

Media Worth Consuming – October 2019

Finance

S&P 500 companies are paying out [over 100% of their free cashflow as dividends and buybacks](#), even though earnings growth has been flat for the last two quarters and is [likely to be negative for the quarter just ended](#). On some measures, [the US stock market isn't bubbly at all](#). Insiders are selling their stock [at the highest pace in 20 years](#). US rail freight levels are [down 5% year on year](#) and container shipping rates are [down 43% year on year](#). [Inflation, exports and imports are all negative](#) in South Korea. If you subscribe to the skyscraper theory, [risk assets are due for a downturn](#). VIX is indicating everything is ok, [but skew is signalling problems ahead](#).

[29% of US leveraged loans are rated B-](#) and another 11% are rated CCC or below, which creates price jump risk for CLOs facing rating constraints. Some CLOs are giving themselves [up to 50% CCC allowances](#) so they can buy distressed debt when others are forced to sell. Underwriting banks are [getting stuck with leveraged loans](#) again. Standard and Poor's sees [a growing pile of "weakest link" corporates](#) that will form a default wave in the next downturn. LBO companies [rarely hit their EBITDA growth and debt reduction targets](#) put forward at the time of borrowing. EBITDA adjustments in private equity transactions are at a record high, with adjustments [nearly half of EBITDA for B rated companies](#).

Some "investment grade" bond funds are [loading up on debt with split BBB/BB ratings](#) to boost returns. AMP raised a [\\$6.2 billion infrastructure debt fund](#), adding to a crowded sector. Moody's sub-investment grade [downgrade to upgrade ratio](#) has substantially deteriorated this year. Rating agencies are [giving some big corporates several years of leeway](#) to earn the rating they currently have. [Defaults are jumping](#) in the municipal bond market. Stretched consumers and pricier cars are pushing [American auto loans out to nearly six years on average](#). An American farm lender [threw underwriting standards out the window](#) and now has 13% of its loan book as non-performing. The US Treasury Department is [regularly approving reductions in pension benefits](#) for defined benefit funds heading towards insolvency.

The Bank for International Settlements studied the impact of low interest rates and found that [banks reduced lending and increased risk taking as a result](#). [Smaller German banks are increasingly passing on negative interest rates to their retail clients](#) with larger banks considering doing the same. Greece is selling [short term debt at negative interest rates](#). Falling yields on Greek and Italian government debt [points to desperate investors](#) rather than an economic turnaround. Greece's government is set take a huge risk [guaranteeing the senior tranche in a securitisation of non-performing loans](#).

WeWork's downfall is reminding investors to [value the math rather than the magic](#). Softbank is going to [spend \\$10 billion bailing out WeWork and its CEO](#). WeWork's bonds fell after the Softbank rescue was announced as [existing bondholders are being relegated to second ranking](#). A potential bankruptcy of WeWork [would cause significant losses in CMBS](#). Tesla [recorded a profitable quarter](#) by cutting costs faster than revenues fell and has [built a Chinese car factory in 168 days](#). Tesla owners are posting videos of their [cars going wild after using the "smart summon" feature](#). [After 22 years of burning cash](#), Netflix is raising another \$2 billion in debt. [This cycle's tech bubble](#) is running out of helium. [Silicon Valley held a conference to express their hatred for IPOs](#), right after several large tech company founders enriched themselves by listing shares that subsequently crashed.

India has [strictly limited withdrawals from PMC Bank](#) after allegations of fraud surfaced. [Indian lenders are caught in a liquidity crunch](#) with property developers the worst impacted. The default of Dewan Housing Finance [could be a solvency shock for India's banks](#). The law of the jungle [applies to insolvency in India](#). Rating agencies in India are [doing a poor job of predicting defaults](#).

Residential property sales have [fallen hard in Beijing and Shanghai](#) with commercial office vacancy rates [well above international peers and rising](#). China [has stopped publishing industrial employment data](#) with alternative sources pointing to employers heavily cutting back on hiring. [China has upped its infrastructure spending](#) to offset a weakening economy. China's foreign exchange reserves are falling as [citizens use backdoor methods to get their money out](#).

A brief history of [high profile corporate whistleblowers](#) in the US. A former banker has given evidence that he received [\\$45 million in kickbacks for helping arrange loans for companies in Mozambique](#). Seven global banks are accused of [rigging the Mexican government bond market](#). American banks are [shifting loans in disaster prone areas](#) onto Fannie Mae and Freddie Mac. A former employee of Capital One talks about the ethical dilemmas they faced when [selling high rate debt](#)

[to subprime borrowers](#). 37% of Australian borrowers [admit to lying on their loan applications](#). [Silent second ranking loans](#) have crept into Australian development lending.

Asset allocators [get fee cuts by threatening to go passive](#), but they'd be better off switching to managers that deliver decent outperformance rather than sticking with mediocre managers. A review of academic studies over the last 20 years finds that [active management has been judged too harshly](#). If you only consider their best ideas, [active equity managers deliver substantial outperformance after fees](#). New research points to [US equities outperforming bonds by only 1.7% over the last 220 years](#). Fund managers with higher employee ownership [have stronger investment returns](#). Only 20% of emerging market debt managers [beat their benchmark after fees](#). Ken Fisher made [another batch of offensive comments](#) at a financial conference, leading to his firm losing [\\$3 billion in assets in 2 weeks](#). South Korea's largest hedge fund has [frozen investors after a redemption run](#).

[Parts one](#) and [two](#) of the early days of Blackstone. The firm that does the [very boring work of normalising the errors in accounting rules](#). [How brokerage firms make money](#) when they don't charge retail clients for trading shares. A quick introduction to the [standards governing green bonds](#). Investors wanting ESG bond portfolios [need to accept lower returns and concentrated holdings](#). A Reddit user bragged about [turning \\$766 in \\$107,758 in a week by options trading](#). Virtue signalling CEOs are being [cut down by their shareholders for underperformance](#).

Politics & Culture

The arguments that the allegations against [Joe Biden's actions on Ukraine are a conspiracy theory](#) and the contrary side that says [he has many questions to answer](#). Joe is telling TV networks to [stop having Trump's lawyer Rudy Giuliani on as a guest](#). [Goggle is meddling in the US presidential election](#) by suppressing information about Tulsi Gabbard. [Elizabeth Warren is channelling Jussie Smollett](#) with new evidence raising questions about her [claim of being fired for being pregnant](#) in the 1970's. Mitt Romney [used a fake twitter account](#) to say nice things about himself and lob criticisms at Donald Trump. [The ten most toxic donors](#), whose money has brought trouble onto those who received it. The Electoral College system is imperfect, [but still the best way to elect an American President](#).

Trump's properties [gave different financial information to the government and their lenders](#). The allegations that groups are [booking rooms at Trump's hotels and never staying](#) in order to curry favour. Trump's campaign manager is [as interesting and loose with the truth as Trump is](#). A Trump supporter pranked an Ocasio-Cortez event by saying "[we've got to start eating babies](#)" to stop climate change.

South Africa's [racist government policies](#) are holding it back from growing the economy. Where women see gender bias, men see a lack of women [making the choices and sacrifices needed to get to the top](#). Voters in the all American stock research rankings are [more likely to vote for women](#), even after adjusting for experience and performance. There are more men in STEM partly [because men are so much worse at humanities than women](#). Several countries are [allowing men to serve time in women's prisons](#) if they self-identify as female.

A US federal court judge has [deemed legal Harvard's blatantly racist admissions policies](#) which include giving preference to kids that play expensive sports, [dominated by wealthy white kids](#). [Giving parents a choice of schools](#) increases the quality of public and private schools. Technical/trade orientated high schools [substantially increase the employment prospects and earnings of their students](#).

The NBA rejected Chinese bullying to [fire a Houston Rockets employee](#) for a pro-Hong Kong tweet. NBA fans [mocked LeBron James](#) for choosing Chinese money over free speech. China is [spying on its citizens and feeding them propaganda](#) through an app that is mandatory for government workers. [China is requiring facial identification](#) from its citizens to get internet access. [The growing gap in China's classes](#) is setting up political discontent. A Chinese mayor was arrested after his home was raided and [\\$660 million of gold was found](#). Chinese courts are denying divorce applications from [women who are victims of domestic violence](#). [Singapore has passed a law banning news the government doesn't like](#) with punishment of up to 10 years imprisonment and a \$1 million fine.

An Ontario dental assistant [lost his licence to practice after treating his wife](#). An Atlanta City Manager has [shut down a preschool stall selling cheap vegetables](#) in a poor neighbourhood for "zoning violations". Swedish towns are [requiring](#)

[beggars to get a permit](#) before hassling people for money. The German Parliament is considering jail sentences of up to 3 years for [insulting the European Union anthem or flag](#). You can be fined up to \$250,000 for [using the term “illegal alien” in New York](#). US Police [accused of stealing over \\$225,000 can't be sued](#) after a bizarre court ruling. Americans are increasingly serving jail time for [dodging their debts and refusing to appear in the subsequent court cases](#).

A Spanish court has handed down [long jail sentences to nine Catalan leaders](#) for pursuing independence. Canada's government [tried to block independent journalists from reporting on the election](#). The Australian government completely bungled an Interpol notice [resulting in a refugee being jailed for 77 days](#). An Australian University is [suing a senior academic for damages](#) after he reported its alleged misconduct. [Britain should leave the EU and join NAFTA](#).

Facebook has [an unusually cosy relationship with the local police force](#) covering its headquarters. Tech companies that think they are above the law are [running into determined politicians and voters](#). Google is forcing companies to pay more to be highly ranked, [including charging brands for their own names](#).

Dave Chappelle's comedy special shows that [ordinary people prioritise laughing whilst critics prioritise political correctness](#). An initial review of Stockton's UBI experiment shows [recipients could use financial counselling at least as much as the money](#). It's odd that people like to [wear t-shirts of the mass murderer Che Guevara](#). The FBI's statistics show that [handguns and knives are used in far more murders than rifles](#). Behind San Francisco's homelessness epidemic [lies drug abuse, mental illness and a lack of enforcement of basic standards](#).

Economics & Work

The [winners of the Nobel Prize for Economics](#) this year broke new ground in designing and testing programs to alleviate poverty. One of the Nobel Prize winner's idea to [pay poorer countries to take refugees](#) could ease the global refugee problem. [5 economists](#) who were in contention for the Nobel Prize.

Australia has had no official recessions but [three per capita recessions in the last 28 years](#). Europe needs to [undertake substantial economic reforms](#) just like Germany did in 1948. [12 cutting quotes from Milton Friedman](#) on government and freedom. Economists have [consistently viewed the works of Karl Marx as shallow and illogical](#). [Libertarians have gone on a cruise](#) to share their disdain of Paul Krugman. Hungary, Poland and Serbia have railed against migrants but [now need to import more to combat labour shortages](#). Americans with [the lowest wages are seeing the biggest percentage wage gains](#).

After massive monetary and fiscal stimulus hasn't delivered the desired levels of growth, [there's a growing call for helicopter money](#). [Modern Monetary Theory has been tested in Latin America](#) and it was a disaster. Japan is a perfect case study in the [limits of fiscal and monetary stimulus](#). Six former European central bankers have written an open letter [condemning the ECB's ultra-easy monetary policy](#). Mario Draghi [ignored advice from the ECB monetary policy committee](#) not to restart quantitative easing. [Swiss Cantons are taking drastic action](#) to avoid the sting of negative interest rates.

Central bankers have [self-assessed their use of unconventional monetary policy tools](#) as a great success with minimal negative effects. [Central bankers are mad professors](#) running freakish monetary policy experiments on economies. After a decade of ultra-easy monetary policy, [a global slowdown could bring a wave of defaults](#). The IMF has [quietly admitted that easy monetary policy](#) has provided the fuel for the next crisis. [The increasing amount of debt creates a “bubble or nothing” economy](#), vulnerable to a long and deep recession. The argument over whether [the latest batch of Federal Reserve bond buying](#) counts as quantitative easing. [Governments default regularly](#) and we shouldn't be surprised when they do.

Miscellaneous

US hospitals are [detaining patients against their will](#) and sticking them with the bill. A doctor explains [how Americans are addicted to health care insurance](#). US family healthcare premiums [have surpassed \\$20,000 per year](#). When healthcare costs are included in the calculations, [America looks like a European welfare state](#). Walmart is revolutionising healthcare by [offering basic medical services at a 30-50% discount](#). An American private equity firm [auctioned off its graduate doctor slots](#) at a distressed hospital. Sheriffs in Alabama frequently release sick inmates so [they don't stuck with the cost of medical care](#).

[Ultra-processed foods trick our brains](#) into thinking we need more food. The average human skull is shrinking, which [negatively impacts sleep, weight and development](#). [30% of men and 86% of women](#) in the US Army are failing the combat fitness test. [Sleep deprivation](#) is the biggest issue for NBA players. 5.7 million children in the US have a parent with addiction issues, so [Sesame Street is introducing a character](#) to help children deal with it.

A Chinese family went through [23 weddings and divorces in a month](#) to get a bigger share of a property development. Five Chinese men are going to jail after [four of them each subcontracted a contract to kill](#) and the fifth contacted the target and asked him to fake his death. Hong Kong's hotel rooms are being rented for [as little as \\$9 per night](#) as tourists stay away. [China purged its internet of South Park content](#) after an episode that mocks government censorship.

Celebrities that support action against climate change should [jump on board the campaign to ban private jets](#). [Dyson is shutting down its electric car project](#) citing commercial unviability. [Porsche is backing a Croatian electric car maker](#) that makes Tesla's performance look pedestrian. Climate activists gained infamy by [botching their attempt to spray a government building red](#). London residents are [fighting back against Extinction Rebellion protestors](#) and the city has [banned one of their protests](#).

Hydrogen has the potential to be [the clean energy fuel of the future](#), with scientists becoming more efficient in [using electricity to create hydrogen from water](#). Molten salt towers [could be the cheap storage option](#) that renewables are currently missing. Regenerating degraded soil could be [a relatively cheap way to buy 20 years](#) to address climate change. Wind and solar power are [subject to very large swings in production](#) on a daily and seasonal basis. The Sicilian Mafia is [a big investor in wind farms](#).

Media companies used bots to [submit millions of fake submissions to government inquiries](#). [Match fixing has arrived for Esports](#). Credit Suisse had private investigators [stalk a former executive](#) to ensure he was following gardening leave protocols. [A Utah woman has been charged with lewdness](#) for temporarily being topless in her own home in front of her children. [Instagram helped him build a steroid empire](#), the police sent him to jail for 10 years. The ongoing hunt for [Asia's biggest drug dealer](#).

[Celebrating late bloomers](#); those who make a great impact in life after mediocrity early on. Open plan offices [lead to less employee interaction](#). France offers its elderly citizens a low cost service for [their postman to drop in and check on them](#). Granny flats are becoming [the affordable housing solution](#). There are so many magazines about food, [why not one about toilets](#)? The [ten deadliest foods in the world](#). Forbes is encouraging single women to [travel to Taliban dominated parts of Pakistan](#). Qatar is working on [outdoor air-conditioning](#) in advance of hosting the Soccer World Cup. A New Zealand café is charging a [\\$5 surcharge for "hipster allergies"](#). The man who [makes public monuments dedicated to urban legends](#).

Written by Jonathan Rochford for Narrow Road Capital on October 29, 2019. Comments and criticisms are welcomed and can be sent to info@narrowroadcapital.com

Disclosure

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