

What is wrong with securities markets?

&

What is right with Peru ?

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Mark Carney

Governor of the Bank of England



“Low interest rates contributed to the gradual build-up of financial vulnerabilities in the past....It doesn’t take a genius to see that similar risks exist today.”

Christine Lagarde

Managing Director IMF



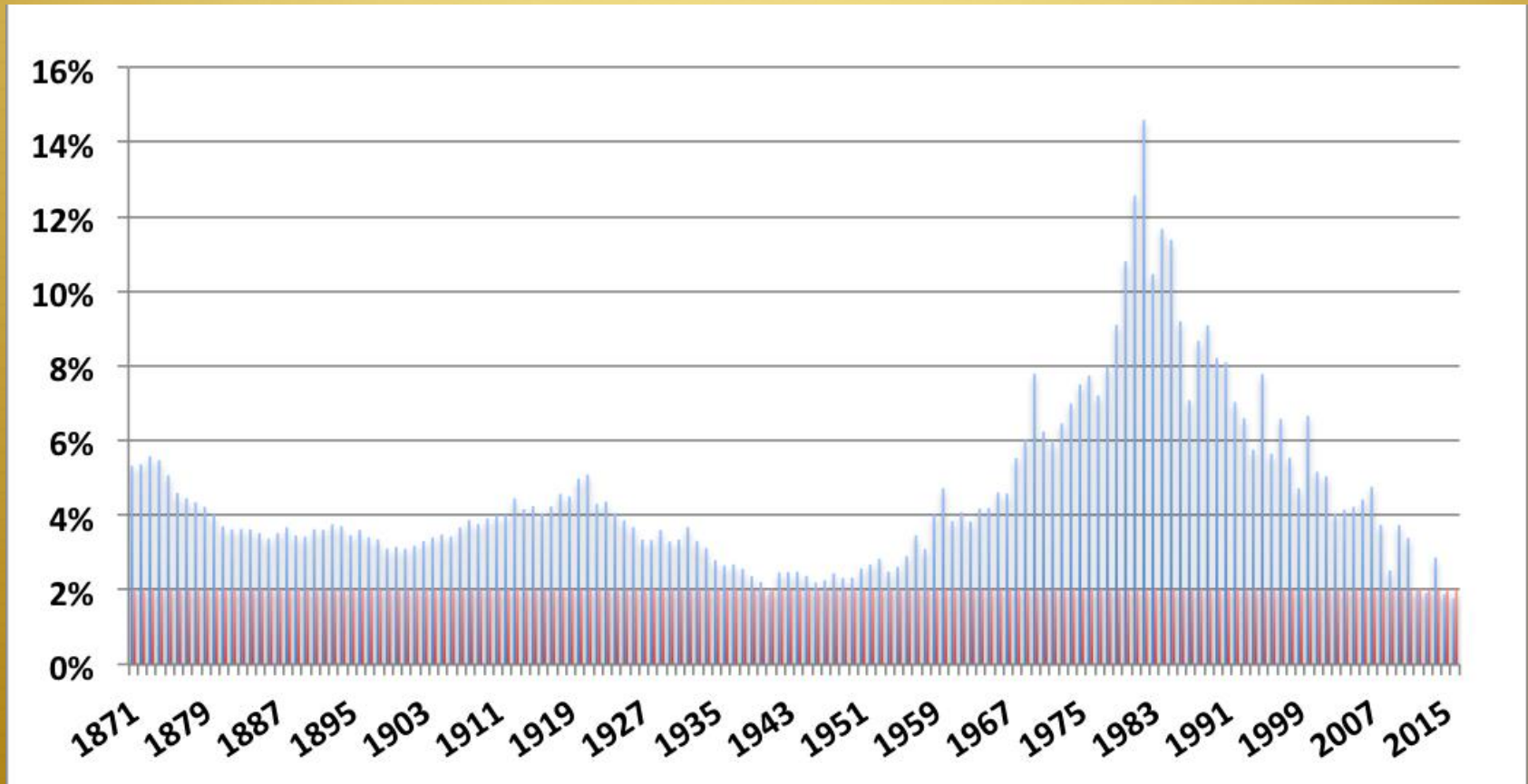
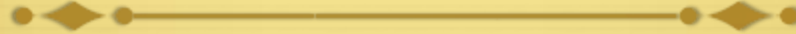
“ There is too little economic risk-taking, and too much financial risk-taking.”

*“And when he woke up, the dinosaur was
still there”*

Augusto Monterroso



Interest rates : historical aberration ! (Yield of 10-year US Treasuries)

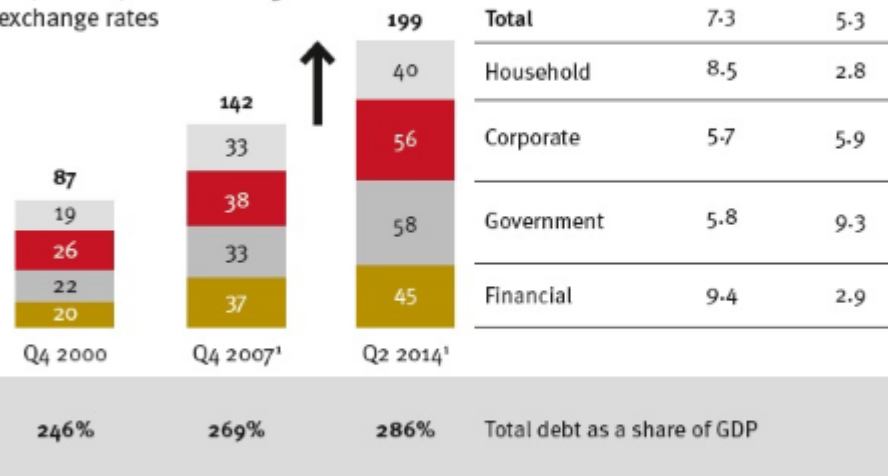


No deleveraging, debts have risen ...

The debt boom

US\$57 trillion increase

Global stock of debt outstanding,
US\$ trillion, constant 2013
exchange rates



Compound annual
growth rate, %

	2000-07	2007-14
Total	7.3	5.3
Household	8.5	2.8
Corporate	5.7	5.9
Government	5.8	9.3
Financial	9.4	2.9

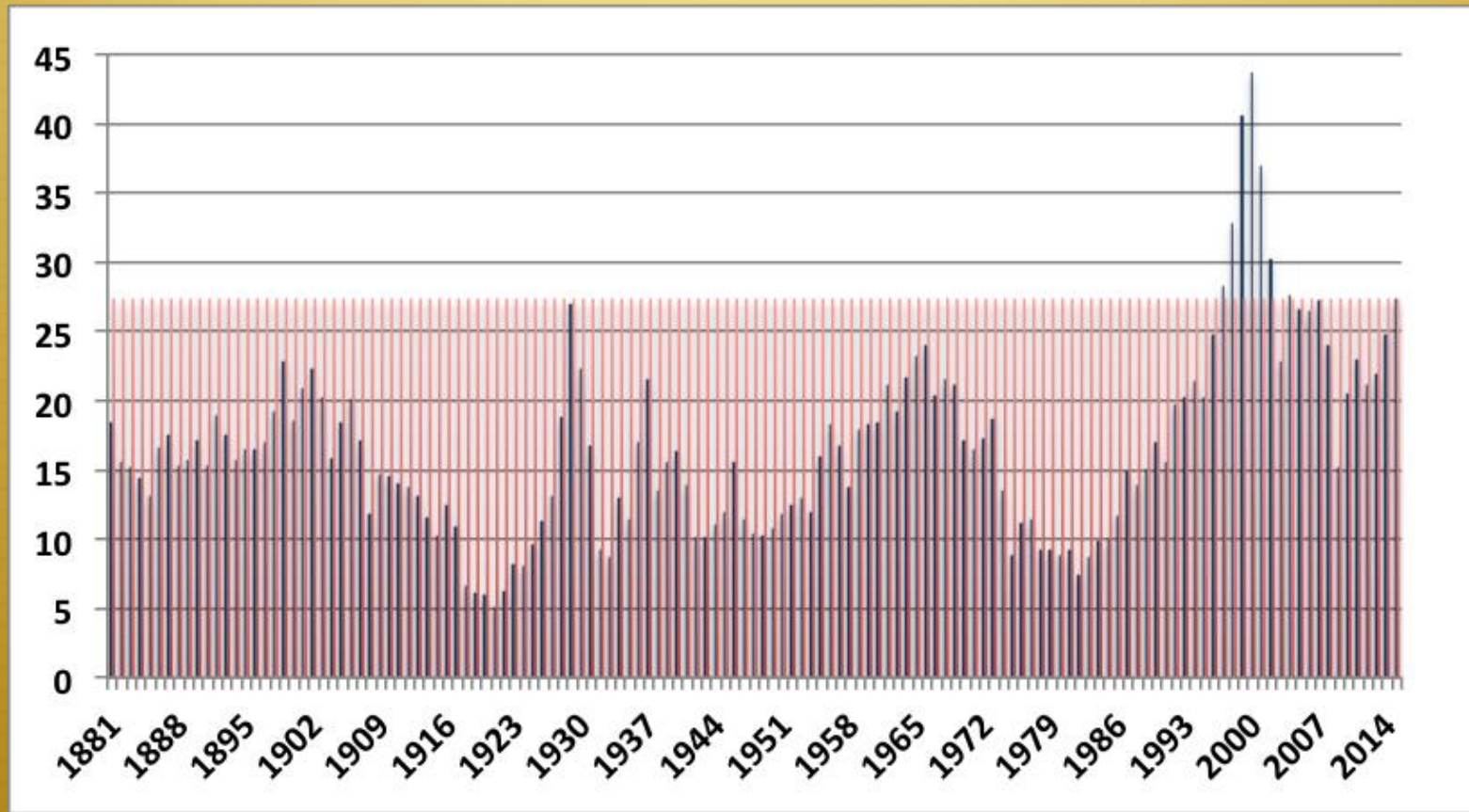
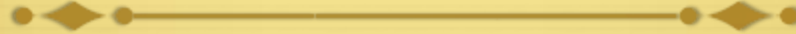
¹Some figures do not sum due to rounding

²Q2 2014 data for advanced economies and China; Q4 2013 data for other developing nations

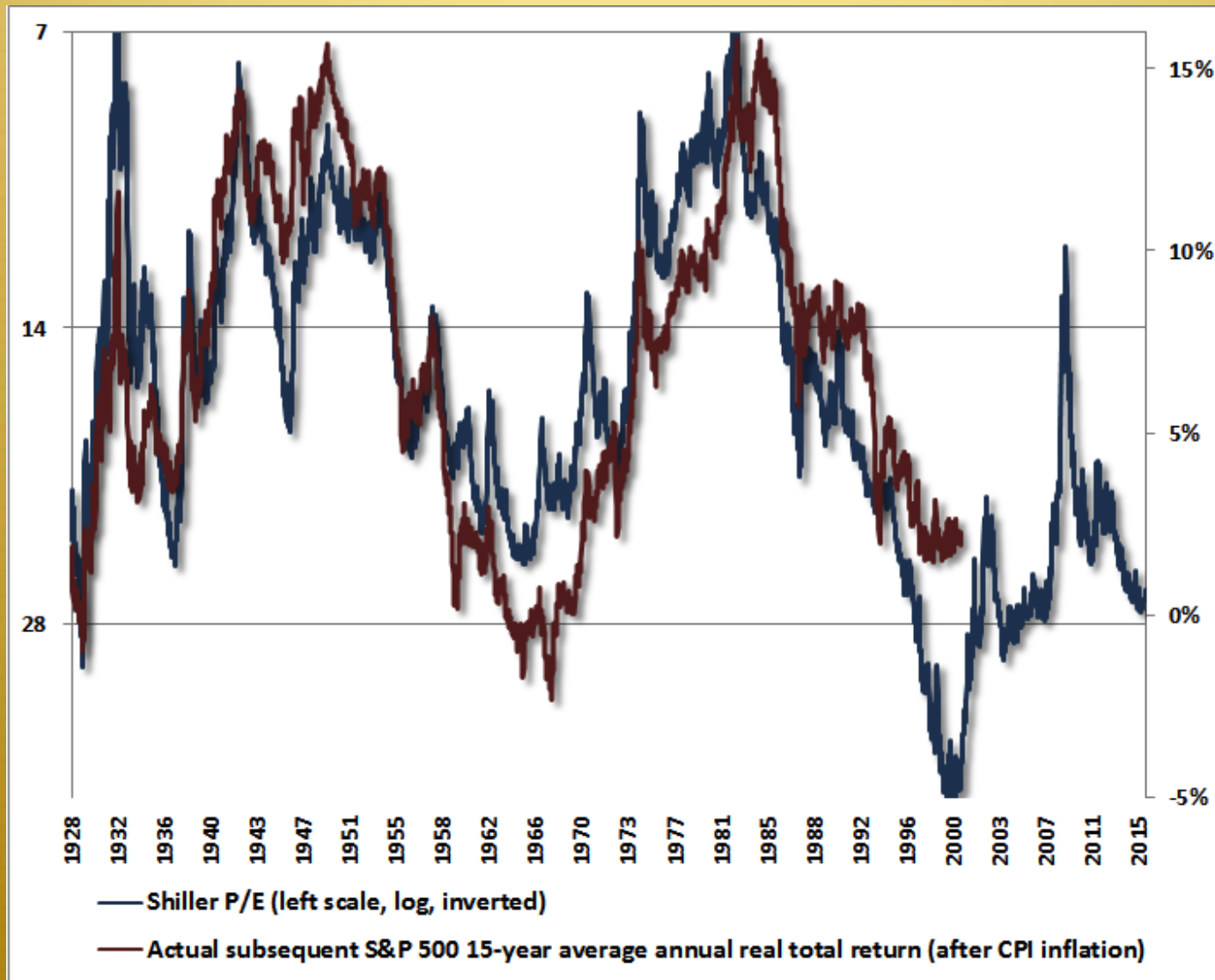
SOURCE: MCKINSEY GLOBAL INSTITUTE, USING DATA FROM BIS, HAVER ANALYTICS, IMF AND INDIVIDUAL NATIONS

Assets are overvalued

Shiller's CAPE of the S&P 500



Why CAPE ?

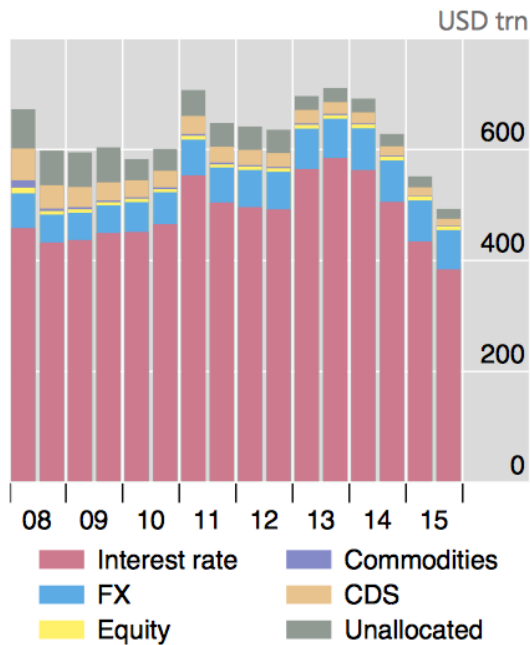


Derivatives risks

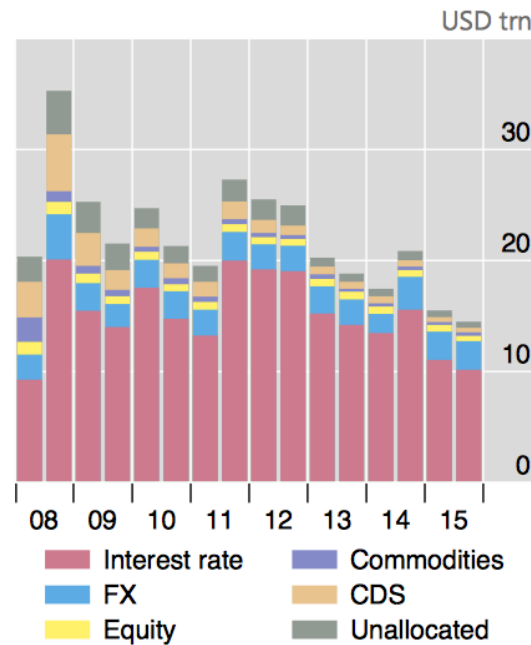
Global OTC derivatives markets

Graph 1

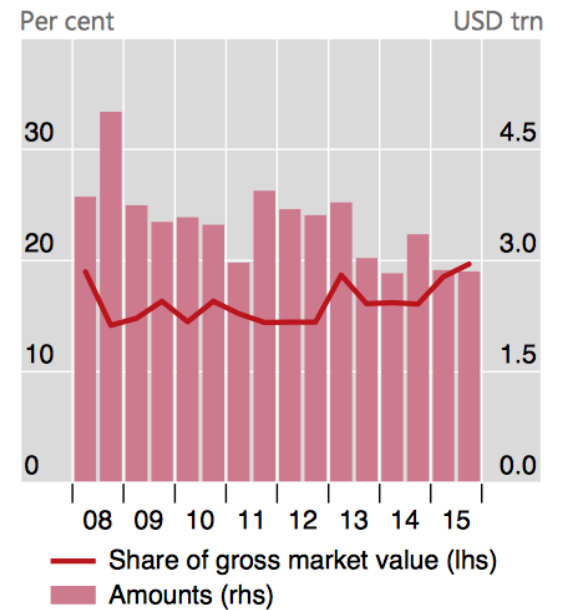
Notional principal¹



Gross market value¹

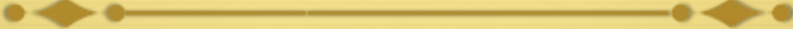


Gross credit exposure¹



Problem

Many traders believe that zero interest rates are the normal state of nature!



Bloomberg Survey

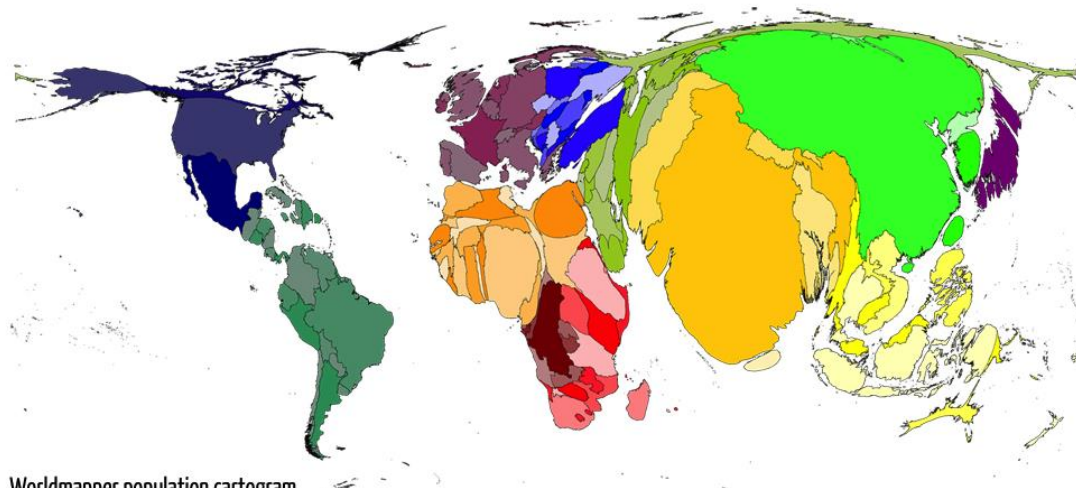
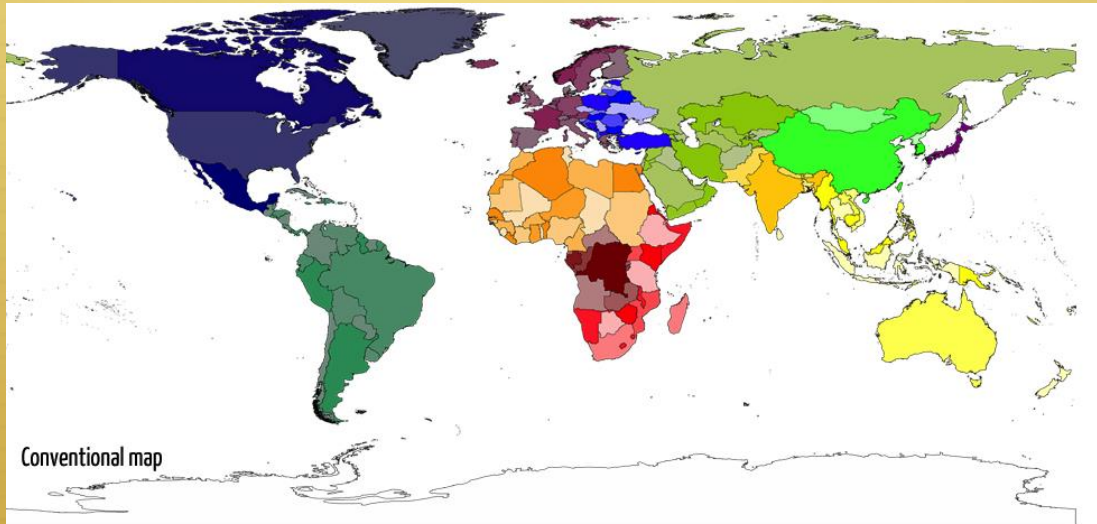
- ✦ One third of traders never experienced anything other than zero interest rates
- ✦ Two thirds have no adult memory of the dotcom crash of 2000.

Cognitive bias

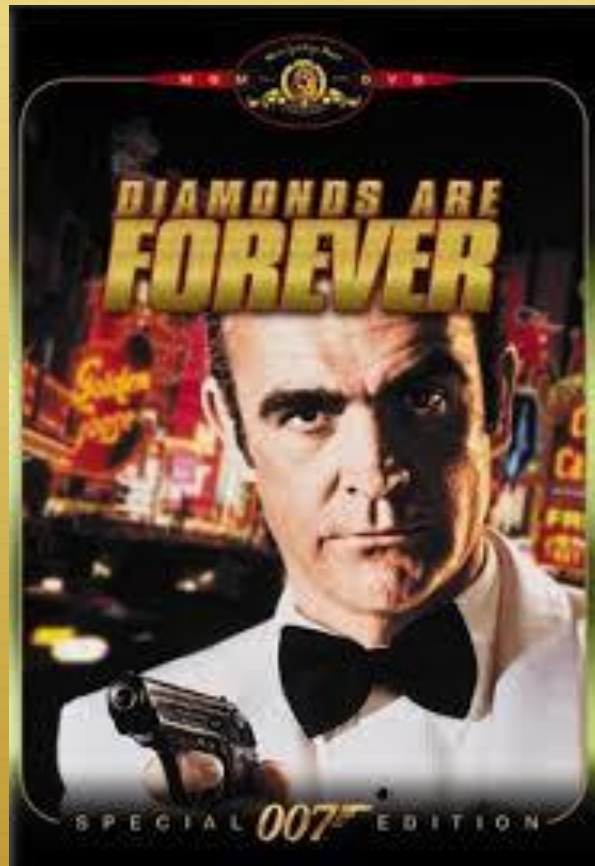
- ✦ Behavior responds more to individual construction based on recent experience than to objective input.

Poor growth outlook

Declining dividend of integration into the world economy of China, India, Eastern Europe...

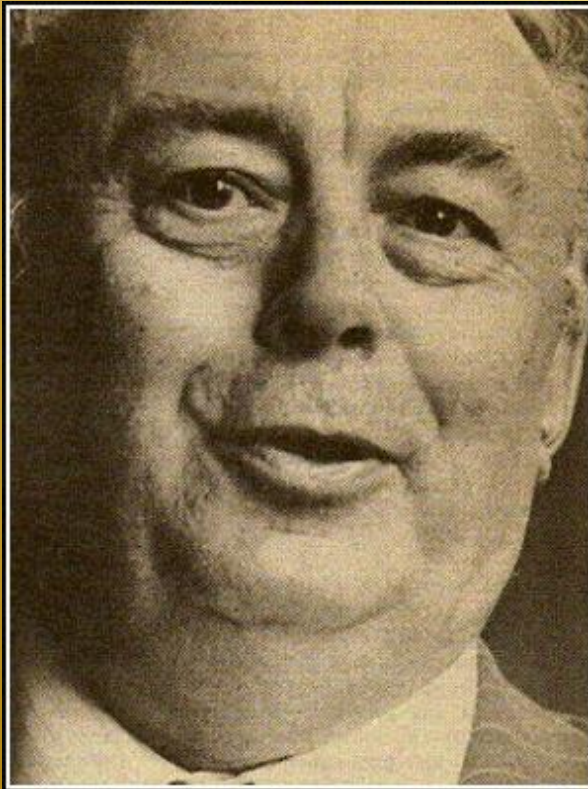


We know that only diamonds
are for ever



Monetary normalization

Move on, do not procrastinate



Models are to be used, not believed.

— *Henri Theil* —

AZ QUOTES

So central banks should normalize policy,
not procrastinate ...



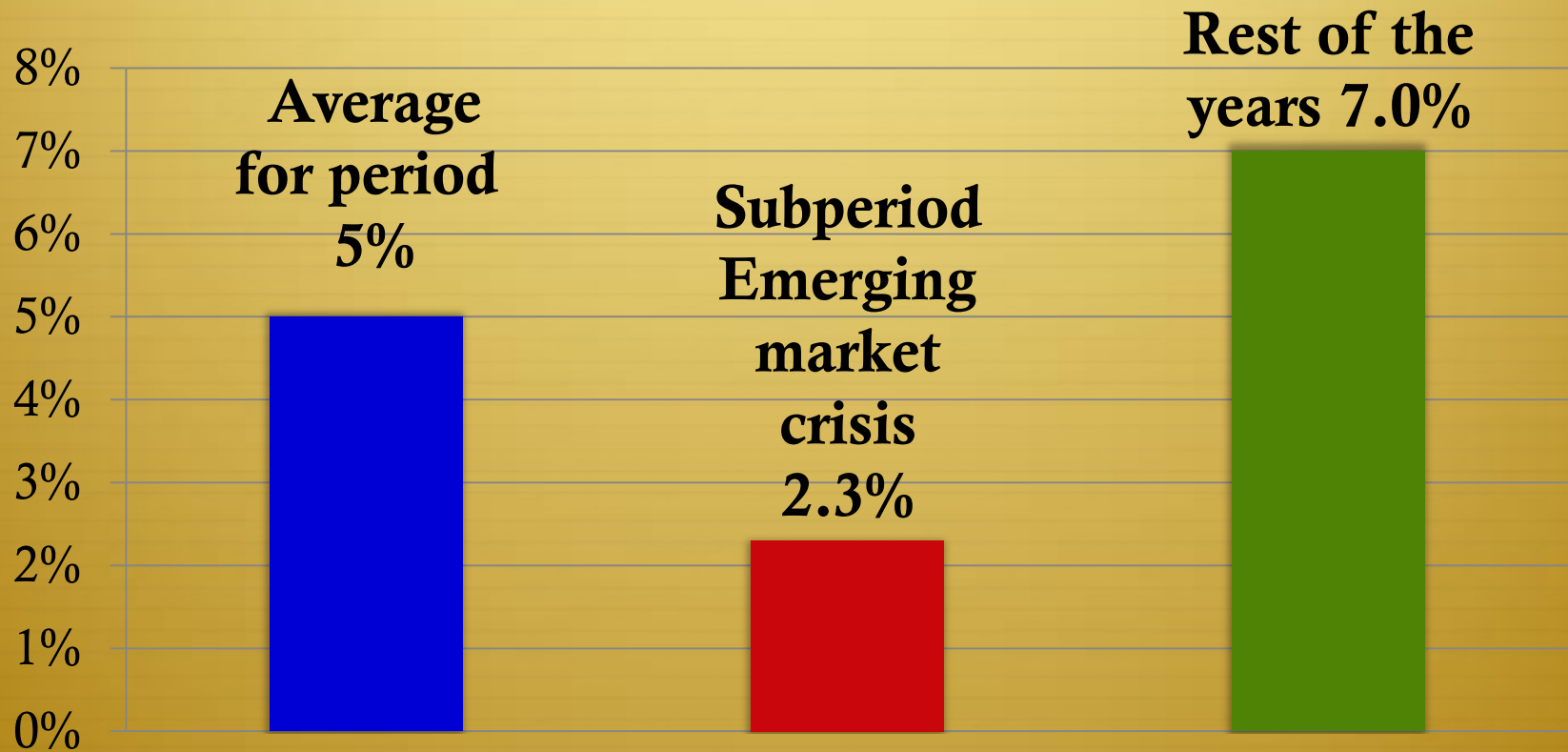
As a youth I prayed, Give me chastity and
continence, but not yet.

(Saint Augustine)

And what is right with



Perú: GDP performance (1991- 2015)



GDP still growing at 3% despite export shock



Vale un Perú (Worth a Peru)

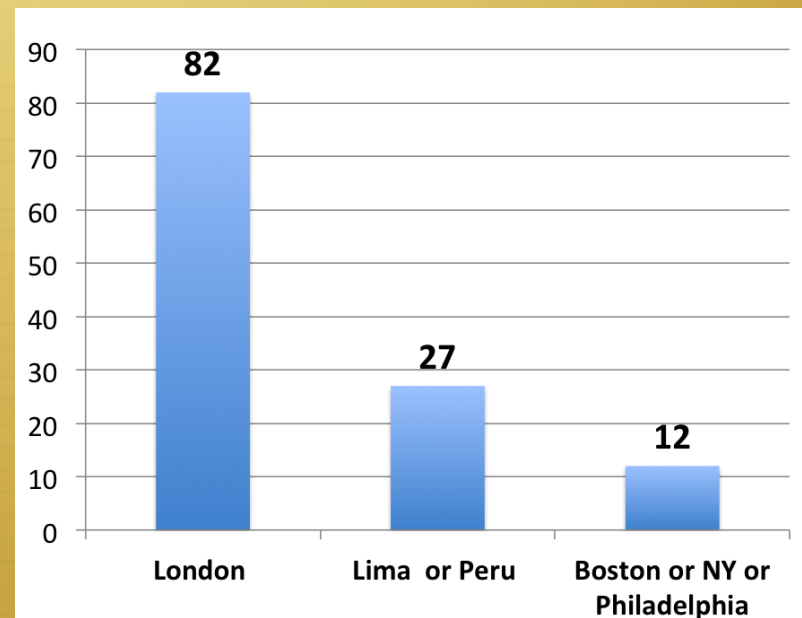
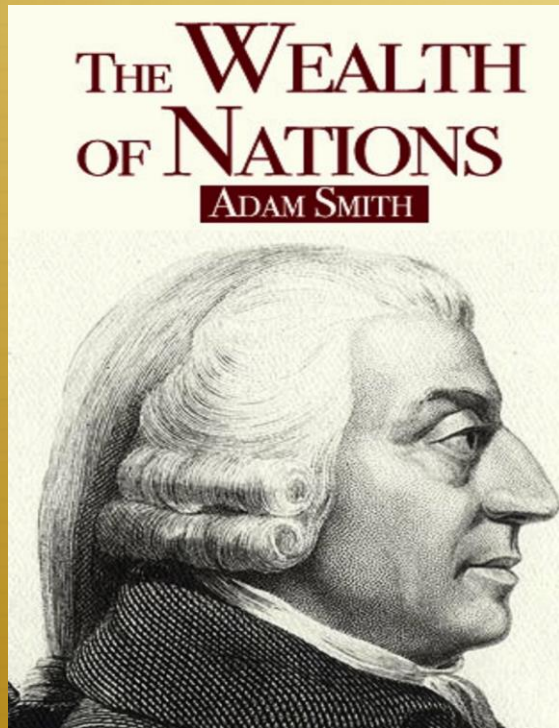


Spanish language phrase that has come to symbolize a matter of great value

[https://en.wikipedia.org/wiki/Vale un Perú](https://en.wikipedia.org/wiki/Vale_un_Perú)

Cities in the book *The Wealth of Nations* (1776)

Number of paragraphs in
The Wealth of Nations





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