

Title: Reset of the World Economy

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TLDR: The world may enter into a depression unseen before in history due to the greed of Ken Griffin and the 1% taking the wealth for themselves. We have reached high inflation and are facing the collapse of the middle class. Banks are tied together creating a complex network which is only as strong as its weakest link.

****Globally Connected Economy****

The world economy is interconnected. When one country is at risk of bankruptcy, many are affected. With the economy already at a critical point we must ask ourselves what happens if a bank defaults? In a paper by [Sheheryar Malik and TengTeng Xu posted in the IMF working papers](<https://www.imf.org/en/Publications/WP/Issues/2017/09/29/Interconnectedness-of-Global-Systemically-Important-Banks-and-Insurers-45223>), Malik and colleagues analyzed which banks and issuers can have a huge impact on global financial stability. Here is a link to the list from the Financial Stability Board (FSB) - [Globally connected Banks](<https://www.fsb.org/wp-content/uploads/P111120.pdf>). Each bucket represents how much capital buffer is needed in order to comply with requirements. If one of the banks fails the others are at risk and subsequently the world economy. We must keep in mind that these are banks that are too big to fail. Below I analyzed their current stock prices and have links to what they are holding in their portfolios as well as balance sheets. If you look through the annual reports you can also find their liabilities. Should the banks default, they will need to be repaid. Hence, they will be sold. If they are liquidated the stock market will tank even more.

Bucket (Higher loss absorbency requirement (common equity as a percentage of risk-weighted assets) Bank Current Stock (Percentage 1Y) Portfolio Balance Sheet
1 (3.5%) Empty N/A N/A N/A
2 (2.5%) Empty N/A N/A N/A
3 (2.0%) Citigroup 43.40 (-39.33%) [Holdings](https://fintel.io/i/citigroup) [Annual Report](https://www.citigroup.com/citi/investor/annual-reports.html)
3 (2.0%) HSBC 26.58 (-91%) [Holdings](https://fintel.io/i13fs/hsbc-holdings) [Annual Report](https://www.hsbc.com/investors/results-and-announcements/annual-report)
3 (2.0%) JP Morgan Chase 107.99 (-34.93%) [Holdings](https://fintel.io/i13fs/jpmorgan-chase) [Annual Report](https://www.jpmorganchase.com/ir/annual-report)
2 (1.5%) Bank of America 31.07 (-27.86%) [Holdings](https://fintel.io/i13fs/bank-of-america-corp-de) [Annual Report](https://investor.bankofamerica.com/annual-reports-and-proxy-statements)
2 (1.5%) Bank of China 2.62 (-2.6%) Not found [Annual Report](https://www.boc.cn/en/investor/ir3/)
2 (1.5%) Barclays 6.66 (-35.02%) [Holdings](https://fintel.io/i13fs/barclays) [Annual Report](https://home.barclays/investor-relations/reports-and-events/annual-reports/)
2 (1.5%) BNP Paribas 21.43 (-33.18%) [Holdings](https://fintel.io/i13fs/bnp-paribas-arbitrage) [Annual Report](https://www.bnpparibasfortis.com/investors/financial-reports)
2 (1.5%) China Construction Bank 11.45 (-19.37%) Not Found [Annual Report](http://www.ccb.com/en/newinvestor/annals.html)
2 (1.5%) Deutsche Bank 7.66 (-40.11%) [Holdings](https://fintel.io/i13fs/deutsche-bank-ag) [Annual Report](https://investor-relations.db.com/reports-and-events/annual-reports/)
2 (1.5%) Industrial Commercial Bank of China 9.31 (-15.59%) Not Found [Annual Report](http://www.icbc-ltd.com/ICBCLtd/Investor%20Relations/Financial%20Information/Financial%20Reports/)
2 (1.5%) Mitsubishi UFJ FG 4.72 (-22.37%) [America Holdings](https://www.holdingschannel.com/13f/mufg-americas-holdings-corp-top-holdings/) [Annual Report](https://www.mufg.jp/english/ir/report/annual_report/index.html)

| 1 (1.0%) | Agricultural Bank of China |30 (-9.17%)| Not found | [Annual Report](https://www.abchina.com/en/investor-relations/performance-reports/annual-reports/) |

| 1 (1.0%) | Bank of New York Mellon |39.59 (-24.78%)| [Holdings](https://fintel.io/i13fs/bank-of-new-york-mellon) | [Annual Report](https://www.bnymellon.com/us/en/investor-relations/annual-report-2021.html) |

| 1 (1.0%) | Credit Suisse |4.08 (-59.12%)| [Holdings](https://13f.info/manager/0000824468-credit-suisse-ag) | [Annual Report](https://www.credit-suisse.com/about-us/en/reports-research/annual-reports.html) |

| 1 (1.0%) | Goldman Sachs |300.76 (-21.85%)| [Holdings](https://fintel.io/i13fs/goldman-sachs-group) | [Annual Report](https://www.goldmansachs.com/investor-relations/financials/) |

| 1 (1.0%) | Groupe BPCE |98.88 (Can't find change)| Not Found | [Annual Report](https://groupebpce.com/en/investors/regulated-information) |

| 1 (1.0%) | Groupe Cr dit Agricole |4.11 (-40.52%)| Not Found | [Annual Report](https://www.ca-cib.com/sites/default/files/2022-08/PR_Credit%20Agricole%20SA_2022-Q2_Results.pdf) |

| 1 (1.0%) | ING Bank |8.39 (-42.39%)| [Holdings](https://fintel.io/i/ing-groep) | [Annual Report](https://www.ing.com/Investor-relations/Financial-performance/Annual-reports.htm) |

| 1 (1.0%) | Mizuho FG |2.27 (-21.72%)| [Holdings](https://fintel.io/i/mizuho-financial-group) | [Annual Report](https://www.mizuhogroup.com/investors) |

| 1 (1.0%) | Morgan Stanley |81.47 (-18.16%)| [Holdings](https://fintel.io/i13fs/morgan-stanley) | [Annual Report](https://www.morganstanley.com/about-us-ir) |

| 1 (1.0%) | Royal Bank of Canada |91.54 (-7.76%)| [Holdings](https://fintel.io/i/royal-bank-of-canada) | [Annual Report](https://www.rbc.com/investor-relations/) |

| 1 (1.0%) | Santander |2.36 (-35.69%)| [Holdings](https://fintel.io/i/banco-santander) | [Annual Report](https://www.santander.com/en/shareholders-and-investors/financial-and-economic-information/annual-report) |

| 1 (1.0%) | Soci t  G n rale |4.16 (-34.28%)| Not found | [Annual Report](https://investors.societegenerale.com/en/financial-and-non-financial-information/financial-results-and-publications/financial-publications) |

| 1 (1.0%) | Standard Chartered |12.33 (4.94%)| Not found | [Annual Report](https://www.sc.com/en/investors/financial-results/) |

| 1 (1.0%) | State Street |63.23 (-26.94%)| [Holdings](https://13f.info/manager/0000093751-state-street-corp) | [Annual Report](https://investors.statestreet.com/filings-reports/annual-reports-and-proxy-statements/default.aspx) |

| 1 (1.0%) | Sumitomo Mitsui FG |5.76 (-20.44%)| [Holdings](https://fintel.io/i13fs/sumitomo-mitsui-financial-group) | [Annual Report](https://www.smfg.co.jp/english/investor/financial/annual.html) |

| 1 (1.0%) | Toronto Dominion |62.69 (-5.86%)| [Holdings](https://fintel.io/i/toronto-dominion-bank) | [Annual Report](https://www.td.com/investor-relations/ir-homepage/annual-reports/2021/index.jsp) |

| 1 (1.0%) | UBS |15.03 (-6.88%)| [Holdings](https://fintel.io/i13fs/ubs) | [Annual Report](https://www.ubs.com/global/en/investor-relations.html) |

| 1 (1.0%) | UniCredit |5.14 (-21.88%)| Not found | [Annual Report](https://www.unicreditgroup.eu/en/investors/financial-reporting/financial-reports.html) |

| 1 (1.0%) | Wells Fargo |40.81 (-13.23%)| [Holdings](https://fintel.io/i13fs/wells-fargo-company-mn) | [Annual Report](https://www.wellsfargo.com/about/investor-relations/annual-reports/) |

Many of the banks are already looking at losses in their stocks greater than 30%. In 2008 SPY dropped roughly 50% before it hit its bottom. It is currently at 24% for the YTD and more is coming with decreasing investor confidence. As many of us know after seeing GME sneeze due to FOMO, emotions and confidence in a stock matters and that is especially true for the whole economy, hence why the media is manipulated to control the narrative. We are looking at globally important banks at risk of collapse and tanking the world economy. In the Great Depression roughly 1000 failed, taking \$7 Billion in assets away from the people. This crash will be much much worse. I will continue this conversation below.

****Why Central Balance Sheets Matter****

Jaime Caruana is a Spanish economist and previous General manager of the Bank for International

Settlements. The Bank for International Settlements is an international financial institution owned by central banks that "fosters international monetary and financial cooperation and serves as a bank for central banks. In a speech he gave ["Why Central Balance Sheets Matter"](<https://www.bis.org/publ/bppdf/bispap66b.pdf>) he discusses central balance sheets covering historical trends and even discussing possible risk.

When discussing the central banks assets he notes that central banks assets have doubled which leads to the next paragraph:

"This sustained expansion means that the central bank's balance sheet becomes more exposed to market developments: **a fall in the value of foreign assets** or a **rise in long-term interest rates** could reduce the value of their assets while leaving the value of their liabilities intact. At some point, the capital of the central bank could be put at risk. This could in some circumstances raise unwarranted political questions and may even undermine the central bank's credibility" (Page 4)

What are the risks posed to the central banks?

Top 4 risk:

1. Inflation
2. Financial Stability
3. Financial Market Distortions
4. Sovereign Debt Management Conflicts

Well we are seeing decade high inflation so check, financial stability is already here with new 52 week lows so check. That leaves us with the last two, financial market distortions and sovereign debt management conflicts. Let us look at the last one, below I looked at the top currencies in the world compared to the US dollar, and inflation in the countries. With the currencies dropping to new lows on the year GDP to debt will become an issue. Japan and China are the top 2 debt holders of the US which are facing their own crisis.

	Top Currencies	Price to USD (Percentage 1Y)	Inflation	Inflation Previous
CNY	.14 (-6.7%)	2.5%	2.7%	
US Dollar	1	8.3%	8.5%	
Euro	.97 (-17.09%)	9.1% (Euro Area)	8.9%	
JPY	.0069 (-24.4%)	3%	2.6%	
GBP	1.09 (-19.26%)	9.87%	10.101%	
KRW	.0007 (-17.65%)	5.7%	6.34%	
INR	.012 (-14.3%)	7%	6.7%	
CAD	.73 (-7.6%)	7%	7.6%	
HKD	.1274 (-1%)	1.8%	1.2%	
AUD	.65 (-9.7%)	6.1%	5.1%	
TWD	.032 (-11.11%)	2.66%	3.36%	
BRL	.1864 (1.2%)	8.73%	10.07%	

Aside from the currencies dropping they are facing inflation.

<https://preview.redd.it/6d6dlr6ztnq91.png?width=553&format=png&auto=webp&s=9267bf580bbf0bb563b1b3a91d0a465295930950>

[Yuan facing Collapse](<https://www.reuters.com/markets/currencies/chinas-yuan-hits-28-month-low-despite-fresh-policy-step-nears-daily-down-limit-2022-09-26/>)

[Inflation at high risk in Middle East, North Africa and Central Asia](<https://www.imf.org/en/Publications/WP/Issues/2022/09/02/Inflation-at-Risk-in-in-the-Middle-East-North-Africa-and-Central-Asia-522797>)

Food Inflation USA

<https://preview.redd.it/07rapd7qtnq91.png?width=748&format;=png&auto;=webp&s;=0bcbc853566e5c8dfe9fea065907afcba2621a6e>

EU food Inflation

<https://preview.redd.it/978fv7drtnq91.png?width=733&format;=png&auto;=webp&s;=9f91b6cbd7fce3f14dc9b3ca441f7343a744d18e>

Bread inflation EU

<https://preview.redd.it/ri2heomstnq91.png?width=587&format;=png&auto;=webp&s;=0569291d6ccd8a4a3ccdb6cd565a3a943bc48382>

[Website for Each area around the world](<https://tradingeconomics.com/country-list/food-inflation?continent=asia>)

[UN Food and Agriculture Organization Global Food Security and Nutrition Crisis](<https://www.fao.org/newroom/detail/second-joint-statement-by-the-heads-of-fao-imf-wbg-wfp-and-wto-on-the-global-food-security-and-nutrition-crisis/en>)

Energy Inflation

USA:

<https://preview.redd.it/5f5qzvjutnq91.png?width=755&format;=png&auto;=webp&s;=5b11d3f0de04efba4a0b0106db43d4cf51e801e0>

The gas and energy inflation has been patched up by the use of the [Strategic Reserve](https://ycharts.com/indicators/us_ending_stocks_of_crude_oil_in_the_strategic_petroleum_reserve#:~:text=US%20Crude%20Oil%20in%20the%20Strategic%20Petroleum%20Reserve%20Stocks%20is,31.19%25%20from%20one%20year%20ago.)

<https://preview.redd.it/nuhjv4rvtnq91.png?width=790&format;=png&auto;=webp&s;=c645495f91693757c004ff09d529d8408aa9017b>

Europe

<https://preview.redd.it/qcak4y3xtnq91.png?width=497&format;=png&auto;=webp&s;=97b47ce48104e4e84>

009e3f333650063816d8090

The time is ticking down to many people being homeless, starving and without power while facing winter in the Northern Hemisphere. How will people pay for their homes which are wrapped up in MBS and CLOs. Many MBS are already down 14% and dropping fast. Evergrande has defaulted a 100 times by now leading to China's housing crisis and bank crisis (also faced droughts and thus food price go up). That checks number 3 and 4 on the list.

Mortgage Backed Securities ETFs:

Symbol	YTD	Total Assets (\$)
MBB	-14.18%	19,680,000
VMBS	-14.35%	13,497,00
LMBS	-3.79%	5,075,080
SPMB	-14.43%	3,681,900
JMBS	-13.72%	777,329
CMBS	12.33%	636,991
GSST	-0.64%	511,078
GNMA	-13.20%	318,491
FTSD	-3.94%	237,379

[Source](https://etfdb.com/etfdb-category/mortgage-backed-securities/)

****CLOs Risk****

With bank stocks decreasing, Student Backed Securities taking a hit (u/happyegg1000 [here](https://www.reddit.com/r/Superstonk/comments/xei6c2/student_loan_asset_backed_securities_the_recent/)) and the economy on the brink of annihilation we are at risk of a bubble bursting. The US has been increasing Leveraged loan issuance[roughly up 60% from 2020-2021](https://www.whitecase.com/insight-our-thinking/after-storm-us-leveraged-finance-story-so-far). This can be devastating to the already weakened economy. Much of the economy is exposed to CLOs which have only grown more complex over the years [resulting in more vulnerability](https://www.fsb.org/2019/12/vulnerabilities-associated-with-leveraged-loans-and-collateralised-loan-obligations/).

The federal Reserve describes the risk if the loan defaults. With the average person under financial stress there is added risk of these loans not being paid. JPow already wanting to raise unemployment there is even more added stress to these loans.

Lets dive into these risk if a CLO defaults.

<https://preview.redd.it/22r3ln5xunq91.png?width=777&format=png&auto=webp&s=3d249116223cc66487db5e5bf8bb0bcd605e2e3e>

<https://preview.redd.it/u0cd26ayunq91.png?width=782&format=png&auto=webp&s=81d10ba267f9ff2f2a3851def7e0dc3ec745f2ec>

[Source](<https://www.federalreserve.gov/econres/notes/feds-notes/who-owns-us-clo-securities-an-update-by-tranche-20200625.html>)

Many of these holdings are hidden away in the Cayman Islands

<https://preview.redd.it/ylb26mb0vnq91.png?width=796&format=png&auto=webp&s=b9129d00c710a3619b935c295cba2bb0b2e4cabd>

<https://preview.redd.it/258ra891vnq91.png?width=561&format=png&auto=webp&s=6bb272892224464aea96ce88cb48a33aeca88a4>

[Source](https://pages.stern.nyu.edu/~igiddy/articles/Mezzanine_Finance_Explained.pdf)

As shown in the figure above we can gather that CLOs are an integral part of the debt structure of Banks and other companies.

[US Debt](<https://www.yardeni.com/pub/usfeddebt.pdf>)

[Foreign holdings of US Securities](<https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/shla2021r.pdf>)

With the collapse of stocks many companies are going bankrupt. What will happen with their debt?

[What happens if a company's debt if it goes bankrupt](<https://www.sec.gov/reportspubs/investor-publications/investorpubsbankrupthtm.html#:~:text=Under%20Chapter%207%2C%20the%20company,least%20risk%20are%20paid%20first.>)

As always Buy, DRS, HOLD. If anyone can post this in superstonk that will be helpful.