

CAPITAL FLOWS AND ITS IMPLICATIONS

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Capital flows

- Capital flows to jurisdictions where it is treated best
 - WWI & WWII: Capital flows from Europe to US
 - Cuban Crisis: Capital flows from US to Europe
- Key for financial success is to understand and anticipate future capital flows

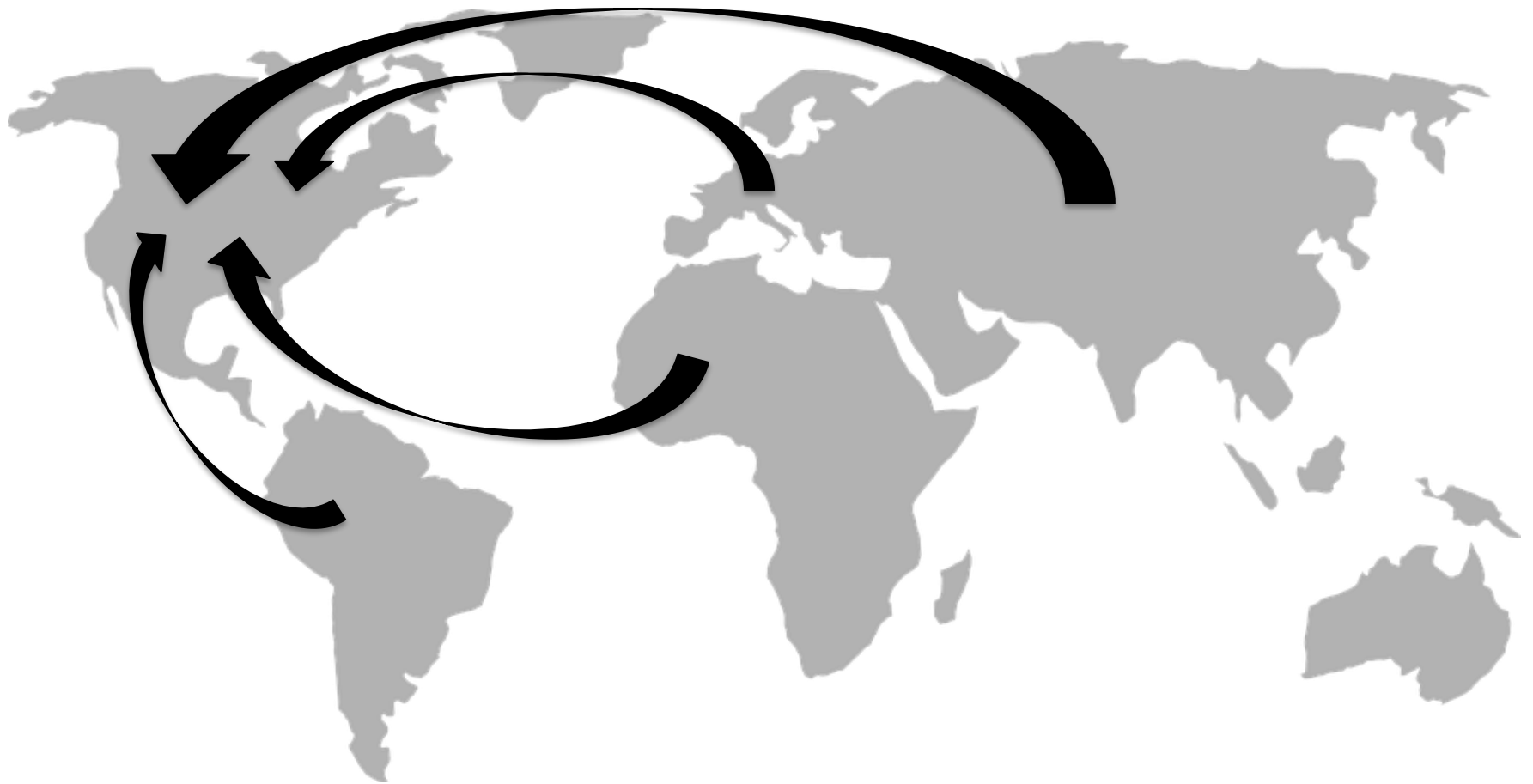
Current capital flows (1)

- Debt has been increasingly issued worldwide in USD over the last decade (governments, corporations)
- Economic problems outside the US lead to more defaults -> USD rises -> vicious circle

Current capital flows (2)

- Weak European banking system due to negative interest rates and debt monetization
 - ECB owns >40% of total debt of eurozone members
- Unsustainable public investments (e.g. energy sector)
- Lack of rule of law in Europe (e.g. illegal immigration)
- Result: Capital is fleeing Europe

Current capital flows (3)



Current capital flows (4)



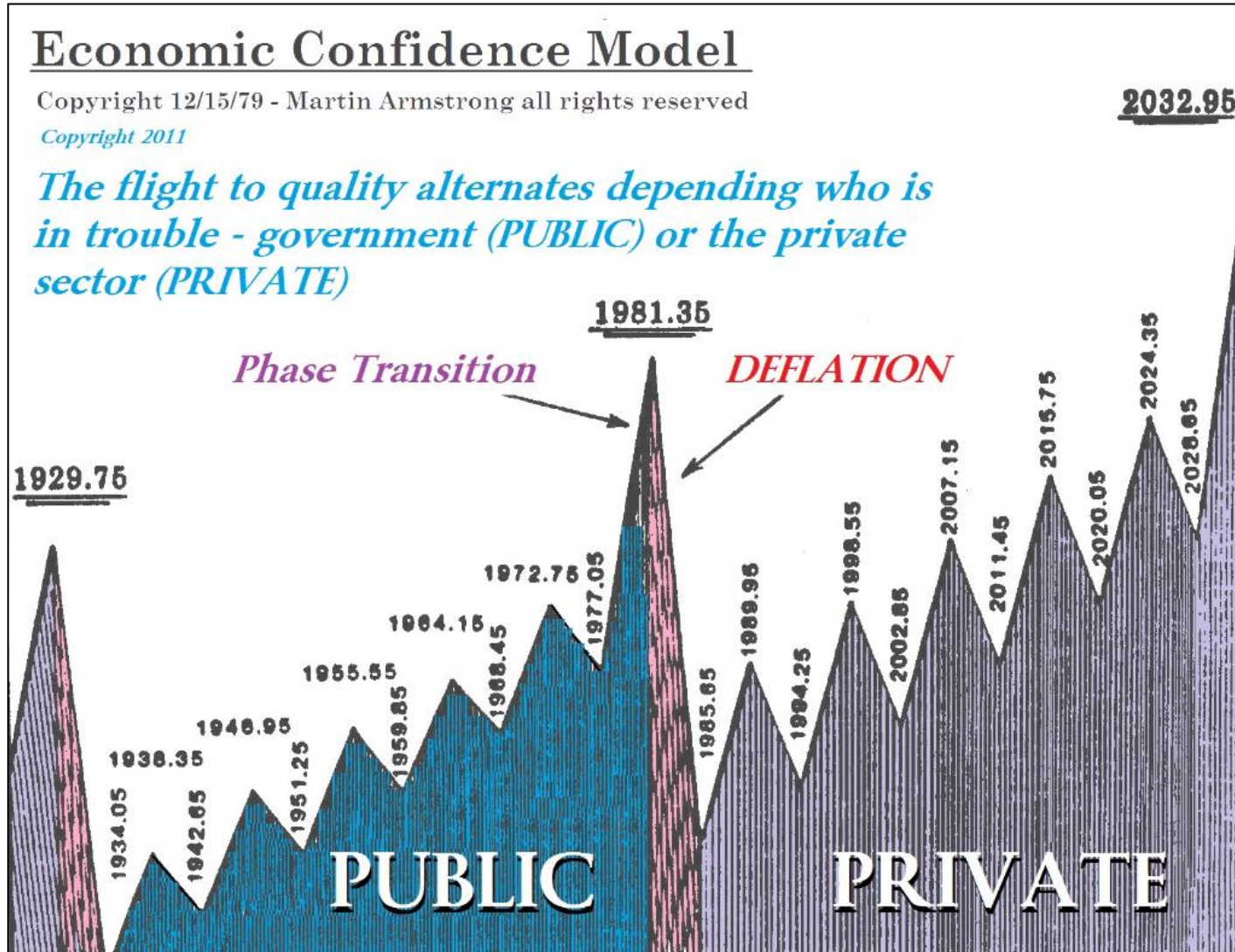
Monetary crisis

- Strong USD and weak European banking system (no consolidation of debts) will lead to a monetary crisis
 - What will the political reaction be?
 - Similar to 1985 Plaza Accord?

Public and private waves (1)

- There are time periods where the problem is in the private sector (corporations)
 - e.g. Great Depression
- And there are time periods where the problem is in the public sector (governments)
 - e.g. at this point in time
- Capital is moving from one sector to another
 - At this point in time capital is moving from the public sector (gov. bonds) to the private sector (equities)

Public and private waves (2)



Implications

- No stock market crash in the current financial center (United States)
- High risk in government and municipal bonds due to inflation and defaults

Investment ideas*

- EURUSD carry trade
- Long US equities (e.g. Dow Jones)
 - Foreign investors buy big corporations
- AAA corporate bonds instead of government bonds
- Long gold, commodities after monetary crisis (~2021/22)
- Long TSLA
 - <https://www.youtube.com/watch?v=6Ud-fPKnj3Q>

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English:

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