

THE TRUMAN SHOW



“We accept the reality of the world with which we’re presented. It’s as simple as that.”

Sylvia: *What right do you have to take a baby and turn his life into some kind of mockery? Don’t you ever feel guilty?*

Christof: *I have given Truman the chance to lead a normal life. The world, the place you live in, is the sick place. Seahaven is the way the world should*

be.

Truman: *Who are you?*

Christof: *I am the Creator - of a television show that gives hope and joy and inspiration to millions.*

Truman: *Then who am I?*

Christof: *You’re the star.*

Truman: *Was nothing real?*

Christof: *You were real! that’s what made you so good to watch. Listen to me, Truman. There’s no more truth out there than there is in the world I created for you. The same lies, the same deceit — but in my world, you have nothing to fear. I know you better than you know yourself*

From the movie: “The Truman show” by Peter Weir.

The S&P500 has been running for nine years and a half now, performing the +330%, second only to the 417% hit between October 1990 and March 2000.

The bull market turned 3,453 days old on Wednesday the 22nd (beginning on the 6th March 2009) which would make it the longest on record by most definitions.

Only a few believe that this trend will continue and maybe exceed the previous record. But the longest run of the USA’s stock exchange should be disqualified for doping. Without

the Fed’s and the other central banks’ intervention (such as Bce, Bank of England, Japan and China), and without the QE and the zero-rated interests, it would only have been a dream, not reality.

A stream of liquidity, more than 10 trillion dollars, has watered all markets, mostly the emerging ones, and is responsible of the stock exchanges’ rise with low-yield bonds (almost close to zero), that do not mark the real risk. On top of that, Trump’s tax reform injected new lymph, leading to a 10-12 rise of the American corporate’s profits.

It almost feels as if we are living in a reality show. Everything is perfect. The USA’s GDP hits the 4% (Atlantia’s Fed actually analyzed the data and rose it up to 4,6%), the unemployment has reached the lowest rate of all times: 4%. It has been defined frictional, meaning that it is not possible to go lower because the unemployed are people that are not looking for a job or are in between jobs.

During the last months the Fed has reverted its course and the results of this policy can be seen in the developing countries. The QE is over, the central bank has already withdrawn 300 billion dollars from the market. The Bce is about to stop its QE.

During its long-awaited speech at Jackson Hole, Fed’s number one, Jerome Powell, stated that: “a gradual process of normalization is appropriate”. Even if economy is strong, there is no danger of overheating and, therefore, no need of rushing. From his speech experts have inferred that there is only going to be one interests’ increase from now until the end of the year instead of two, as previously supposed.

No merchant bank’s report affirms that this magical world is coming to an end. This is peculiar because they had kept saying that after Trump’s election things were going to change: no bull market’s or Wall Street’s interest rates records were supposed to happen. On the markets, fiction and reality often intertwine and blend in. The main financial players’ expectations, wishes and hopes for their portfolios often make them loose touch with reality and forget that they need to be humble because there always will be less

Headquarters

6, Market Street, Floriana
FRN1082 Malta
Tel. +356 23479800

Italian branch

Via Cavallotti 8
20122 Milano
Tel. +39 02 36574500

www.aqa-capital.com

info@aqa-capital.com

foreseeable and ponderable factors.

This is reality, which nine times out of ten is different from expectations or from the script written by the merchant banks. USA's reality is better than any dream or reality show. On the contrary, outside the Stars and Stripes' continent the situation is quite different.

The dollar's strength and the QE's withdrawal are knocking out the developing countries, mainly those with a high foreign currency debt. The most vulnerable countries are: Turkey (53,5% of the foreign debt on the GDP), South Africa (49,6 %), Colombia (40,3%) Argentina (36,8%), followed by Mexico, Indonesia and Brazil.

In the Euro area, the Italian's stocks are still under pressure. The next few weeks are going to be very intense; the budget

law is going to be introduced in a moment of tension with Bruxelles, regarding the migration crisis. Also, next Friday Fitch is going to review Italy's rating, whilst Moody's, that was supposed to take place at the beginning of September, has been postponed to the end of October.

Portfolio managers should be humble and acknowledge their inability of foreseeing the future. It is only this attitude that makes it possible to distinguish between a reality show and reality itself. The result is a diversified portfolio that favors quality, ready to cheer when dreams become reality.



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