

Perfect vision in hindsight



It's funny how momentous events that surprise us in real time become major turning points in hindsight.

9/11, which shook the world on 11 September 2001, marked – in hindsight – the beginning of the loss of America's unshakeable political leadership of the world. The twin towers of the World Trade Center, emblems of America's leadership and the bedrock of capitalism, came down as a series of coordinated terrorist attacks killed nearly 3,000 people, injured more than 6,000 others and caused at least \$10bn of damage to infrastructure and property. It was the single deadliest terrorist attack in human history and the moment America lost its global political leadership.

On 15 September 2008, Lehman Brothers, the fourth-largest US investment bank, with 25,000 employees worldwide, filed for bankruptcy, with \$619bn of debt. It was the largest victim of the US sub-prime mortgage crisis and its collapse was a seminal event that wiped nearly \$10tn off the market capitalisation of global equity markets – the biggest monthly decline then on record. It marked the beginning of the global financial crisis and the moment America lost its global financial supremacy, with repercussions still being felt around the world today.

Similarly, on 5 August 2011, the US lost its prized triple-A credit rating, held since 1941, when Standard & Poor's – one of the world's leading credit agencies – downgraded the country's top-tier rating for the first time, reflecting the government's budget deficit and rising debt burden. Indeed, Microsoft and Johnson & Johnson were seen as better bets than the mighty America; they are the only two US corporations with triple-A ratings (still held today) against the US's AA-plus.

This was an unprecedented blow to the world's largest economy in the wake of a political battle that had taken the US to

the brink of default, and it marked the moment America lost its global economic standing.

The seminal moment was not lost on China, the world's largest holder of US debt, which stated through its official news agency, Xinhua, that it had 'every right now to demand the US address its structural debt problems and ensure the safety of China's dollar assets.'

Fast forward to 2019, and the current trade and tariff wars between China and America are the culmination of these moments in time, when things change once and for all and are never the same again. The struggle for global leadership of the 21st century, identified by some as a cyber war between America and China – which could last as long as America's Cold War with the USSR – is rocking global equity markets on a daily basis. We now know markets hate trade wars even more than interest rate hikes.

After 10 years of near-zero interest rates and quantitative easing, equity valuations are as stretched as they were in the dotcom boom, and debt is three times as high as in the global financial crisis, with few monetary or fiscal weapons to fight a synchronised global recession. Indeed, the timing of Donald Trump's tax cuts and the fiscal stimulus to an already growing US economy in January 2018 could, in hindsight, mark another landmark moment – a moment when markets peaked in a synchronised global recovery.

Interestingly, we have had two 50%-plus corrections in global markets in this century alone, with markets peaking in 2000 and in 2007 and then behaving rather similarly to the past 18 months, with investors buying the dips – rather than selling into the rallies in hindsight – until a systemic shock has marked the end of the party. In 2001, it was 9/11 and, in 2008, the collapse of Lehman Brothers. What will it be this time?