

EMERSON LETTER™

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The Return of Credit & Cash Flow Investing:

Central Bank QE, ZIRP and NIRP have created massive multi-asset bubbles. These debt-financed bubbles across many industries, are and will continue to pop, and the subsequent re-pricing of these credit markets will be very bullish for credit opportunity in markets. Old fashioned credit and cash flow work, will reward those patient investors with new cash to invest. Maybe market participants should get out their old “Inside the Yield Book” by Homer and Leibowitz, for a refresher course on the time value of money. As a result of cheaper and cheaper credit markets, equity markets will simply become an unattractive and an unpredictable place to invest.

The page is turning, and the only way out is through the "flaming door" of rising interest rates. The Fed and other Central Banks led the world into this easy money environment, they will have to try and gently lead the world away without something breaking. Over the years, as these unconventional policies have proved more and more fruitless, the Central Planners simply added more, as Jim Reid from DB described” "Spinning Plates" from their newfound policy toolboxes. Unfortunately, inflation called their hand.

Nassim Nicholas Taleb’s recent tweet sums it up perfectly:

“Basically, experience in finance with a discount rate near zero is like having studied physics except without gravity.”

This will prove to be a time of opportunity for credit and cash flow investors. Those investors who know how to invest in negative trending markets will thrive.

Respectfully yours,

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