

IIE 2022 New Year Questionnaire

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- How unpredictable has 2021 been. What have been the biggest surprises – good and/or bad?

2021 has been entirely predictable. It has been an utter repetition of 2020.

It was very easy to make money in 2021 by simply continuing to play the trends that established themselves in 2020. The artificial suppression of defaults, ever thinner credit spreads, recovery of the equity market on the back of quantitative easing and ultra-low rates paradoxically reflecting the zombie economy and zombie capital markets compensated by government and central bank policy.

Inflation picking up in the middle of the year should not have been a surprise: given the negative productivity shocks implied by the lockdown and the “green new deal”, inflation was all but certain to rear its head. My only surprise was that most investments strategists failed to pick this up in time. The house views of virtually all investment banks and investment managers claimed the April/May inflation numbers were going to prove to be a statistical fluke given prior year baseline effects – while there had been in fact nil baseline deflation in 2020 waiting to be recovered from?

- What is the biggest challenge for insurers and their investment portfolios as the pandemic enters its third year?

Courage. The wish to break out of the crowd and the courage to find and buy the best assets.

Insurers in particular are poor investors. They focus too much on legacy asset-liability approaches and on regulatory capital management to the exclusion of finding attractive assets with good return prospects for well-managed risk. The risk concept insurers rely on is too mathematical and too theoretical and often misses the forest for the trees. The investment process and governance are also too clumsy to identify opportunities early and pick them up before a trend is firmly established, which leads to buying assets expensively, after a window of opportunity has closed, rather than timely and cheap.

- Inflation: transitory or here to stay for a few years?

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The lockdown and working from home have, after an initial phase of adapting to new circumstances, reduced productivity wholesale as well as innovation in the economy. Working from home without effective training, development and mentoring, team building or innovation, might succeed at running the back-offices of the economy for a while longer, but struggles to bring the economy forward, lifting efficiency and productivity, onboarding and training staff, disseminating entrepreneurial culture or building high performance teams or new ventures. The impact of lockdowns on education has been dismal and presents a crime against the future: young people and children, our future, were denied effective learning in a living environment of their peers, proactively mentored by tutors functioning as role models. The zombie economy will remain stagnant for as long as the lockdowns are imposed from the top.

The “green new deal” replaces efficient technologies with inefficient and expensive technologies. It does not create any economic new land: no new products or services are being delivered, economic growth or innovation are not supported. Whereas in previous technological shifts a mobile is not a fixed line or contact lenses are not glasses, a wind farm is simply an unreliable power station and an electric car is an expensive, overweight, inefficient vehicle compared to a combustion engine which is

cheaper in purchase and cheaper in running cost, besides paying considerable exploration licenses and production royalties on oil and gas and taxes at the pump to the benefit of the community. Therefore there is a persistent upward trend in all costs of all products that take up resources of any kind, transportation, heating, utilities such as electric power and the industrial manufacturing and services that are built on those. So, the negative productivity shock, a self-inflicted own goal, is both real and persistent.

- What are your predictions for interest rates in 2022?

Up in US\$ to handle rampant inflation and a recovering economy facing man-made bottlenecks, but continuing to be manipulated in negative real, even nominal territory in the € zone, where the malaise is now generic following the failure of Merkel to reform the German economy and the installation since of a red-green government pursuing utopic ideals in Germany and for the European Union. Let's not blend out that inflation is the friend of over-indebted governments worldwide and "independent" central banks are their partners in this game.

For the time being, Boris Johnson is also clinging to the utopic view counter to the logic of Brexit but is at least partially neutered by his backbench parliamentary party. In the US, Congress – in particular the Senate – is mounting a significant challenge to the equally utopic Biden administration, where a thin democrat majority may be overturned in November 2022 mid-term elections.

- ESG and climate change have shot up the political and regulatory agendas. What impact is that having on investment strategies?

I suspect we have seen the high point of the ESG tide but I try to blend out the craze for ESG and find the poor judgements in its philosophy and execution. That's where both attractive assets are to be found and also hints at overvaluation, even imaginary valuations, may be spotted. The "green new deal" has already hit bottom in US congress but no doubt other countries will waste more money on poorly thought out plans, spending ever more funding for increasingly disappointing outcomes. Following political logic, the worse any outcome, the more funds are going to be channelled in a futile attempt to save the day and save face. Other countries like China and India will exploit the gaps left by European countries and companies to outsmart and outpace Europe.

So far, natural gas has been the biggest beneficiary from the craze for wind and solar projects which cannot survive without subsidies and even less without grid back-up given their failure to produce 24/7/365. Wind and solar are a Trojan Horse for gas. Add in the block on new natural gas exploration and production by the Biden administration and other ignorant governments. The gas market has immediately responded to the shortages with a massive price hike in natural gas and cost inflation in a number of dependent markets such as electric power and ammonia, urea and nitrate fertiliser, with a successful harvest next year hanging in balance.

China has been the beneficiary of the European car industry prematurely exiting combustion engines. Should electric vehicles not prove the way forward, China will dominate car manufacturing for the rest of the century now that the leading European manufacturers have dropped research and development in combustion technology, the most efficient engines of the day taking a complete well-to-wheels view. China is furthermore leading in coal combustion technology with the record breaking efficiencies of supercritical boilers and in other products requiring coal, such as steel manufacturing and electric vehicle batteries. Technically perfected combustion remains a crucial expertise in industrial and technological society which apparently, Europe has decided to do without. As an aside, note the geostrategic consequences: today's wars are fought and won with top quality steel weaponry and with fossil fuels powering offensive and defensive equipment in a mobile war zone.

India, Indonesia, even Japan and Dubai are also again investing in thermal coal power plants and will together with China drive demand for coal in the coming decades.

The USA will likely return to the shale gas market and regain energy independence as it did briefly before Biden locked the US oil and gas economy triggering inflation not seen in 40 years. This may occur as soon as 2022 or 2024 depending on the outcome of the mid-term and next presidential

elections. In case of a republican victory, count on Congress and the White House switching the US back to putting America first and prioritising US energy independence. Oil and gas will continue to grow in the 21st century, likely being produced by nationalised owners of assets, like Norway and Saudi Arabia. Sadly, the UK has given up on the North Sea, instead pouring concrete cemeteries in an attempt to support unreliable and unviable offshore wind farms.

Nuclear extensions of legacy nuclear plant and hydropower are interesting assets, whereas once the subsidies stop, wind and solar will end up as the ultimate stranded assets of the “green new deal”. Russia and China are now leaders in nuclear technology completing projects on time and in budget. The trump cards are clearly being dealt again at the moment and those taking pragmatic approaches ahead of ideology stand to reshape the world economy to their benefit.

- What will be the biggest changes for you in the “new normal” of hybrid working?

Getting people back to the office, which is where real team work and creation occur. Countries who step out of the self-inflicted crisis mode first, will grow harder and innovate more, leaving the rest of the world lagging economically.

- What future for business travel? Are you looking forward to stepping back on a plane or is it Zoom all the way?

Healthy people if anything improve their natural immune system with travel abroad and mixing with other populations, far better than with an artificial, underdeveloped, poorly tested vaccine. Viruses are a natural, automatic appearance in any living multicellular organism given our biochemical make-up with DNA and RNA naturally abundant in every cell of our bodies and those of any other living creature in our immediate environment. Expecting a life free from viral and bacterial infections is a biochemical impossibility. I have no clue why we ambition the utopia of a virus free society which is simply not achievable and frankly not worth it, if purchased at the cost of crippling life-threatening diseases such as vaccine-induced strokes and the cardiac infections myocarditis and pericarditis. Politicians have foolishly underwritten an unachievable benchmark of immortality which has destroyed economic, social, educational and cultural life.

Business travel is much more effective in establishing new business contacts, innovating projects and productive and profitable growth. The world has been at a standstill. Those that have the courage to venture out first, inherit the world.

It is imperative that politicians stop fuelling the deliberate panic with irrelevant, unscientific factoids and fake information, in return to a rational, researched and far-sighted approach to health, when the dominant causes of death, namely cardiovascular diseases and cancer affecting the frail and elderly, have not changed at all during the pandemic.

- What is your New Year resolution when it comes to insurance portfolio management in 2022?

Finding superb assets at cheap prices. The asset management industry has given up on this task, but they are out there.

There are opportunities in private debt, private equity, transitional real estate, inventory and invoice financing, certain infrastructure and certain fintech funding. At the same time, most venture and start-up capital seems not intent on building new business with clients and cash flows but building bigger bankruptcies for when the bubble bursts. Active management based on research, expertise and selectivity is the order of the day.

- Any thoughts on when or how the Covid-19 pandemic will end?

The pandemic has ended. There is no objective endpoint to the social crisis which has been engineered on the back of the medical situation of March-April 2020. We have long since passed the endpoint of the medical emergency, in case one ever existed. We are subject to a crisis of

confidence, a manufactured neurotic crisis, not a health crisis nor an environmental or ecological crisis.

The Wuhan virus after it escaped from Wuhan's biological warfare laboratory was never more than 10% of all mortality, even in the increasingly aged populations in the Western welfare states, where multiple comorbidities were lazily reported as Corona casualties on death certificates. Typically on average four simultaneous comorbidities now establish death of the frail and elderly. The systematic, arbitrary shutting of hospital bed capacity, a favourite cost cutting approach to public health care ensuring capacity bottlenecks during peak winter cold, was another factor in the drama of the pandemic which was just shuffled under the carpet. The vaccination on which all bets have been placed has simply failed to handle the emergency, with children, the young and the healthy not benefitting from vaccination to begin with and the elderly and vulnerable most at risk from the virus not invariably benefitting from vaccination for the most part. Virtually all disease and deaths now befall on twice vaccinated and boosted patients, not a surprise given what we know about immune system impairments in the frail elderly. The vaccination strategy has run its course, yet politicians seems unable to review the narrative and think again and are cajoled by the medical and pharmaceutical establishment into not allowing the population to decide on their own health and care needs.

Neither is global warming a particular threat or emergency for humanity: it is just one of 25 million climatic events in the past 4.5 billion years of the solar system's and earth's geological histories. Lobby groups had a field day pushing the narrative to where they believed they benefit from the crisis. Objective science has been abolished and overwhelmed by decadent pseudo-science serving lobbies and governments instead of pursuing truth with a free, inquisitive mind. Note the "global warming" tag was dropped in favour of the entirely subjective and undefinable concept "climate change" to reduce the onus of material evidence: any chance meteorological event can be recounted as climate change.

The crisis of confidence has been manipulated and fired up by subjective reporting, online censorship, fake pop-science à la Greta Thunberg and Bill Gates, the lockdown and travel ban which reduce idea generation, suppress free debate and citizens' initiatives and inhibit the growth of autonomous societies finding their way without political elitist chaperones. This crisis of confidence will end by political elections returning different majorities.

I expect the first mover to be the USA, in November 2022 and in November 2024. In Europe, there is a persistent network particularly in formerly communist states where such networks had figured out how to work through unofficial channels. The growing apart of the European Union, with the recent joiners from Eastern Europe again rejecting most of the Union's political agenda and drive towards the superstate, is therefore engaged. In the UK, first movers might be the Conservative backbench party which is increasingly restive vis-à-vis their current leader Boris Johnson. The liberal-democrat party has taken a courageous stance against lockdowns and other measures impinging on individual liberty.