

LA DOLCE VITA



Journalist: How do you sleep? With pajamas or nightgown?
Sylvia: Neither! I sleep only in two drops of French perfume!
Journalist: Of life, what do you like the more?
Sylvia: Several things, but I like some especially three: the love, the love and the love.
Marcello: Let me come here more often.
Steiner: I told you, you can come anytime.

the credit is based on trust. The fear is that the USA's raise in rates is about to uncover some stressful situations, in the corporate debt front in particular.

The logic is simple: during the years with easy liquidity and low rates, companies got into debts, maybe more than they should have, and now that rates rise the debt may turn out to be as heavy as a boulder. Before terrifying the markets, the suspects need a case, maybe a guinea pig. And the USA's corporate is handing them one on a plate: General Electric. The American conglomerate that a few years ago landed from energy and manufacturing to finance (one of the most troubled sectors), has lost the 56% from the beginning of 2018. The group embodies par excellence la dolce vita of the last years: the bond market-based financing and the buyback's boom, that is the purchase of one's own shares (4.644 billion dollars since 2009 in the USA).

What is it, Marcello?

Marcello: I should change environment. I should change many things. Your house is a real refuge. Your children, your wife, your books, your extraordinary friends... Me, I'm wasting time. I won't manage anything anymore. Once I had ambitions, but maybe I'm losing everything. I forgot everything.

Steiner: Don't think that safety is being locked up in one's home. Don't do what I did. I'm too serious to be an amateur, but

not enough to be a professional. There.

A more miserable life is better, believe me...than an existence protected

by an organized society...where everything is calculated, everything is perfect.

Marcello, I can only be your friend, therefore I can't give you any advice.

From the movie "La dolce vita" by Federico Fellini.

General Electric alone has a debt of 115 billion dollars. The fear is that in the event of a junk downgrade, its 1.600 billion of high yield debt, for the most collected in ETF, may risk to heavily inflate.

GE may only be the tip of the iceberg: about half of the 5 trillion high-rated bonds actually have "BBB" ratings. Therefore, they are the first that, if downgraded, to fall in the "junk" area, risking to destabilize an already strongly illiquid market.

The USA's corporate may be accused of increasing the debt and then using it to buy back its own shares, and increase earnings per share with managers' bonuses. A well known script. The question now is: which of these fears are real and do they really have an explosive power?

To think that the USA corporate has been caught unawares by the increase of rates is like saying that a farmer doesn't know that after summer comes autumn. The average ratio between debt and EBITDA of the American companies, which in 2011 was around 2,6 times the EBITDA, today stands at 3,4, just below the first warning threshold indicated at 3,5 times. Not exploiting the low rates in the past

La dolce vita is coming to an end? The Faang and the collapsing of oil weren't enough. The market is being insinuated by an insidious and self fulfilling suspicion, because most of

would have been poorly efficient, but la dolce vita is now over. Some companies will be able to react quickly and others will do it more slowly.

This movement points out another factor: without the possibility of getting into debts as before, investments will lessen and so will the growth. The rest, for now, is only speculations that we need to watch over without losing our head.

Another factor we need to monitor is the crude oil trend. The violent movement of these last weeks has caused its first and renowned victim.

The brokerage company Optionsellers, very active in futures contracts on commodities such as oil and gas, declared bankruptcy. The financier James Cordier, also known for “The complete guide to option selling”, apologized on YouTube for having ruined his clients. The sudden snapback of oil has failed also Pierre Andurand, one of the few hedge fund managers who had not only survived but flourished

even in the darkest times of the crisis of the sector. His fund, the Andurand Commodities Fund, that manages over one billion dollars, lost the 20,9% in October.

But the markets are used to disentangle themselves between misty visions (only a few come true) and an excessive optimism. To keep their feet on the ground the investors will follow closely the G20 meeting between Donald Trump and Xi Jinping in Argentina. There is a better chance that good news will come from that front, that may soften the situation.

La dolce vita creaks but the upside is that if bonds and oil become a problem, inflation will no longer represent one and central banks will apply a less restrictive monetary policy.



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