MV CAPITAL MANAGEMENT

Weekly Market Flash

Technocracy in Trouble

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Investors price a variety of assumptions into their asset valuation models every day, based on cyclical factors like interest rates and inflation expectations. Behind all these short term variables, though, is a more fundamental assumption about how the world works. That assumption is grounded in the primacy of what, for want of a better phrase, we call the "global technocracy." As well it should be – the technocracy has survived largely intact since the Bretton Woods conference of 1944 that set the postwar world order.

But the global technocracy is in trouble, and we don't really have a good playbook for mapping out scenarios involving their eclipse by other forces. This may prove to be interesting times – in the sense of that old Chinese proverb – for analysts trying to distill tectonic shifts in the macro world order into an informed model of likely asset price trends.

Saving the World, One Crisis At a Time

The global technocracy is made up of the policymakers – central bankers, finance ministers and their ilk – who can always be counted on to steer markets away from the shoals of peril back into calmer seas. They may not necessarily solve the problem of the day, but they can paper it over for a later day. Think of the Greek debt crisis and the various US debt ceiling debacles in recent years, and the bailout of the Long Term Capital Management hedge fund in the late 1990s. Back then we had the "Committee to Save the World" as Time magazine dubbed the triumvirate of Alan Greenspan, Robert Rubin and Lawrence Summers. In our present day we have Mario "Whatever It Takes" Draghi and of course the now-*technocrat emeriti* team of Ben Bernanke and Janet Yellen who got us safely through the narrows of Scylla and Charybdis and back to growth after the Great Recession.

Stop Us If You've Heard This One Before

"They won't pay their fair share!" "It's time to put America, and working Americans, first!" "No more bad trade deals!" Sounds familiar, right? As in literally every day of life since January 2017. Please don't think of this as anything unusual or unprecedented. Think, instead, of 1920. The Great War had ended, and our European allies, battered and destitute, owed America $10 billion in reparations for war debts (about $152 billion in present-day terms). World War I put an end to a glorious 40-year era of global technocracy, led by Great Britain.

With Britain severely weakened, the mantle of leadership now fell to the US. The major private investment interests of the day, led by the likes of J.P. Morgan and A.J. Drexel – card-carrying members of the global technocracy – saw the war debts as an albatross that would impede the ability of their European trading partners to return to commercial viability, and they argued for cancelling them. Their arguments – and those of the Europeans themselves – fell on deaf ears in Washington. The Republican Party that came to power in 1920 was highly protectionist and inclined to…well, put America first. Not only did the US insist on full reparation of war debts, but Congress enacted highly punitive protectionist tariffs in 1921 and 1922. They would follow this, of course, with the extreme measures of the Smoot-Hawley tariffs in 1930.

The global technocracy was out. Narrow-interest protectionism was in. How did that work out?

A Splendid Little Decade, Until…

Actually, it worked out splendidly…for quite a number of years. That decade, of course, went down in history as the "Roaring Twenties." It was an era of rapid technological advancement. The modern production-line factory came of age. Radio and wireless communications made RCA an early prototype for dot-com and then "FAANG" mania. Retail outlets and catalogue merchandisers such as Sears and Woolworth's streamlined their business models. Prosperity abounded.

It all came to a dismal end, of course, with the 1929 market crash and the Great Depression. America's aggressive economic stance against its allies ("trench warfare by other means" as the cynics of the day termed it) hindered reconstruction in Europe and left a leadership vacuum all too happily filled by opportunistic political extremists on the Continent. It would take another war, even more brutal and destructive than the first, for America to willingly accept its role as economic superpower and de facto head of the global technocracy.

It's All About the Timing

The moral of this story is quite simple. While we may indeed be on the cusp of another tectonic shift in world affairs – in which narrowly partisan self-interest once again pushes the global technocracy off center stage – there is no real playbook to instruct as to how and when asset markets will react accordingly. A thoughtful investor in 1920 would have had excellent arguments, based on the data available at the time, to go all cash. That investor would have been right…nine years and 240 percent of cumulative stock price appreciation later.

It's all about the timing. In the absence of a good playbook, investors and prognosticators are likely to learn just how tricky that can be. Think about this, though, at those barbeques this summer when some know-it-all tries to tell you that the sky is falling and it's time to get out. Or that you should double down, because we're about to embark on the most prosperous age ever known to humankind. "If X, then Y" is how the pundits like to spin their arguments into gold. The more salient formulation, though, is "If X, WHEN Y?" And that's a question with an exceedingly elusive answer.

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