolerable that the major nations are obliged to act in concert to try and manage indebtedness downwards! Furthermore, you also need to recognize that our own sovereign situation is already in crisis. Stemming from the ANC Government's inability to live within its means, our sovereign bond rate has risen inexorably such that the rate we currently have to pay is already the world's third highest.

It, in part explains why our share market has so underperformed the rest of the world in recent years. When investors try to determine the fair price of a share, they always look at the "Total Return" that it offers, i.e., the sum of its dividend yield and its average price growth in recent years. In the absence of dividend growth, the share price must thus logically fall in order to offer a higher dividend yield to equate with higher bond yields.

So, for proof of this phenomenon please note my comparison graph below which illustrates how the JSE All Share Index has been **falling** at compound 2.8 percent a year since January 2018 while Wall Street's Nasdaq has been **rising** at compound 20.6. Of late, of course, this situation has worsened because local investors have lost patience with our poor market prospects and have increasingly begun sending their investment capital offshore! Do note, however, that the red trend line of the upper graph has recently been penetrated on the up-side suggesting that an improvement might be on the way.

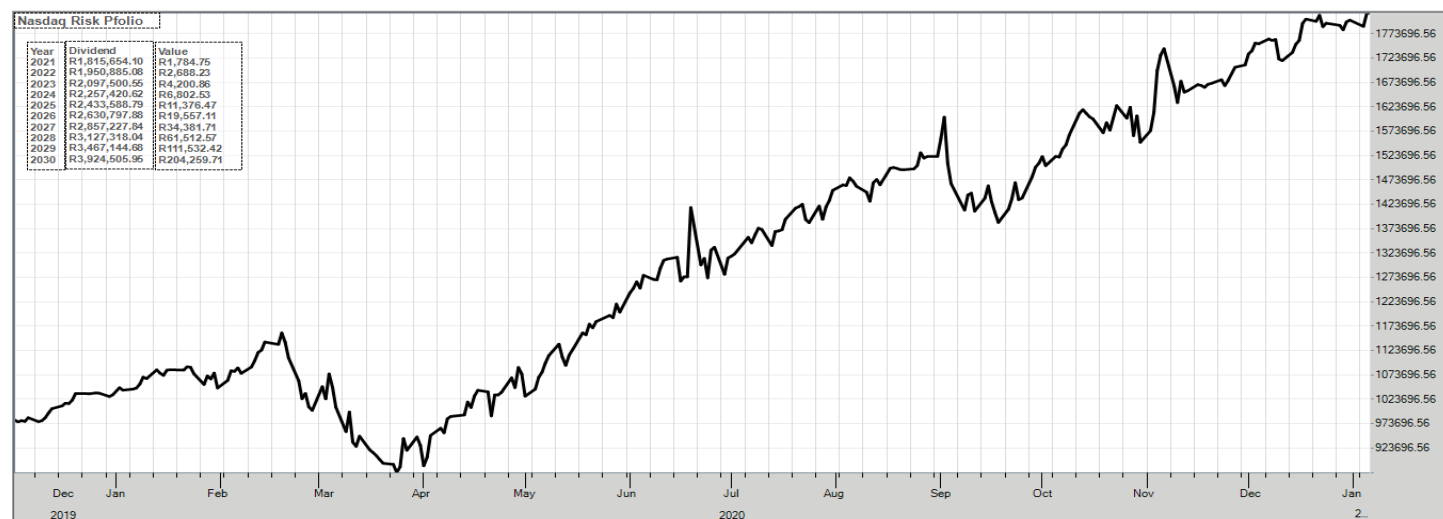


Now, to go back to my example of the impact upon household bonds, readers need to recognise what the consequence might be for the household bond payments of Mr. Average South African if the sovereign bond rate should climb again to something like the September 1998 peak yield of 20.51 percent. It would imply that the average mortgage rate could easily rise to 24 percent and Mr. Average, who now earns R21 432 and lives in a house that cost R982 000, would find himself having to pay R19 640 in interest alone on his mortgage.

You might ask yourself what, in this scenario, would be the future of an already increasingly unpopular ANC government in an up-coming election?

Meanwhile, just to rub salt into the wounds of local investors who have seen their JSE invested capital shrink, you might be interested to see how the portfolio my ShareFinder system created for those of you who have been prepared to send their money offshore. From an initial investment of \$977 506 in December 2019 it has grown to \$1 815 654 at today's date.

My next graph shows that performance.



You need not feel all that bad, however, if you have regularly followed the choices I have made for my Prospects portfolio. Since we launched it in January 2011, it has risen in value from R1-million to R4.2-million at a compound annual average rate of 17.6 percent and, happily is also well above its last January level of R3.617-million.



The final word, of course, is where do you put money in order to escape the ravages of an economic crisis? Well, every single time that has happened, blue chip shares have held out the best!

Do enjoy your weekend

The month ahead:

New York's SP500: I correctly predicted a Festive Season market downturn which I still see lasting until the end of January.

Nasdaq: I correctly predicted the Nasdaq would peak before New Year followed by declines at least until the first week of January followed by gains until June. Now the recovery has begun!

London's Footsie: I wrongly warned that the market was signalling the likely onset of weakness from December 15 to around January 22 followed by recovery until the end of May. It surged spectacularly, but I now see a peak around January 18 followed by weakness to the late February followed by gains until late April.

Germany's Dax: I correctly predicted short-term weakness which I now see lasting until January 14 before a sustained recovery continues.

France's Cac 40: I correctly predicted a sideways to weakening phase until the end of the month and then a sideways to weakening trend to the end of February ahead of the next gain to mid-April.

Hong Kong's Hangsen: I correctly predicted an upward spike to the end of December followed by a very volatile declining trend until August.

Japan's Nikkei: I correctly predicted a slight retraction which is now almost over ahead of the next up-phase which should last until mid-March.

Australia's All Ordinaries: I correctly predicted a long decline until early March followed by a strong up-tick from late March to mid-May and thereafter a fresh bear phase until mid-September.

JSE Top 40 Index: I correctly predicted an up-tick which is probably now over and likely to be followed by weakness until around January 22, after which I sense gains until late February, and then it is likely to be down-hill until the end of August.

ShareFinder JSE Blue Chip Index: I correctly predicted a brief up-tick until mid-December followed by a volatile decline until the end of September, and I continue to hold that view.

Gold Bullion: I correctly predicted continued gains continuing well into 2021.

The Rand/US Dollar: I correctly predicted the onset of three months of weakness.... until at least mid-April.

Rand/Euro: I wrongly predicted continued strength until next September. Now I see weakness until early February followed by volatile gains until early September.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.01 percent. For the past 12 months it has been 94.03 percent.

Our millionaires are leaving...in droves

From **Businesstech**

The latest research from New World Wealth and AfrAsia Bank shows that South Africa has lost 3,400 dollar millionaires over the last year, with the country now home to only 35,000 high net worth individuals (HNWIs).

HNWIs are defined as dollar millionaires or people with a net worth of \$1 million (R14.6 million) or more.

In December 2019, New World Wealth reported that there were approximately 38,400 dollar millionaires living in the country – down by 800 from the number recorded for 2018, when there were 39,200 millionaires recorded.

The 2018 figure was down significantly – a loss of 4,400 millionaires – from the year before that (2017), showing a continued trend of money leaving South Africa, either through emigration, or destruction of wealth through the weak economy.

Overall, between 2017 and 2020 South Africa lost 8,600 dollar millionaires.

Year	Millionaires	Change
2017	43 600	
2018	39 200	-4 400
2019	38 400	-800
2020	35 000	-3 400
Total		-8 600

There has also been a decline in the number of multi- and centi-millionaires.

While South Africa is losing wealthy individuals at an alarming rate, New World Wealth notes that the country is still home to over twice as many millionaires as any other African country.

It also ranks 30th in the world by this measure, ahead of major economies such as Greece, Portugal and Turkey.

Wealthy individuals in the country are broken down as:

- Approximately 680,000 mass affluent individuals living in South Africa, each with net assets of US\$100,000 or more.
- Approximately 35,000 millionaires (HNWIs) living in South Africa, each with net assets of US\$1 million or more.
- Approximately 1,800 multi-millionaires living in South Africa, each with net assets of US\$10 million or more (down from 2,030 previously).
- 86 centi-millionaires living in South Africa, each with net assets of US\$100 million or more (down from 92 previously).
- 5 billionaires living in South Africa, each with net assets of US\$1 billion or more.

Most HNWIs are based in Johannesburg (Sandton especially), Cape Town, Umhlanga and Pretoria, the group said.

Push and Pull

In a 2020 wealth migration report, New World Wealth identified South Africa as one of the countries with large millionaire outflows during the course of the year.

While South Africa doesn't crack the lists for countries with the most millionaire inflows or outflows in 2020, the report noted that it is among a number of countries that have seen a 'significant' number of millionaires leave the country in the last year.

The group said that over 100 millionaires from South Africa moved to a different country. Among inflow destinations, Portugal was highlighted as one country that proved particularly popular for South African millionaires looking to relocate.

"Portugal continues to attract a steady number of HNWIs, fuelled by its popular investor visa program which has attracted large numbers of HNWIs from China, Brazil, South Africa, Turkey and Russia over the past few years," it said.

Common reasons why HNWIs move away:

- Safety – woman and child safety especially;
- Lifestyle: climate, pollution, space, nature and scenery;
- Financial concerns;
- Schooling and education opportunities for their children;
- Work and business opportunities;
- Taxes;
- Healthcare system;
- Standard of living;
- Oppressive government.

However, despite being a net loser of wealth, New World Wealth identified a number of characteristics that make South Africa an appealing destination for wealthy individuals.

These include:

- Lifestyle aspects: weather, beaches and scenery;
- A large free media which helps disseminate reliable information to investors. This sets South Africa apart from most other emerging markets worldwide;
- One of the 20 biggest stock exchanges in the world (by market cap);
- A well-developed banking system and large fund management sector;
- Hub for doing business in the rest of Africa;
- Luxury food stores such as Woolworths, which appeal to wealthy consumers;
- Exclusive areas such as Umhlanga Rocks and the Atlantic Seaboard in Cape Town;
- Top-end estates and apartments;
- Good transport infrastructure;

Hard truths about pandemic spending

By Brian Kantor

The government can call on the central bank to provide money but is not trusted to do the right thing.

When or rather if economies return to their pre-shock growth paths, the cost-benefit analysis of the lockdowns is unlikely to bear favourable witness to the responses made to the Covid crisis by SA.

The cost is the difference between GDP on its pre-Covid path (which was on a regrettably moderate incline) and what is likely to be produced and earned before we get back on that path. My own back-of-envelope calculations came to a very large number, equivalent to possibly R1-trillion in money of the day, or equivalent to a quarter of pre-Covid GDP. Certainly, a very large amount of potential income will have been sacrificed.

The benefits in the estimate of the value of years of life saved by the lockdowns will be much harder to calculate.

The more precise calculations of costs and benefits dealing with any future pandemic could go as follows. First, estimate the losses of income and output caused by any potential lockdown. These costs in the form of income and output foregone should then be compared with the cost of providing a reserve of medical capacity sufficient to prevent the medical system from being overwhelmed by pandemic demands — which is the case for imposing a lockdown, as we have been reminded.

Hoping to eliminate death is not a realistic option for medical and economic reasons. Minimising the difference between the costs and benefits of any policy should be the objective and is a judgment call. Yet the cost of building and maintaining an adequate medical reserve will be much lower than the sacrifice of income caused by any compulsory lockdown. But this cost will be explicit on any budget that current taxpayers would be liable for. And they and the immediate beneficiaries of alternative government spending clearly attach much present value to lower taxes and other welfare benefits. Future benefits that are uncertain in time and scale are always heavily discounted. But it is a trade-off that is resolved whenever a forward-looking society invests in a reserve to defend itself against any potential invader.

But what happens when war or a pandemic breaks out? The future, after the war, then becomes largely irrelevant compared with the immediate task of winning the war. The task is to spend enough and well enough to immediately increase resistance or medical capacity. Any failure to have built a medical reserve will make it practically difficult to do enough, quickly enough. The crisis, however, becomes too important for money to stand in the way. And where will or can the extra spending money come from?

Raising tax rates will be self-defeating. Less not more tax will be collected. Raising additional government debts may prove very expensive for taxpayers to pay for and repay in the future.

There is another way. A government under great pressure to spend more can call on its own central bank to immediately provide the money to spend. The central bank can create as much money for its government as it chooses to do. It provides extra cash for the government by buying government debt in the market or providing the government with an overdraft to spend on a large enough scale. This is what the developed world is doing on a very large scale: creating much more money to fund extraordinary increases in spending to fight the crisis. The policies are expected to be reversed when or should inflation rear its ugly head.

They have done what SA has been unwilling, not unable, to do. For want perhaps of a full understanding of opportunity costs, we have not spent enough. But more so because our government is not trusted to do right for our society and economy: in the short run spend more and in the long run spend less. Tragically so.

• Kantor is head of the research institute at Investec Wealth & Investment.

Prospects for recovery

Now that the curtain has been drawn on one of the most traumatic years in modern history, attention turns to prospects for further economic recovery in 2021. Fortunately, a variety of significant growth drivers have come to the fore that suggest a continuation of the rebound in economic activity that has been experienced since the third quarter of 2020.

An outstanding feature of the global recession induced by the coronavirus pandemic was the swiftness with which composite purchasing managers' indices (PMIs) returned to above the neutral level of 50 (the border between economic expansion and contraction). A second feature was the very short duration of the stock market crash, with a number of key global equity markets recently having climbed to record highs, including the Nasdaq Composite and the S&P 500 indices. On 31 December, the latter had increased by 68% from its low on 23 March.

Arguably the strongest universal growth driver that has come to the fore is the development of several different vaccines against Covid-19, with dozens more expected to become available during 2021. In the UK, preparations are under way to vaccinate as many as 2 million people a week at sites including soccer stadiums.

The [Oxford-AstraZeneca vaccine](#) is poised to become the preferred form of inoculation, due to its affordability (less than \$4 per dose) and normal refrigeration requirements. The number of vaccines already ordered by governments and health organisations is almost equal to the world's total population and mass inoculation will proceed at pace early in 2021. This may lead to the demise of most lockdown regulations by the second quarter of the year and a recovery of the worst-hit sectors, especially tourism and aviation.

Interest rates at record low

For South Africa, a key driver of higher economic growth in 2021 is the lowering of the cost of capital (and of credit) by 30%, as measured by the prime overdraft rate, which is at its lowest level in 50 years. Fortunately, inflationary pressures have all but disappeared in the wake of subdued demand and the recovery of the rand exchange rate, which should prevent the hawkish Monetary Policy Committee of the Reserve Bank from raising the repo rate during 2021.

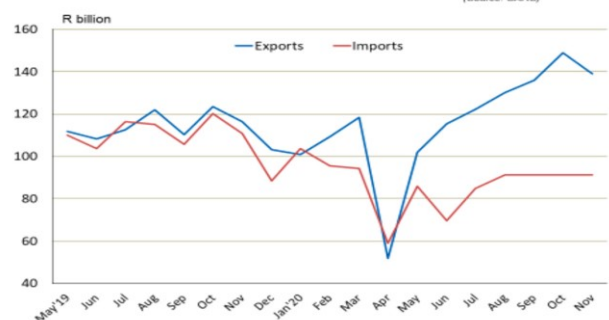
The lower cost of capital will augur well for the government's ambitious infrastructure drive, which is bound to lead to a revival of construction activity and the creation of jobs. The total of 62 major infrastructure projects that are in the process of being launched represent an impressive variety of applications, from residential construction to roads, dams and renewable energy.

South Africa also enjoys a fundamental balance of payments stability, due mainly to a combination of a record trade surplus and a structural increase in the ratio between foreign income receipts and foreign income payments.

Commodity boom

Two of the reasons for the all-time record trade surplus, which in November reached a cumulative level of R238-billion for 2020, is the sterling performance of primary sector exports. Surplus food production and higher commodity prices have led to consistently higher exports during 2020, while imports were subdued as a result of low demand and the weakness of the rand between April and October.

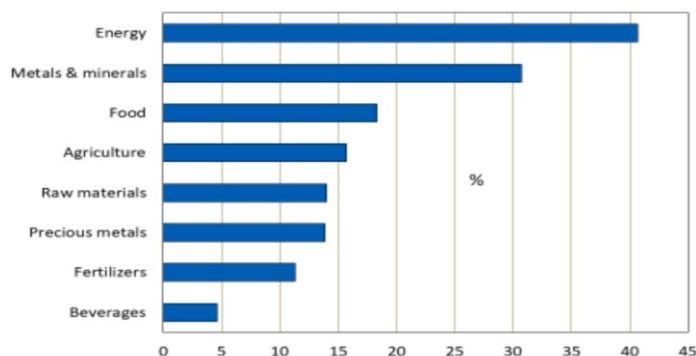
2020 cumulative trade balance surplus soars to R238 billion
(Source: SARS)



Despite the inevitable hardship induced by the pandemic, not all sectors have contracted. A positive side-effect has been the fast-forward mode that was thrust on digital communication and online shopping, with benefits also flowing to their respective supply chains. A good example has been the contrast between the decline of revenue from Uber rides and the increase in revenue from Uber Eats.

These growth drivers, combined with the emergence of new digital business applications and an inevitable return to normality in travel and tourism, suggest that the New Year will be filled with opportunity, economic growth of around 5% and a significant increase in employment.

% Change in emerging market commodity price indices between the 2nd quarter of 2020 and November 2020 (Source: World Bank)



The three biggest venues in London that handle European shares saw almost all of this business shift into the European Union on the first trading day since Brexit.

Aquis Exchange Plc Chief Executive Officer Alasdair Haynes told Bloomberg TV on Monday that 99.6% of its European stock trading moved to its parallel venue in Paris. Cboe Europe saw 90% shift to its Amsterdam venue, while 92% of such trades on London Stock Exchange Group Plc's Turquoise platforms were inside the bloc by 3 p.m. in London. The moves represent about 4.6 billion euros (\$5.6 billion) of trades, according to data from Cboe Global Markets Inc.

"Europe has clearly won the battle for its own share trading," Haynes said. The shift "is a spectacular own goal as Britain is now losing its very strong position in trading of European equities in London," he said.

The City of London lost its rights to access the single market on Dec. 31 and the EU has not permitted investors inside the bloc to trade shares in companies such as Airbus SE and BNP Paribas SA from the U.K.

Haynes said he is pessimistic about the EU granting trading rights through the equivalence process, citing Switzerland's troubles on [the same issue](#) in 2019. After Boris Johnson struck a Brexit trade deal on Dec. 24, the two sides outlined a March deadline for a memorandum of understanding around the regulation of financial services, a key driver of the U.K. economy.

"The talk of equivalence being granted in the next few months is in dreamland," said Haynes. "It will take years if ever to get equivalence."

"A deal is all well and good but when it comes to share trading, markets can expect an intense game of cat and mouse between EU and U.K. rule makers," said Chris Hollands, head of Europe and North America at TradingScreen, a technology provider to asset managers.

Britain will change its rules to attract issuers and investors to the U.K. market but won't necessarily be enough to bring EU share trading back to London, according to Haynes.

"This horse has bolted so far it's now in a different stable," he said. "To get it back you have to do something pretty revolutionary."

MARKETS 2020 PERFORMANCE

NASDAQ	GOLD
12,888.28	1,918.50
+ 43.64%	+24.6%
S&P	10-YR
3,756.07	0.937%
+ 16.26%	-87.3 bps
DOW	OIL
30,606.48	48.53
+ 7.25%	-21.4%

MARKETS

Stocks in 2020

During a year of human suffering, economic crisis, and psychological trauma, stocks in the S&P 500 index rose 16% to close 2020 at a record high. The tech-heavy Nasdaq gained a remarkable 44%. And the Dow will also begin trading this morning at a record.

So why the split screen?

- **A flood of stimulus money:** The Fed lowered the cost of borrowing money to nearly zero and Congress poured trillions into the economy to support ailing households and businesses.
- **Corporations seized on the New Normal:** Big tech giants, e-commerce leaders like Etsy and Shopify, and biotechs like Moderna all benefited financially from the pandemic.
- **The rise of retail traders:** With nothing else to spend money on, well-to-do individual investors went hyperactive on free trading apps like Robinhood. In June, individual investors accounted for about 20% of stock market activity on average, per Citadel Securities.

It wasn't just stocks. Gold (+24.6%) and silver (+47.6%) had their best years since 2010.

And it wasn't just physical assets hitting stratospheric levels. Yesterday, the price of the cryptocurrency bitcoin sprinted past \$34,000, extending its wild 2020 rally into the new year. Bitcoin gained more than 300% in 2020, and it's already up over 12% in 2021.

The b-word

If it looks like a bubble, smells like a bubble, and exhibits price-to-earnings ratios like a bubble...is this thing going to implode soon?

- **Signs the bubble is about to pop:** The [rapid rise](#) in special purpose acquisition companies (SPACs) taking untested companies public, astronomical first-day "pops" when a company IPOs, and loads of speculative trading from retail investors, writes Bloomberg.
- **Signs the bubble is not a bubble, just healthy growth:** The Fed's promise to keep interest rates low for the foreseeable future and the arrival of coronavirus vaccines to end the pandemic.