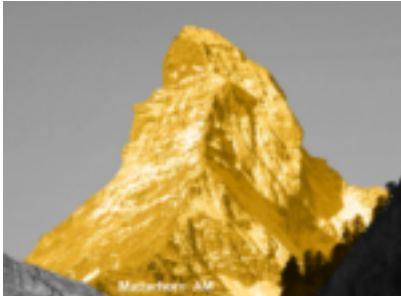


WITH EXTREME RISK, PREPARE FOR A BROKEN WORLD

written by Egon von Greyerz | April 5, 2018



Between today and 2025, the world will be a very different place. We can learn nothing about the next 4 to 7 years from government, central bank or media propaganda as they neither understand what will happen nor tell the truth. But we can learn a lot from history. Most people rely on the internet for information or news but most of it is either indigestible, misleading, fake or just too overwhelming to comprehend.

For many years I have warned people about the coming risks and changes that the world will experience. Very few people are aware of these risks and even fewer understand them. In this piece, I will make an attempt to summarise what I see coming.

1. DEBTS AND DERIVATIVES

Total debts and derivatives in the world amount to \$2.5 to \$3.5 Quadrillion. This is 35-50x global GDP. The majority of this enormous amount is off-balance sheet derivatives. These derivatives are backed by nothing and when counterparty fails, they will implode and become worthless. And that is guaranteed to happen. Also, most of global debt of \$250 trillion will default as asset prices implode and interest rates explode.

2. STOCKS

Global market capitalisation of stocks is around \$80 Trillion, a 3x increase since 2009. As the debt bubble implodes, so will stocks. In real terms, against gold, stocks will decline by at least 95%. In 1929-32 the nominal decline was 90% and this time the circumstances are dramatically worse.

3. BONDS AND INTEREST RATES

The 35 year bull market in bonds and bear market in interest rates ended in 2015-6. Money printing and interest manipulation by central banks has created a false market in bonds. Bond issuers, both state and private, will default and interest rates will rise rapidly. Rates will at least reach the levels of the 1970s and early 80s of around 20%. Central banks will lose control of rates as long rates go up first. A systemic debt default will lead to rates much above the 20% level.

4. CURRENCIES

In the last 100 years, all major currencies are down 97-99% in purchasing power terms and against gold. They are now entering the final leg of their race to the bottom. With only 1-3% to go, it is guaranteed that the currencies will reach their intrinsic value of ZERO. But remember that the 1-3% is 100% from here. Thus in the next few years, we will see the most momentous decline in the value of paper money led by the US dollar.

5. FINANCIAL SYSTEM

With debt and asset markets imploding, it is unlikely that the banking and financial system will survive in its present form. There will be major defaults and depositors assets could all vanish or become worthless. The custodial risk is also very serious which means that any client asset such as stocks, bonds or precious metals could disappear.

6. MONEY PRINTING – HYPERINFLATION

As debt markets implode and the financial system comes under severe pressure, central banks will panic and print unlimited amounts of money. They will also try to lower rates but unsuccessfully. As bond markets collapse, central banks will lose control of the interest market and rates will shoot up. As opposed to 2007-9, the money printing will have no effect this time. That will not stop central banks flooding the market with worthless pieces of paper, leading to hyperinflation.

But it will not be the type of hyperinflation where all prices increase since bank and bubble assets will collapse. Virtually all commodities will go up, especially since they are denominated in US dollars, but some much more than others. There is likely to be great food shortages which will put major pressure on prices. Most raw materials will go up, at least initially. Some will fall later as industrial demand declines. Precious metals will increase dramatically in price, both in real and nominal terms.

7. DEFLATION – ASSET IMPLOSION

At the same time as hyperinflation is raging, most bubble assets will collapse in real terms. This includes stocks, bonds, property, art, collectors' cars etc. As the final money printing bonanza fails for the last time for maybe decades to come, hyperinflation will turn to a deflationary implosion when all asset prices collapse and the world goes into a depression. At that time gold and silver are unlikely to go down substantially.

8. SOCIAL UNREST, CIVIL WAR, WARS

Inequality in the world has grown to extremes in the last few decades. Today, 42 individuals hold the same wealth as the 3.7 billion poorest. In the US the top 0.1% hold 25% of US wealth. As the economy deteriorates, these massive differences in wealth are guaranteed to lead to social unrest. Empty stomachs are dangerous for any society. Recent migration in Europe and the US is also

an area which could lead to social unrest and even civil wars. In times of economic pressures, the minorities are often blamed for the problems.

When countries run out of money, they often start wars. We can certainly already hear the sound of war drums from the West, led by the US as they are all ganging up on Russia. The military power of Russia and China is far superior to that of the West. But in a nuclear war anything can happen and very little would remain of the earth. We are into a period of active war cycles currently so the risks are high.

9. GOLD AND SILVER

As the world financial system crumbles and paper assets and paper money become worthless, gold and silver will not only remain constant purchasing power, as they have throughout history, but also appreciate substantially in real terms. Whether gold goes to \$10,000 or \$32,000 as I mentioned last week and silver to \$500 or more is not what is important. But what is virtually guaranteed is that gold and silver will reflect both the massive money printing the world will be hit with and the fact that paper money will become worthless. Physical gold and silver will also be a safe haven in an unsafe world.

The precious metals started a bull market in 1999 and reached a temporary top in 2011. After a sideways correction for a few years, gold and silver are now in a position to explode. Due to the risks in the world, this could happen at any time.

Gold and silver will reach levels no one can imagine today. At some point, when deflation sets in, they will come down from the frothy highs but still settle at a very high level. The reason gold and silver won't come down, as after 1980, is the coming failure of the financial system with gold being the only stable and trusted money (measured in purchasing power). Thus there will be a permanent revaluation of gold and a renewed understanding that gold is the only money that will survive over time. Whether gold will back any currency or not, we will see. Personally I would prefer "Free Gold" which means it is not controlled or manipulated by any authority but traded freely.

10. TAKE ACTION

As the world enters a horrendous phase in history, economically, financially, politically and socially, the world will be a very different place to live. There will be the biggest transfer of wealth in history. Anyone holding, stocks, bonds, bank assets and investment property will see their wealth decline by 75-95%. Investors holding real assets like productive farm land and assets in the ground will fare much better.

Some protective wealth preservation measures are relatively easy to take like owning physical gold and silver and storing it outside the banking system and outside your country of residence. Everyone who has investable wealth must have an important percentage of financial assets in physical metals. In my view, 25% is an absolute minimum.

Can I be wrong regarding the risks outlined above. I doubt it. All or most of these risks will become real. It could happen now and it could take a bit longer but the risks are here now and therefore protection or insurance is critical.

If you have the slightest concern that any of these risks could materialise, you should protect yourself today.

Please don't ignore the risks and don't ignore history.