

We are living through an extraordinary period that in many respects has no parallel in the history of financial markets. These are some of the striking features of current market conditions as we enter the new decade, 13 years on from the global financial crisis of 2008:

- Interest rates are the lowest they have been for centuries and perhaps, according to one respected authority¹, the lowest they have been for 5,000 years²
- Governments have borrowed more money and accumulated more debt than at any previous time in history – with the US, for example, scaling the heights of its World War II peak
- Central banks have created money and added monetary stimulus since the end of the global financial crisis on a scale that is greater than anyone has seen – or even thought possible – before
- Governments are now embarking on an unprecedented peacetime fiscal expansion in response to slowing economic growth and the shock of the Covid-19 coronavirus pandemic
- Although it has never been tried before, and despite its evident risks, the scale of this combined monetary and fiscal stimulus nevertheless appears to be supported by consensus elite opinion
- Owners of debt have shown themselves willing to lend money on riskier terms and to riskier ventures than has been considered prudent in the past
- \$18 trillion, or over one quarter, of global investment grade corporate bonds traded on negative nominal yields in October 2020, while the amount of sovereign debt selling on negative real yields exceeded \$31trn. The real yield on US Treasuries has been negative for most of the past two years
- Stock market valuations are at extreme levels, between two and three standard deviations above the historical mean, and not far removed from the excesses that preceded the 1929 and 2000 stock market crashes
- Numerous other examples of speculation and financial excess can be observed across many types of investment assets and in the behaviour of financial institutions and individuals alike. Bitcoin is a representative example, but there are many others

It is only a question of when, not if, this period of high valuations and widespread speculation comes to a juddering halt. Looking back at past episodes when similar conditions applied, it seems extremely unlikely that the process of rectifying today's excesses can be anything but a painful one.

1. Haldane, A., 2015. Stuck, Milton Keynes, Open University

2. Sylla, R. and Homer, S., 2013. A History of Interest Rates. Hoboken, N.J.: Wiley.

The above is a direct extract from a new book from Dr Sandy Nairn titled "The End of Everything Bubble"

About the Author

Dr Sandy Nairn Investment Partner & CEO: Sandy researches the Energy sector and manages several client portfolios, including the EP Global Opportunities Trust plc. He is also Chairman of the Board of Directors.

Following the acquisition of Edinburgh Partners by Franklin Templeton Investments, Sandy became Chairman of the Templeton Global Equity Group (TGEG). In this role he has oversight of and provides guidance to the senior management of the TGEG.

Sandy is one of the founders of Edinburgh Partners. Prior to establishing Edinburgh Partners he was Chief Investment Officer of Scottish Widows Investment Partnership (November 2000 to March 2003). Between 1990 and 2000 he was employed by Templeton Investment Management where he was Executive Vice President and the Director of Global Equity Research. During his time at Templeton, he was responsible for overseeing all research activities within the Templeton Group having spent the last year at Ft Lauderdale, Florida.

Before joining Templeton Investment Management, Sandy spent four years at Murray Johnstone as a portfolio manager and research analyst. Prior to that, he spent a year as an economist at the Scottish Development Agency.

Sandy graduated from the University of Strathclyde in 1982 and in 1985 he achieved a PhD in Economics from the University of Strathclyde/Scottish Business School. He is an Associate of the UK Society of Investment Professionals in the UK and is a CFA charterholder with the CFA Institute in the United States. In 2020 he was elected a Fellow of the Royal Society of Edinburgh.

In 2001 he published a book titled "Engines that Move Markets: Technology Investing from Railroads to the Internet and Beyond". He has won multiple performance awards for the management of global equity portfolios. In 2012 he co-authored the book: "Templeton's Way With Money" with Jonathan Davis. His latest booked "The End of Everything Bubble" has been published in late 2021.

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The value of an investment and the income from it may go down as well as up.