Message to Ashok

March, 8 2025. Your text assumes that markets will continue to function under traditional price discovery mechanisms. However, if capital flows become increasingly influenced by policy, portfolio construction must adapt. Free allocation of capital may be constrained by regulatory incentives or penalties. Market signals may be weaker, as price distortions increase.
Remember Russell Napier arguments that Western economies are entering a new era of financial repression? Government bonds may become "forced investments", reducing real returns.
While I partially agree with you that fixed income should be built slowly, it does not fully capture the risk that yields may be artificially suppressed through policy tools. So be careful with bonds. Portfolio construction should differentiate between market-driven yield movements and policy-driven distortions.
If governments mandate more institutional purchases of sovereign debt, private investors could be crowded out or forced into lower-yielding instruments.
The assumption that UK and Europe are cheap and thus good investments ignores the risk that governments may alter investment incentives.
If corporate taxation rises to finance deficits, or if there are profit taxes on specific industries, traditional valuation metrics may become unreliable. A cheap market is not necessarily an attractive market (Brazil) if governments intervene aggressively in corporate cash flows.
Gold's steady performance is noted, but its role as a hedge against government financial manipulation is underemphasized. If authorities attempt capital controls (e.g., limiting outflows, discouraging alternative stores of value), gold could see increased demand from investors seeking financial independence. Gold may shift from being just an inflation and war hedge to a hedge against financial repression. But is too hyped right now! I am reducing exposure in junior miners.
About your thoughts on Emerging Markets: Commodity-Producing EMs may outperform in inflationary cycles. Financial repression typically coexists with inflationary policies.
Many EM economies are commodity exporters, which benefit from rising inflation and real assets outperforming financial assets. This is a key divergence from previous cycles, where EMs suffered under tightening monetary conditions—this time, they may be net beneficiaries of inflationary Western policies.
However, I cannot disregard the risk that, if capital controls expand globally, EM access could be restricted. Big risk here. Not all EMs will benefit equally—some are just as indebted or politically unstable as the West.
China remains unpredictable, as its markets are subject to heavy state intervention, which makes it a financially repressed economy itself.
EMs with low debt-to-GDP ratios and independent monetary policies (Singapore) could be seen as safe heavens. Trustful custodians.
Look at commodity-linked economies that benefit from Western inflation (Brazil, Indonesia) and use EM Equities as an alternative to overvalued, repressed Western stocks.

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