

Don't Ignore Known Risks Just because they are Unlikely

As 2019 comes to a close we thought it would be fun to think about global happenings which could drastically veer from consensus expectations come 2020. While we do not believe these events will actually come to fruition they are still worth considering. Let's jump in (presented in no particular order):

Event	Action	Implications
Debt issuers realize the “negative interest rate experiment” failed (Table 1) ¹	Yield expectations change from negative to positive	The inherent extreme convexity of long-dated outstanding negative yielding bonds causes massive losses.
Corporations decide to reduce their cash holdings (Table 2)	Cash hoarding reverses trend	Surge in M&A, share buybacks, and dividend pay outs
China all but abandons foreign investments (Table 3)	Domestic investment replaces foreign investment	Trillions of dollars’ worth of Chinese foreign investment experience downward pricing pressure
Germany decides low GDP growth is not acceptable (Table 4)	The German government initiates fiscal stimulus	German equity markets continue their rise, industrial production strengthens and overall economic indicators converge to global averages
The “shared economy” infiltrates the consumer durables/nondurables industries ²	Consumers transition away from the traditional buy-to-own business model to a pay-to-use economy	First movers have success leading to a fundamental shift in the way consumers “consume” goods
2020 US Presidential Election	Michael Bloomberg becomes the 46 th President of the US	Global relief from the Trump administration policy uncertainty

Table 1 Negative Yielding Debt & Rates

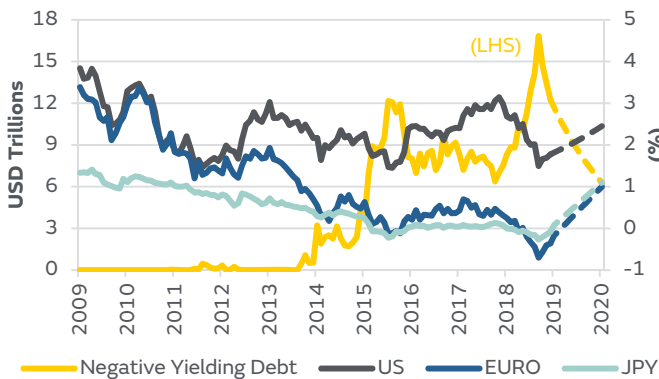


Table 2 MSCI ACWI Index

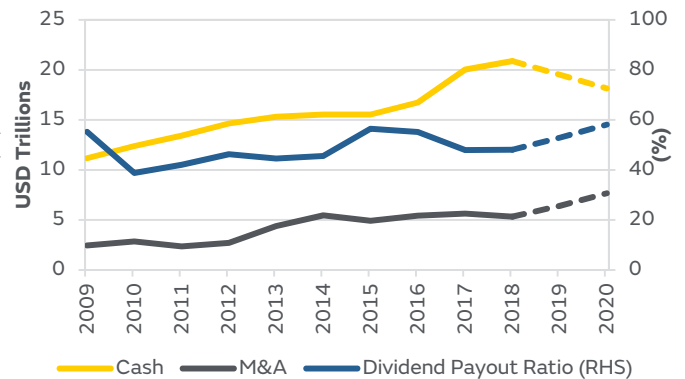


Table 3 Chinese Assets

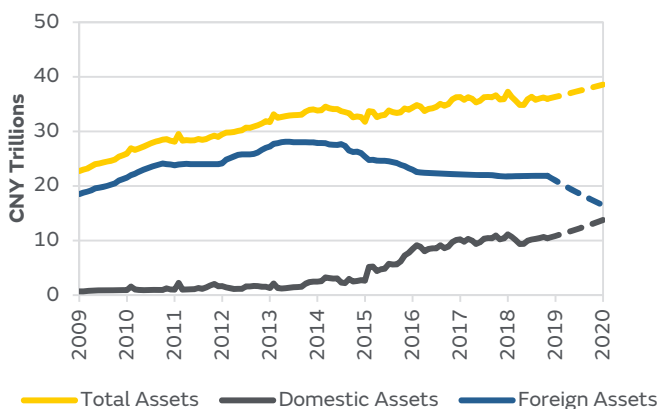
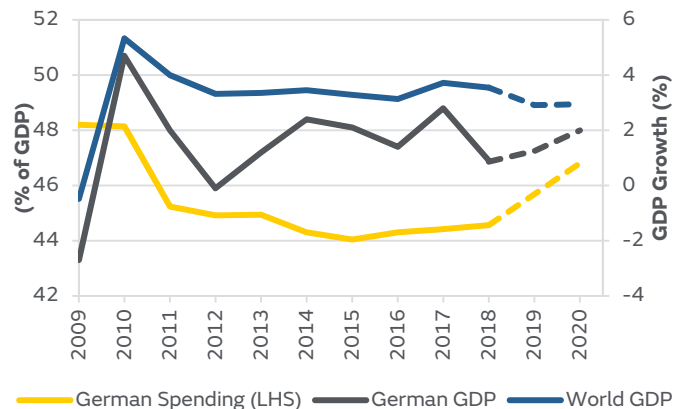


Table 4 German Government Spending



Note: Dashed lines represent GIB Asset Management's tail risk scenario.

1 Debt market value is inversely linked to interest rates. When rates are negative, the presumed value of debt skyrockets.
 2 We are already seeing an increase in home rental and auto leasing (pay-to-use economy). Will this trend spill into consumer goods?
 3 Source: Table 1, 2, 3 and 4 – Bloomberg

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