

Three Grey Swans And A Black Swan Which Could Send the Global Economy into Chaos

- Carol Roth

In this informative newsletter, Carol covers what a grey swan and black swan are and how they impact your investments; three underappreciated grey swans (and the resulting black swan) related to food, energy and unrest; and why you should review your portfolio hedges for “swans” today.

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Whether good news or bad news, investors use what they know to drive prices in markets. Whatever is ahead and can be analyzed is reflected in the prices of stocks, bonds, gold and other assets. What investors don't like is uncertainty because it is hard to price into the markets.

Uncertainty leads to volatility, which, in layman's terms, are more ups and downs in asset pricing.

To try to capture some uncertainty and decipher what it means for the economy and the markets, investors, analysts and economists try to predict what other investors aren't fully considering.

This may include black swans, which are events that are not predictable, and what I call grey swans, events which are known but not being fully considered. For example, covid was at best a grey swan; there were plenty of people who believed that a global health pandemic could be coming down the pike, but covid wasn't expected at the time of its arrival.

The black swan wasn't covid, it was the government's reaction to covid. Nobody anywhere predicted that state and local governments, particularly in the US, would shut down large swaths of the economy for months on end, among other insane policy decisions. This unexpected set of actions has wreaked havoc on the economy, and the effects will continue to be felt for a long time.

Today, I believe there are three massive grey swans to which investors are not giving enough heed. These are 1) mass starvation on a global scale; 2) broad, ongoing energy rationing; and 3) global unrest and war caused from either or both of the first two.

The black swan, again, is government reaction to any or all of these, not just in the US, but worldwide.

Let me tell you a bit about each of these and what that could mean for the economy, markets and your investment decisions.

Grey Swan #1: Mass Starvation on a Global Scale

It may be hard to believe that in a time of abundance like today there could be mass starvation, but there are a number of factors that are all coming together to create that being a likelihood.

The first factor is recent weather, which has reduced key crop yields for major producers this year in a variety of key global locales. Several months back, the [United Nations wrote](#), “Three consecutive failed rainy seasons in Ethiopia, Kenya and Somalia, have decimated crops and caused abnormally high livestock deaths, while, shortages of water and pasture are forcing families from their homes and triggering conflict between communities.” In recent months, India has banned or restricted exporting crops from wheat to sugar after heatwaves have impacted crop yields.

The second is the Russian invasion of Ukraine. This localized war is impacting two major producers of crops like wheat both from a planting and harvesting standpoint, as well as from a transport standpoint. As has been the case in prior episodes of starvation, it often is brought about not from the lack of yield, but from not being able to get the food to the people who need it.

The third factor is the decisions being made around decarbonization and the “greening” of energy. There have been a variety of issues related to these decisions, including the impact on the availability of derivative products, which are used in food for uses like the drying of grain on farms. These and other factors discussed above have also led to a fertilizer shortage, impacting future crop viability. The myopic “green” focus also has the [Biden Administration paying farmers](#) more money to take farmlands out of use for conservation, among other decisions impacting land use. And, of course, the underinvestment in fossil fuels combined with the Russian invasion have made the costs of everything related to food, including transportation, explode.

We are seeing the effects of green rules on food in areas like The Netherlands, which, [according to AG Daily](#), is the second-largest exporter of agricultural commodities. Farmers are currently protesting government emissions proposals that the farmers believe will put many of them out of business, and in turn, have a major impact on the food supply.

[The Washington Post](#) shared reporting from the UN’s Food and Agriculture Organization and World Food Program that 49 million people are at risk of falling into famine conditions in the coming months. This creates a humanitarian crisis of epic proportions that will engender massive instability.

Grey Swan #2: Broad, Ongoing Energy Rationing

Hasty decisions related to energy have created substantial underinvestment in energy and other commodities around the world, particularly in the US and Europe. The decision makers were decoupled from reality and trying to expedite a transition to green energy before it was available at scale. Underinvestment in traditional sources of energy- without a realistic replacement- has wreaked havoc on the costs of just about everything, and has led to undersupply, not just of energy, but of derivative products that impact everyday needs like food, as discussed above.

In the US, it has been [predicted that](#) we could see rolling blackouts (aka forced power outages).

In Germany, it [has been reported](#) that landlords are rationing hot water and heating to battle soaring energy prices due to the undersupply of energy. And in Europe, more broadly, some analysts are starting to worry about the availability of heat for the coming winter.

As a result, in Europe, they are starting to see the error of their ways. In early July, the [European Parliament voted](#) to now consider some gas and nuclear energy projects as “green”.

However, investment and production in energy doesn't happen overnight, and with lack of investment, developed nations including the US could end up facing a time where substantial rationing is the norm. What could that mean? Maybe there is one day a week that people couldn't go to work? In Europe, it certainly means people could end up freezing.

Energy is required for productiveness and flourishing. Policies that have taken energy out of commission without an immediate replacement have pushed us backward, not forward, and could have further implications on every aspect of our lives and the economy.

Grey Swan #3: Global Unrest and War

Countries that are at risk of food insecurity and starvation won't just sit back and let that happen. Unrest, like we are seeing in Sri Lanka currently, will definitely happen in impacted locales. Governments will be overrun and overthrown.

Governments or militias could move into neighboring countries to take food by force.

There will be a wide displacement of people emigrating to new locations to avoid starvation, creating further chaos and unrest.

A few months back, the [Wall Street Journal reported](#) that China told its CCP leaders to get rid of assets in foreign locations, creating a concern about what could come next from them, whether that be further alignment with Russia or even an invasion of Taiwan. Russia does not seem to be backing down in its efforts either.

All of this increases the possibilities of escalating global conflicts.

At a minimum, wars are expensive. The US has sent [more than \\$7 billion](#) to Ukraine already with [tens of billions of dollars more](#) authorized and we aren't even directly involved. Escalation of conflict there or elsewhere would require more spending, more money printing and incurring more debts. This will create substantial pressure on the dollar and on the economy. If the war is big enough and the debts are incurred broadly and massively, it could lead to a financial reset (history shows that from the Roman, Dutch and British empires that preceded the US's place as the dominant financial force that a major war has been the catalyst for a financial shift).

The black swan is, by definition, unpredictable. However, we know based on our covid experience that it could likely stem from a government reaction, and that whatever that may turn out to be, it will likely not benefit the economy, the US dollar, and you personally.

It is important that you are hedged in your portfolio, even in good times, because "swans" come out of nowhere and cause disruption. When times are more challenging, like today, it is doubly important.

Many financial experts suggest having 5-10% of your portfolio in hedges like gold, even during better economic conditions, depending on your risk tolerance, timing, objectives and current portfolio size and allocations.

If you haven't added or updated your hedges, like gold, recently, talk to a financial advisor or specialist to review your portfolio and make sure that it is well positioned given your risk profile and objectives for the likely volatile times ahead. Also, consider calling my friends at Goldline for more information!

Swans are supposed to be pretty, but from a financial and economic perspective, they can be pretty ugly. Of course, we hope that none of

these come to fruition, but if you fail to prepare, prepare to fail. Make sure you are considering what could be ahead, so you don't get caught flat-footed should something happen.

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