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MELLON ON THE MARKETS

By Jim Mellon

Is the coming of the bear inevitable?

Another year, another pilgrimage to the JP Morgan Biotech conference in San Francisco, now in its 26th year. About 9,000 people scurry around the passageways of the far-too-small-for-purpose St Francis hotel, watching companies present stuff that is now readily available online. The smarter lot, who number about 41,000, hover in the periphery of the conference, doing deals, establishing relationships and promoting their companies and prospects from sometimes dodgy hotel rooms, rented at vast expense – complete with unmade beds!

The group I was in was there to get the Juvenescence ball rolling, and we also picked up a few titbits for stock market investment in the biotech sector. And boy, is that sector on fire! Kite, Juno, Ablynx and Bioviteriv all taken over in multibillion-dollar deals, and we are only now at the end of January! And Kite and Juno were recommended as core portfolio positions in the book Juvenescence, though there are still plenty left to get your teeth into – so don't forget to get your hands on a copy of the book!

We did some less expensive deals, partly as a result of our association with some of the research institutions in the Bay Area and partly because the redoubtable Aubrey de Grey co-hosted with us a sort of Dragons' Den/Shark Tank event at a pizza restaurant. There, in front of some hand-picked investors, eleven companies – at least one of which will surely be headline news in the future – unfurled their wares.
Although there is plenty of great science in the UK, Japan, Australia, Singapore, Belgium, Switzerland et al, there is no doubt that San Francisco is the new Athens and attracts many of the best in the biotech industry. The fact that at least 5% of its residents are homeless and live on the streets is shameful but is a topic for a different time.

The fusion of venture capital, universities, and entrepreneurship is more evident here than anywhere else I have been, and it shows in the stats. Of course, in the US, Boston, San Diego and other cities are important, but the beating heart (pace Tony Bennett) of the biotech – and longevity – industry is left to San Francisco.

Meantime, back at the ranch, or rather at the Viva Mayr clinic where I am spending a few days detoxing with the calorie intake of a mouse, things are looking very interesting.

The crypto bubble has seemingly burst. Luckily, my friend who was ministering to our holding got us out. I feel it has a long way to go down, especially as there was a particularly shrill time in early January when the least financially savvy of my friends were piling in, and one day will wish to get out. That will be their first experience of investment capitulation and it will be a sobering lesson. I would have thought that bitcoin could easily go back to $1,000, but I am not going to bet either way.

The blockchain, on the other hand… well, it may just about be ready for the big time, and Factum, a holding of **Fast Forward Innovations (LON:FFWD)**, might turn out to be a good investment. Lorne Abony, who runs FFWD, has roundly rebuffed an arch-critic (whom I will not name lest he benefit from the advertising) by investing in Nuveera, which appears to have made FFWD 8x its money. That's damned impressive, and I am proud to have been a co-founder and director.

Likewise, **Portage (PTGEF:OTC)** divested itself of its shares in **Biohaven (NYSE:BHVN)**, which is now a $1 billion company, established just three short years ago by my partners and me for $3 million. Portage has returned about 9x the money of its investors over its short life, and its success – and that of so many others – is a good reason for you to join us at Master Investor on March 17thin London. The quality of the companies selected for inclusion this year is excellent, and I will be speaking away from the main stage to an invited audience on how I see matters for the coming year.

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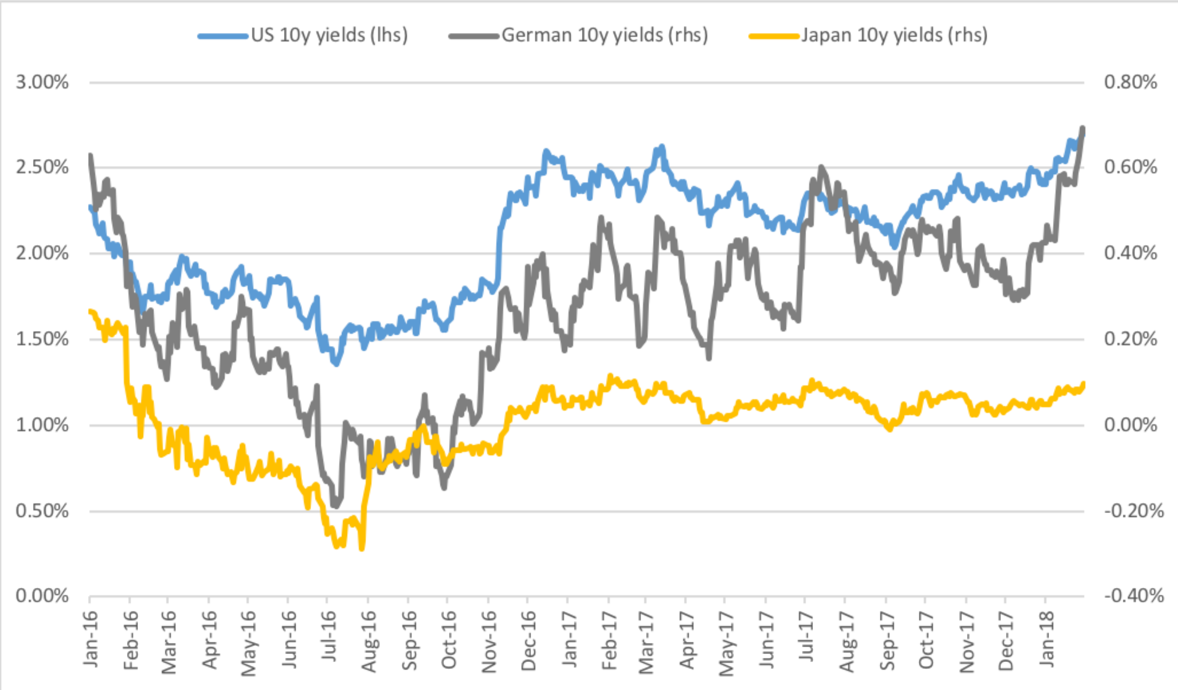
Here is a foretaste. As those who attended last year might remember, my theme was the coming return of inflation. This is really happening, and strong growth just about everywhere is a determinant of its likely forward trajectory. Wages are going to rise in most economies, and prices will too. So will bond yields – and, actually, come to think of it, they already are.

The Phillips curve was asleep but is now reviving. I am not suggesting that inflation is going to be rampant, just sufficient to start normalising the price of money. And this is happening when most central banks are tapering, or about to taper.

So, what we have is a changing environment. A 30-year bull market in bonds has driven equity valuations to sometimes crazy levels, fostered speculation in crypto currencies, and led to ludicrously negative yields in many bond markets.

This is about to change. In the coming year, the bond bear market, which has already started, will accelerate. Highly leveraged companies, which have been enjoying zombie status as a result of artificially depressed interest rates, will start to default. Countries with poor credit risk will no longer be able to enjoy stupid levels of interest. And in most major bond markets, I forecast that yields will at least double at the short end and go up by half at the long end. That's pretty aggressive stuff, and if I am right it will be a phenomenal trade.



Already, the S&P only yields half as much as the US 30-year Treasury bond – and that is a recipe for serious trouble. I have always found that incipient bear markets start slowly, like a single snowflake descending on the animal spirits below. Then the snow really starts to fall and the spirits retreat. This is what is happening in cryptocurrencies – and is about to happen to equities.

Yes, there is good news on the economic growth side, partly bolstered by Trump's tax reductions, but this is at a cost: the single biggest expansion of debt – to, frankly, unsustainable levels – ever experienced in history.

Everyone knows that governments like inflation – up to a point – because inflation whittles away the value of debt. Those still in bonds should beware – the highly enjoyable ride of the past three decades is about to come to an end.

I keep banging on about gold and silver, and at long last they are on the move, as are most commodities. Funnily enough, even though higher interest rates and high levels of debt presage a coming recession (perhaps in 2019), commodity prices would still defy gravity for a while.

And I do think gold will slice through $1,500 an ounce soon, and silver through $20.

Meantime, I am working on matters Juvenescence, and on some new investments I hope to talk about at the Master Investor show. If you are interested don't forget to book your ticket, as this year's event will be packed to the rafters. We expect a record crowd, and we promise a thoroughly informative day.

Happy Hunting!

Jim Mellon