

“Financial Market Blind Spots; Politics, Regulations and Central Banks”

**Featuring
Gillian Tett**

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Acclaimed financial markets expert and journalist Gillian Tett set out to assess the current global financial landscape in comparison to where we stood some 10 years ago.

During 2005-06, prior to the Great Recession, the West was thought instead to be enjoying a *Great Moderation*. Economists, and the statistical indicators they tracked, saw good growth, low inflation, competently run businesses, and capable central bankers.

But there was another set of experts, traders and regulators for example, in the Bank of International Settlements (BIS) and elsewhere, assessing economic health from a different vantage point; namely, financial (equity and capital) markets and more micro-level data.

The practitioners down in the market weeds saw some concerning things; the world was awash in cash, credit, excessive leverage, and collateralized debt obligations that even central bankers were challenged to grasp.

- Connecting the dots across satisfied macro-economists and worried market participants never took place, as these 2 sets of experts operated as if they were from different *tribes*. Hence, proper warning was not arrived at and issued, and the Great Recession ensued.

Despite the recent trauma of deep recession, could this pattern be repeating itself today? Per the IMF and World Bank, contemporary metrics look pretty good - the U.S. economy is growing at 3% annually, employment levels have recovered nicely, and inflation is benign. Yet again, down in the weeds there are signs that the system is out of control.

- Liquidity pumped into economies as stimulus during the late-2010s has seeped out into markets and distorted them.
- The problematic debt-to-GDP ratio of 175% globally in 2007 is today 40% higher.
 - China's burden in this regard is now worse than Japan's.

Worrisome 2007-style signals are evident today, but ameliorative steps are not being taken. One reason is that interest rates are low, so servicing debts is not painful. And the tribal stovepipes that hamstrung economic policymakers last decade are still in place.

If this is 2007 redux, when will the bubble pop? No easy answer - things can carry on for quite a while.

Paul F. Herman, Jr.