

Our Myopic Ways



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“Long run is a misleading guide to current affairs. In the long run we are all dead”
John Maynard Keynes (1883 – 1946), British economist

The way that history of humankind has been unfolding over the ages is very telling. It is all about conquest, mastery and dominion, an insatiable need to be in control of things irrespective of the conditions or circumstances. Like for all organisms, life has been about surviving harsh conditions; our kind just happened to have an extra topping of “gray matter”, just enough to have propelled us to the top of the “food chain”. Our domination over others was so rapid and extreme, it fooled us into thinking we were at the center of the universe, and for quite some time. That is until 1543, when a young Polish scientist, Nicolaus Copernicus, published a book to prove how insignificant we truly are¹. Although this event and others like it did help to deflate our egos somewhat, our arrogant ways remained relatively unscathed.

Having reached the top of the food chain was certainly a feat in itself, and even if it had become clear that we weren’t at the center of the universe, we were at least masters of our destinies (or so we thought), which helped make us feel pretty smug. A very long history of survival against countless odds and challenges instilled in us a sense of superpower-type “invincibility”, and who could blame us for the overconfidence, arrogance and a “God given” sense of entitlement that arose from that? Mastering the world around us meant that we could shift out of an environment that we were forced to adapt to, to one where we were increasingly calling the shots, molding the world to suit our many needs and wants.

For some time, it seemed like we could subjugate the environment into a sort of eternal servitude. We started producing immense quantities of waste without putting much thought on the consequences, and although our planet had the capacity to absorb a substantial quantity of that toxic waste, it wasn’t limitless, which meant that it was just a question of time before we would begin to suffer the consequences of those short-sighted actions². We had unfortunately been blindsided by thousands of years of natural selection, hardwiring our minds to overweigh short term events at the expense of anticipating and planning for the future, because that’s what mattered to survive in our harsh and

¹ https://en.wikipedia.org/wiki/De_revolutionibus_orbium_coelestium

² Little did we know that the world population would rise eightfold from 1 billion in the 1800’s to 8 billion expected in the near future, putting tremendous pressure on our planet and its scarce resources. This was likely because we never imagined our ingenuity in agriculture and medicine would allow us to find ways to sustain far greater populations than would otherwise be possible.

unpredictable environments. Thanks to our ingenuity, we were able to control or eradicate most of those dangers, never did we imagine that doing so would expose us to other sorts of threats that we were very ill-equipped to tackle.

It is telling that we are adept at both starting and putting out fires, but fall grossly short when it comes to fixing their root causes. We can bring powerful vaccines to market in record time, but are unable to prevent epidemics, let alone stopping them from turning into pandemics. We can hack our crops to feed infinitely expanding populations, but are unable to put a check on population growth. These few examples of our cognitive flaws show that the threats we are most effective at resolving are the ones that present clear and present dangers, whilst those that build over time and that require taking action right now are the ones we tend to handle most poorly³. Unfortunately, they also happen to pose the greater of the existential threats on our lives.

And even though those dangers that pose more of a major threat in the future, such as climate change, have been irrefutably proven and are already causing serious harm, our ability to mobilize and respond to counter them remains pathetically slow. It must be a human paradox when billionaires appear to be more interested in shooting themselves into near space just as increasingly menacing floods and fires are ravaging our planet⁴. Certainly, thousands of years of being exposed to the elements have made us audaciously confident in our abilities of resolving almost any challenge that is thrown in our direction. But that would be dangerously naïve of us to think we can continue with our ways if the new types of threats we face are more binary in nature. A nuclear war on a global scale is very unlikely to occur only because we fear complete annihilation, the infamous “mutually assured destruction” doctrine⁵.

It is binary because only two states can exist: keeping the missiles at bay or launching them. There is nothing in between, no gray zone, once the missiles have been launched, there is no going back. Climate change is the same, except that the switch from one state to the other takes much longer and we risk not being aware of the moment where we breach that point of no return⁶. To overcome our short-term biases, we need to force ourselves to think in terms of the future consequences of our present actions, a difficult task when threats are not immediate. And yet such thinking is common in portfolio management where the asset allocation of a portfolio is typically determined by the risk profile of the investor. The shorter the time horizon, the less the portfolio should contain risky assets and vice versa. It goes to say that if we can construct portfolios with the future in mind, it should be possible to harness a more concerted effort to do the same on matters that pose existential threats.

Where Do We Go From Here?

Markets continue to break new records, powered by the combined effects of a robust pick-up in economic activity since deconfinement measures began and the continued “yield squeeze” effect, forcing investors to seek higher returns through exposure to riskier assets. Inflationary pressures continue to threaten the recovery, but the longer-term outcome of this is less certain due to the recent surge in Delta variant cases and its possible dampening effect on consumption. Central banks are also having to play an increasingly delicate fine-tuning role of maintaining the economic recovery on its course as it enters a wobblier path. The Fed, that has become more hawkish in recent weeks, will have to begin tapering sometime soon, especially if it is planning on tightening rates next year.

After the global warming driven summer jitters, most attention in coming weeks will focus on the rapidly approaching fall period, especially with regards to how the pandemic is likely to evolve with the return from holidays and school openings. Many governments are already scrambling to accelerate vaccinations with the hope that it will be sufficient to

³ The U.S. poured more than a trillion dollars grooming and equipping Afghanistan for over 20 years to see it collapse in a matter of weeks.

Remember “shock and awe” before that, Donald Rumsfeld’s not so brilliant plan to invade Iraq using minimal ground forces by over relying on high tech combat systems and heavy air support.

⁴ <https://www.theguardian.com/science/2021/jul/19/billionaires-space-tourism-environment-emissions>

⁵ https://en.wikipedia.org/wiki/Mutual_assured_destruction

⁶ <https://www.ipcc.ch/report/ar6/wg1/>

avoid another economy-crippling lockdown. What appears to be increasingly likely is that some form of the pandemic is going to linger on for the foreseeable future, which means that many of the actions and adjustments that have been introduced over the last year and a half to maintain economies afloat will continue to exist in some form or another. That in turn will mean that once the post-lockdown “consumption catch-up phase” is over, we are unlikely to see a return of the unconstrained levels of economic activity as in the period before the pandemic.

The pandemic, by simultaneously curtailing both demand and supply, exposed major shortcomings in our hyper-integrated global manufacturing world. One of the main reasons why the sudden surge in demand was met with a sharp increase in supply-driven inflation is because with “just in time” inventory setups, most of the extra demand could only be met by ramping up production as inventories quickly ran dry. To make matters worse, manufacturing plants had laid off a substantial proportion of their workers during the earlier phases of the pandemic, which meant that there was more lag involved in bringing them back.

We can expect a gradual softening of the supply constraints in coming months, as output continues to ramp up and supply chain bottlenecks are increasingly fixed. The main challenge going forward will be with semiconductors, considering that it requires roughly 18 months to build a new fabrication plant. What this means is that chip shortages are likely to persist for some time to come⁷, creating a significant potential headwind on a global economy that is increasingly turning digital. With the continued threats from the pandemic, the damaging effects of climate change becoming more evident, rising geopolitical tensions and the unfolding Afghan turmoil, there is enough out there to cause volatility in the markets for the foreseeable future.

Even if we do eventually gain the upper hand in our struggle against the pandemic, which we most likely will, the experiences and challenges of the recent past are so intense and extreme that they may have permanently hurled us onto a new direction, the nature of which will become more evident over time. Recent events would suggest that we are not complete masters of our destinies, or more likely, that by molding the world to suit our needs, we created other headaches that we are far less adept at resolving. The most recent IPCC report on global warming in which the more extreme scenarios have been revised downwards, is certainly reassuring. On the other hand, it does emphasize greater confidence in the dire consequences of doing nothing or too little, which is exactly the case. In this instance I really hope we can overcome our myopic mindsets, because this time around it might be like the launch of nuclear missiles, and we might not get a second chance.

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⁷ <https://www.extremetech.com/computing/322695-why-we-cant-build-our-way-out-of-the-semiconductor-shortage>