"Suddenly, Last Summer"

A quick Epsilon Theory email and a quick announcement. Announcement first. I'll be giving a 1-hour webcast on Risk Premia strategies next Tuesday, August 4th, along with Salient President Jeremy Radcliffe and Salient Portfolio Manager Rob Croce, who knows more about the guts of these strategies than anyone should. The webcast qualifies for CE credit if you care about such things (and who doesn't!) and is hosted by our friends at RIA Database. The catch … you have to be a professional investor / financial advisor to sign up. Sorry. For more information or to register for the webcast, check out : "Alternative Return Streams in Challenging Markets"

Dr. Cukrowicz: Mrs. Venable, loving your niece as you do, you must know there's great risk in this operation. Whenever you enter the brain with a foreign object ...

Mrs. Venable: Yes.

Dr. Cukrowicz: Even a needle thin knife.

Mrs. Venable: Yes.

Dr. Cukrowicz: In the hands of the most skilled surgeon ...

Mrs. Venable: Yes, yes.

Dr. Cukrowicz: There is a great deal of risk.

Mrs. Venable: But it does pacify them. I've read that … it quiets them down. It suddenly makes them peaceful.

Dr. Cukrowicz: Yes, that it does do, but ...

Mrs. Venable: But what?

Dr. Cukrowicz: Well, it will be years before we know if the immediate benefits of the operation are lasting or maybe just passing or perhaps ... there's a strong possibility that the patient will always be limited. Relieved of acute anxiety, yes, but limited.

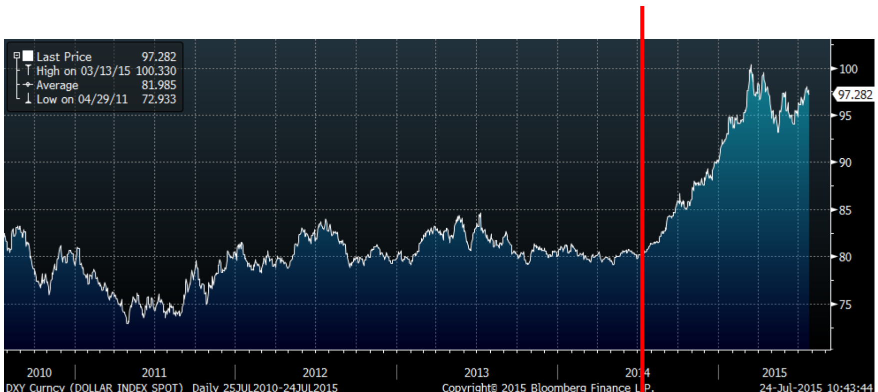
Mrs. Venable: But what a blessing, Doctor, to be just peaceful. To be just suddenly peaceful. After all that horror. After those nightmares. Just to be able to lift up their eyes to a sky not black with savage devouring birds.

– "Suddenly, Last Summer" (1959)

I figure not one Epsilon Theory reader in a thousand has seen "Suddenly, Last Summer", but let me tell you … it's got everything. Katherine Hepburn in a phenomenal performance as bizarro Aunt Vi. Elizabeth Taylor cavorting in the surf. Montgomery Clift. Lobotomies. Pedophilia. Cannibalism. Honestly, it's kind of what you would expect if Gore Vidal took a Tennessee Williams script and just went gonzo with it. Which, in fact, is exactly what happened.

The subtext, as with so much of Southern Gothic in general and Tennessee Williams in particular, is mendacity and its crushing psychological damage. I found this quote, where Katherine Hepburn is trying to convince Montgomery Clift to lobotomize Elizabeth Taylor so that she'd forget her former life and be less fearful and anxious … less **volatile**, in other words … to be an eerily apt description of what Central Bankers have tried to do with markets.

We endured an event last summer that, just as in the movie, ultimately brings all the mendacity out of the shadows and into the open. When Yellen declared last summer that the Fed had now firmly embraced a tightening bias, followed by the rest of the world declaring that they were doubling down on extraordinary monetary policy easing, the entire world was set on a path where all of the political fragmentation – all of the deep fissures within and between countries – would be inexorably revealed. Suddenly last summer, the mask of global monetary policy cooperation was ripped away, and the investment world will never be the same.



Here are two Bloomberg charts that show what I mean. On the top is a 5-year chart of DXY – the trade-weighted dollar index. On the bottom is a 5-year chart of WTI crude oil spot prices. Does this look like an accidental relationship to you? **Can we just stop with all the hand-wringing about how there's suddenly too much oil in the world, or how the Saudis are trying to crush US shale production, or any of the other spurious supply-and-demand "explanations" for why oil prices have collapsed?** Seriously. Can we just stop?

Monetary policy divergence manifests itself first in currencies, because currencies aren't an asset class at all, but a political construction that represents and symbolizes monetary policy. Then the divergence manifests itself in those asset classes, like commodities, that have no internal dynamics or cash flows and are thus only slightly removed in their construction and meaning from however they're priced in this currency or that. From there the divergence spreads like a cancer (or like a cure for cancer, depending on your perspective) into commodity-sensitive real-world companies and national economies. Eventually – and this is the Big Point – the divergence spreads into everything, everywhere. Some things will go up, and some things will go down. But the days of ALL financial assets inflating in lock-step … the days of everything, everywhere going up together … that's over.

For a lot of active investment managers, this is great news. For a lot of politicians and central bankers – particularly the weaker ones, either in resources or in willpower (yes, I'm looking at you, Alexis Tsipras) – this is terrible news. For investors? Well, it's a mixed bag. Certainly it's a more difficult bag, where so many of the learned behaviors of the past five years that worked so well in an environment of monetary policy coordination will fail miserably in an environment of monetary policy competition. But it beats getting a lobotomy. I think. We'll see.

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