June 2020

Elixir News

elixir

CREATING INCOME FOR EVERYDAY PEOPLE BY USING TECHNOLOGY
TO HARVEST VOLATILITY.

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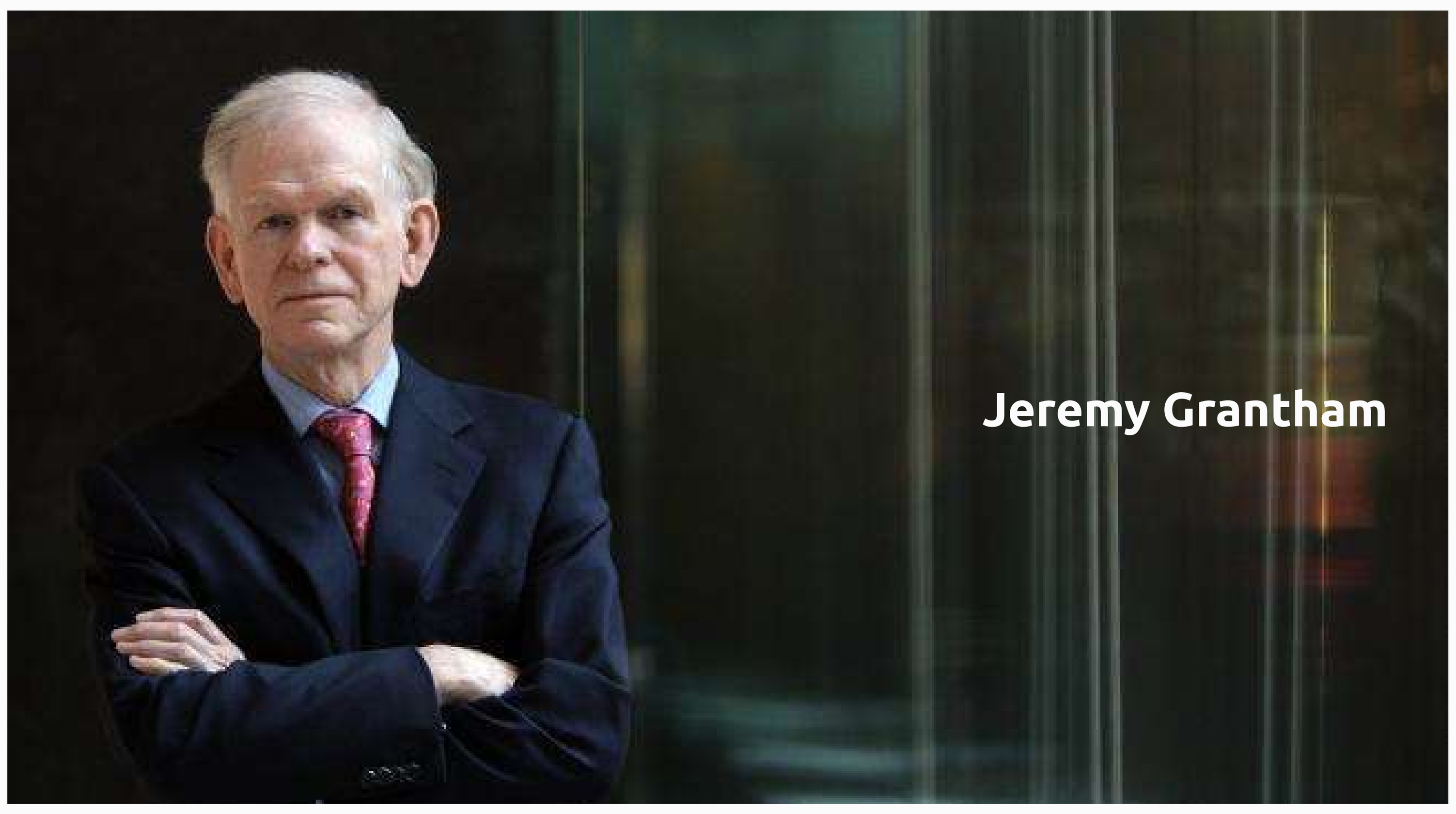
Hi, everyone.

In June, the world maintained its course as it did in April and May. Though signs of strong economic recovery are limited and the spike in new COVID cases in the US is starting to disrupt the momentum of reopening, investors remained confident and risky assets continued trading at a high level.

For that reason, our trading performance remained flat in June and ended at 0.71% on trading assets (0.48% on bond and preferred share outstanding). When we add our income from software as a service, our total June revenue on trading assets and on bond and preferred share outstanding was 1.18% and 0.81%, respectively. I would like to assure everyone that the income we earned in June fully supports our interests and dividend obligations. Later in this newsletter, I will talk more about our June trading performance.



In his CNBC interview on June 17, 2020, Jeremy Grantham commented on the current asset pricing: *"My confidence is rising quite rapidly that this is, in fact, becoming the fourth, real McCoy, bubble of my investment career.* ***The great bubbles can go on a long time*** *and inflict a lot of pain but at least I think we know now that we're in one. And* ***the chutzpah involved in having a bubble at a time of massive economic and financial uncertainty is substantial."*** [1]

For those who aren't familiar, the Hebrew word "chutzpah" means shameless audacity and impudence. I haven't heard this word since my mother passed away twenty years ago. It brought back fond memories to hear this word again from the 81-year-old co-founder and chief investment strategist at Grantham, Mayo, Van Otterloo & Co. It's worth pointing out that Grantham expressed similar "bubble" warnings in a Fortune Magazine feature article in September 2007, before the asset price bubble popped and was followed by the 2008 recession. [2]

Under the economic overview section of this June newsletter, we will discuss evidence that supports Grantham's view of "massive economic and financial uncertainty" and the incredible examples of chutzpah that are currently in the market. As the last newsletter promised, we will also attempt to shed some light on the consequences of the extraordinary monetary policies introduced to the capital market by the US and other first-tier counties as a tool to help stabilize their economies.

Before we get into these topics, we are pleased to share that we had a successful shareholder's annual general meeting through online conferencing on June 30, 2020. The participating shareholders unanimously elected Janis Riven, Jaclyn Wu, Qian (Mac) Ma, Leonard Wiens, Joel Freudman, Qian (Eve) Zhang, and me to serve as directors of the board until the close of the next AGM of Shareholders. We are thrilled that Elixir can attract highly sophisticated and skilled independent directors to govern and lead the company's long-term growth. To help our investors get to know our leadership better, we will write about each director's professional background and their role on the board in the future newsletters. During the meeting, the shareholders also approved MNP LLP as our 2020 auditor.

We hope that you find this newsletter insightful. Please feel free to reach out by email or give us a call any day after market hours. Eve's number is 587-969-8011 and I can be reached at 403-926-7998.

Sincerely,
Bill and Eve McNarland
Elixir Technology Inc.
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Given all the problems in the world during the second quarter of 2020, it was truly remarkable to see risky assets (stocks, corporate bonds, FX, and some commodities) have their best quarter in twenty years.

That said, June 8 seemed to be a turning point. On that day, the S&P 500 closed at 3232.39—the highest since its previous lowest of 2237.20 on March 23. However, a few days later, on June 11, the index dropped over 5% and since then has been struggling to return to June 8's high. This date is also significant on the pandemic front. The daily global number of COVID-19 cases nearly doubled, from 108,000 to over 200,000, and have stayed at this high level ever since. Before June 8, the US reported fewer than 20,000 new cases daily. However, since this date, more than 50,000 new cases are being confirmed each day!

The fuel for the stock market in Q2 was the excitement of people returning to work. However, this excitement has started to dissipate, especially because the virus situation is worsening and a re-lockdown is a possibility. We look to July 2 as evidence of the fading excitement. While the job report released on this day was better than expected, the media and investors finally started focusing on the troubling details it contained. At the end of July 2, the highly anticipated job report did not cause the S&P 500 to go up; instead, the market went down by 1.5% on close.

Another observation I want to share is that this stock market's fantastic second quarter was not built on solid ground. Typically, when stocks are going up and everyone is confident, bonds and gold fall in value. You would also expect the fear index (VIX) to be at a low level, reflecting that enthusiasm. Yet, gold is only 5% lower than its all-time high established in September 2011, 10-Year US Government Bonds have the same yield in July as they did during peak fear in March, and the VIX is still above 30. To better understand this VIX number, you will want to consider this: The S&P 500 closed at 3237.18 on January 7, which is very close to June 8's 3232.39. However, the VIX index for January 7 was at only 13.79!

With all that being said, although we began seeing some shifts in the capital market in June, this doesn't change the fact that it was still trading at a very high level. Making money in this environment is challenging when we are short-titled, but we still managed to make a return on our insurance positions. Additionally, our natural gas and corn trades contributed to our June trading revenue.

It looks promising that the stock market and other risky assets are starting to align with reality—and that reality is not looking good. Again, all we need to do is patiently wait. Our short positions are well supported, and we are well-capitalized. As Grantham put it, "The great bubbles can go on a long time…" The prudent thing to do now is to be patient and wait for the bubble to burst.

(S&P 500 Weekly: February 17 to July 6, 2020)

This section will first look at current evidence supporting Grantham's statement that the world, especially the US, is still facing massive economic and financial uncertainty. Subsequently, we will share three examples of the sheer chutzpah in the current capital market, despite the bleak future.

Evidence of uncertainties

1 COVID-19 IS STILL A SIGNIFICANT RISK.

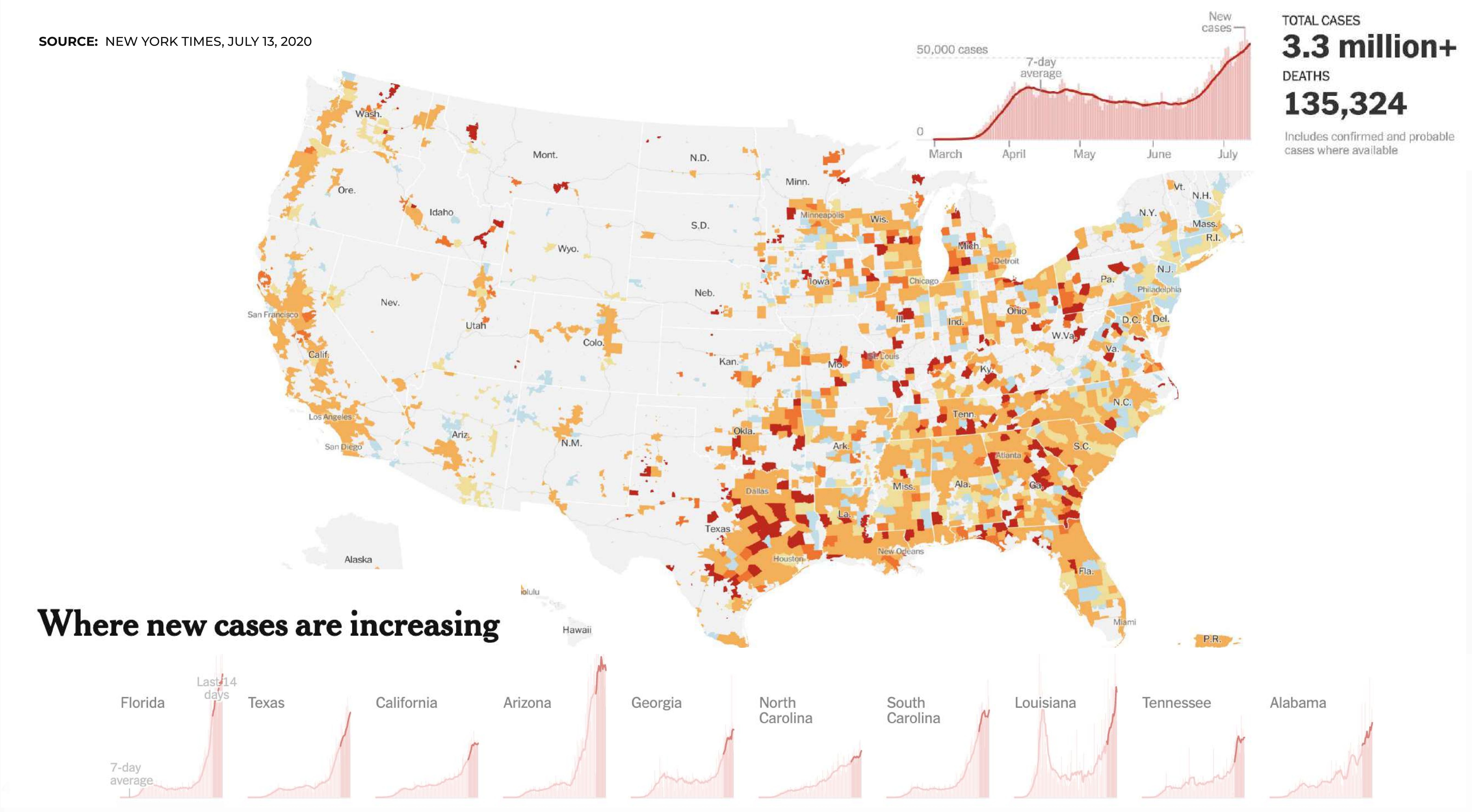
On July 1, the Massachusetts Institute of Technology (MIT) released a report on COVID-19. Highlights of this study [3], based on data collected from 84 countries, are summarized as follows:

- For each recorded case, 12 go unrecorded.
- For every two COVID-19 deaths counted, a third is misattributed to other causes. (This means that the global COVID-19 death toll should be about 800,000 instead of the officially recorded 546,000 as of July 8.)
- Without a medical breakthrough, the total number of cases will climb to 200 to 600 million by spring 2021. At that point, between 1.4 and 3.7 million people will have died. (This is shocking considering that the current reported cases are only about 6% and the official death count is only 30% of MIT's best-projected scenario.)
- Over 90% of the world's population will still be vulnerable to infection—more if immunity turns out to be transient.

MIT is a credible institution. While its model and analysis may not be entirely accurate, the report shows a worsening trend. Medical breakthroughs are possible but not guaranteed. Although pharmaceutical companies are trying hard with vaccines and Dr. Fauci is optimistic that a vaccine could be available by the end of the year, there are still risks that the vaccine supply will not meet global demands and that the virus could mutate, making the vaccine ineffective. We could be living in the shadow of COVID-19 for the next 6 to 12 months, at least.

What does this mean for our economy and financial system?

When the COVID-19 infection rate rises, we see governments start to roll back reopening measures and lockdown again.



Melbourne re-imposed lockdown measures [4] and Miami started to roll back on re-opening [5] during the first week of July. In our March newsletter, we shared our model result in terms of how bad the US GDP could get. One of the critical variables is how long the US economy could be shut down.

We suggested that, for the 12-month period from April 2020 to March 2021, if the US economy is in lockdown like it was at the end of March for one month, the US GDP could drop 3.1%, while if the lockdown drags on for 12 months, the GDP could decline by 44.4%. Based on the recent development, we predict that the US GDP could drop by at least 10% during this period.

Some may argue that social distancing and mask-wearing are sufficient to lower infection rates and that, therefore, locking down the economy again will not be necessary. Unfortunately, increasing evidence shows that COVID-19 could spread through airborne transmission. On July 8, a WHO official told BBC News that if the evidence is confirmed, it may affect guidelines for indoor spaces [6]. This means that any indoor facilities, such as bars, restaurants, public transportation, office buildings, malls, schools, and large indoor events, will be considered high-risk areas. Social distancing and mask-wearing may not be enough to protect people from getting sick, leaving the lockdown as the only effective tool to save lives.

A new round of lockdown will most certainly have a devastating impact on the job market. Since the US reopened and people started going back to work, we began seeing some improvement in the employment numbers. However, a discouraging fact is that more than 1.5 million Americans were still losing their jobs every week, and most of these job losses were not directly related to COVID-19. Based on the analytical report on job cuts released by Challenger, Gray and Christmas, Inc. on July 1, only 16% of June layoffs were directly related to COVID-19 in June, while the rest were due to the recession. Consider that COVID-19-related layoffs in April and May accounted for 94% and 53%, respectively [7].

Using the current data, the US Congressional Budget Office predicts that the unemployment rate in 2030 will still be higher than that in January 2020 [8]. It takes years to fix the damage of a recession. Without a second lockdown, we are already starting to feel the effects of a drawn-out recession. Imagine what a second lockdown would do to the already-damaged US job market. And how about that more deadly second wave that could hit us in the wintertime? Based on the research I read, I remain positively pessimistic regarding the US economy and job market.

2 MANY COUNTRIES' FISCAL STIMULUS PACKAGES WILL BE ENDING SOON.

In the US, the CARES Act's unemployment benefits will be ending on July 31, 2020 [9]. The Paycheck Protection Program (PPP) will run out a week later, on August 8 [10]. When the fiscal stimulus ends, people and businesses will feel the full effects of the current economic recession and be forced to face reality.

People should not assume that these programs will automatically be extended. Several factors are deterring governments from continuing to write free cheques. First, these stimulus packages could discourage people from going back to work [11]. If people can collect a free cheque at home, they have less incentive to return to work soon. Second, governments don't have an effective way to eliminate benefits abuse. Unfortunately, people are abusing the system. For example, in Canada, the CRA tip line has been flooded with 3,300 leads on suspected emergency aid cheats, and $361,000 in voluntary repayments have already been made from ineligible claims [12]. Third, and most importantly, governments know that there are long-term consequences for giving out free money. Writing free cheques is never an easy decision.

Unlike public companies, which can raise money through the public and private market, small private businesses are perhaps most reliant on government subsidies to survive. I want to acknowledge their challenges specifically. Let's first look at the recent survey results from the United States Census Bureau, released on July 2 [13]. In June, with the reopening and the stimulus package still in effect, 42.5% of small business owners said that their operating revenue was decreasing, compared to only 20.7% who said that their income was starting to improve. A total of 13.9% did not pay rent, while 4.7% missed a debt payment, 32% had supply chain disruptions, and 75% relied on PPP to keep their staff and fund their payrolls. In terms of looking ahead, 83% of small business owners said in June that the pandemic continued to negatively impact their businesses. Imagine when the stimulus stops and a re-lockdown is inevitable. What would happen to the millions of small businesses in the US?

Public companies are certainly not exempt from the effects of this fragile environment. Although the stock market has been soaring, executives are fully aware of the future uncertainties. When people are feeling uncertain about the future, they typically hold back on hiring employees and expanding. The inactiveness of businesses certainly doesn't help with GDP recovery.

3 THERE ARE WARNING SIGNS IN THE REAL ESTATE MARKET.

Remember that instability in the real estate market triggered the 2008 market crash and nearly brought down the US banking system? Well, it looks like trouble is brewing again. In his report released on July 3, David Rosenberg issued a warning about the rental payment crisis in the US: "A debt and rental payment crisis is about to set in without some sort of miracle or intervention. In April, 24% of Americans had missed their rental payments; that share in June, apparently with a big steaming recovery at hand, is up to 30%! And think of the disaster in the commercial real estate space as bankruptcies mouth – all happening as much of the fiscal support subsides in the coming months. [14]"

When renters don't pay their rent, landlords struggle to pay their mortgages. This causes financial difficulties for mortgage lenders, banks, and the economy. If renters can't make their rent, it's safe to assume that many homeowners could also be struggling and can't service their mortgage payments. We suspect that more insights will be available when banks, mortgage companies, and real estate companies report their Q2 earnings later this month. At the moment, a high level of uncertainty has pervaded the real estate market.

Examples of Chutzpah

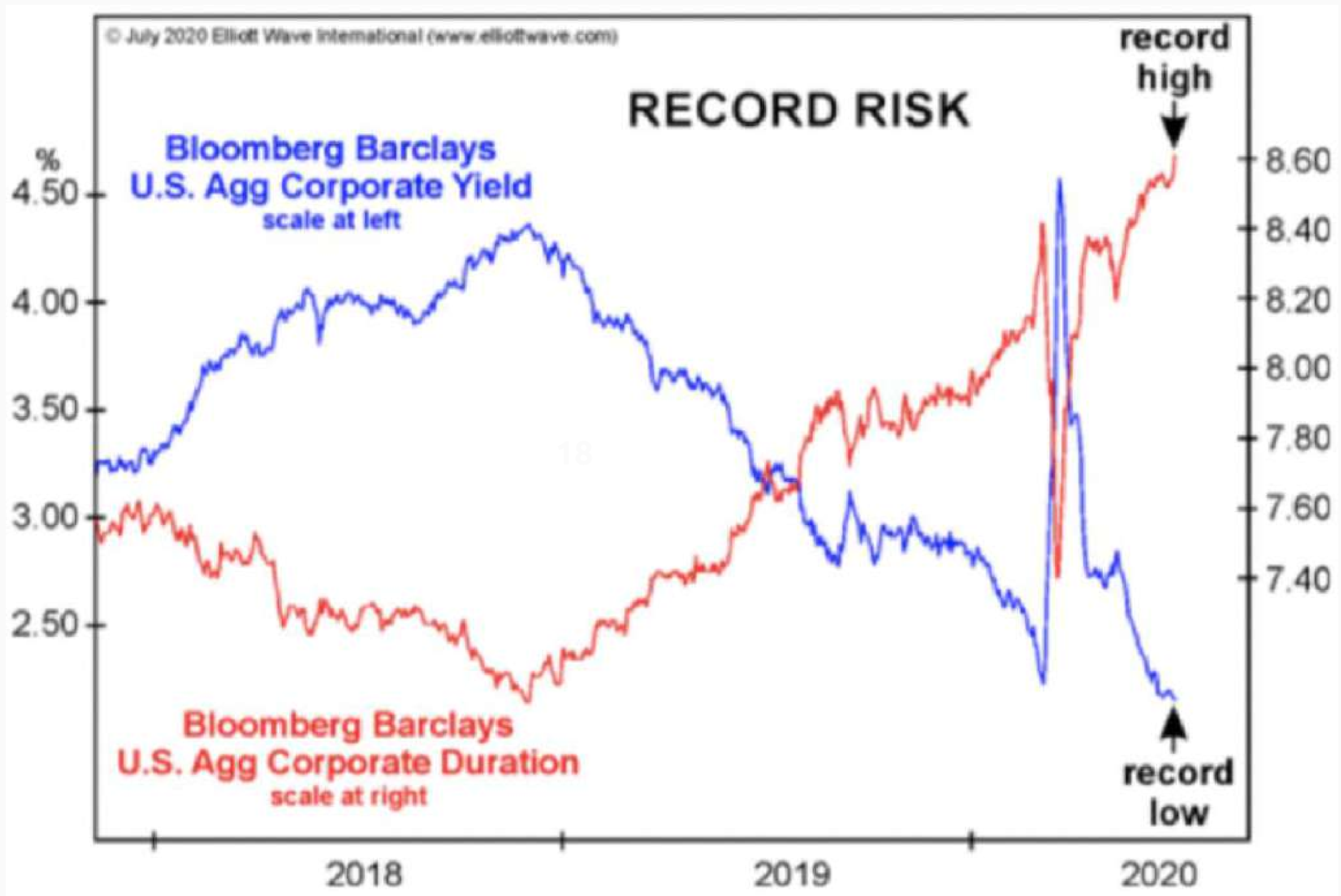
Tremendous economic and financial uncertainties should most certainly deter people from investing in risky assets. However, in the current capital market, the opposite is true. Investors' sheer chutzpah is remarkable. Following are the three best examples among many.

1 INVESTORS ARE ACCEPTING RECORD-LONG-TERM CORPORATE BONDS WITH RECORD-LOW YIELDS.

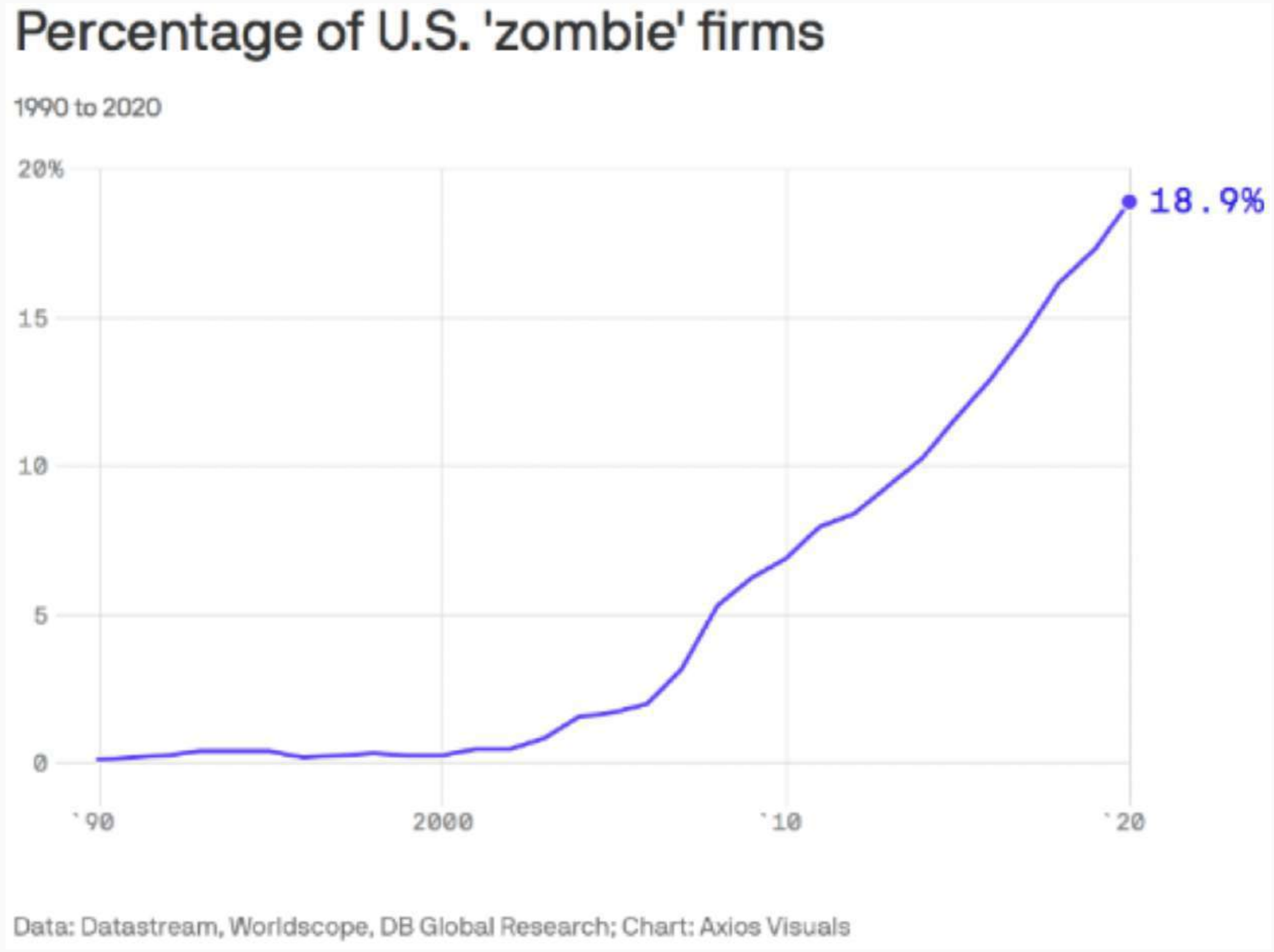
The two basic principles for investing in corporate bonds are, first, short-term bonds are less risky than long-term bonds and, second, to compensate for the risks, long-term bond investors typically demand a higher yield than the short-term bond investors.

With all the risks and uncertainties on the horizon, it is shocking to see that investors are accepting record-long terms with record-low yields in corporate bonds. Bloomberg Barclays put together the following chart to demonstrate this point [15]. Notice that, back in March, investors would lock in for 7.4 years to receive a 4.5% annual yield. Meanwhile, in July, locking in for 8.6 years would allow investors to gain only about a 2% annual yield.

It's hard to believe that investors are happy to get their 2% yield, feel confident that companies can pay their interest over the next eight years, and be convinced that their principal is safe and can be redeemed on maturity.



Sadly, this confidence is unwarranted. According to AXIOS's report on June 15, 18.9% of US companies can be defined as "Zombies" based on data from DataStream, Worldscope, and DB Global Research [16]. A "Zombie" is a company whose debt servicing costs are higher than its profits. The company can stay alive only through relentless borrowing to fund investors' interest and principal. In other words, 18.9% of US companies are playing the Ponzi scheme game. Nearly one in five American companies is raising money to pay its debt obligations. Scary, no?



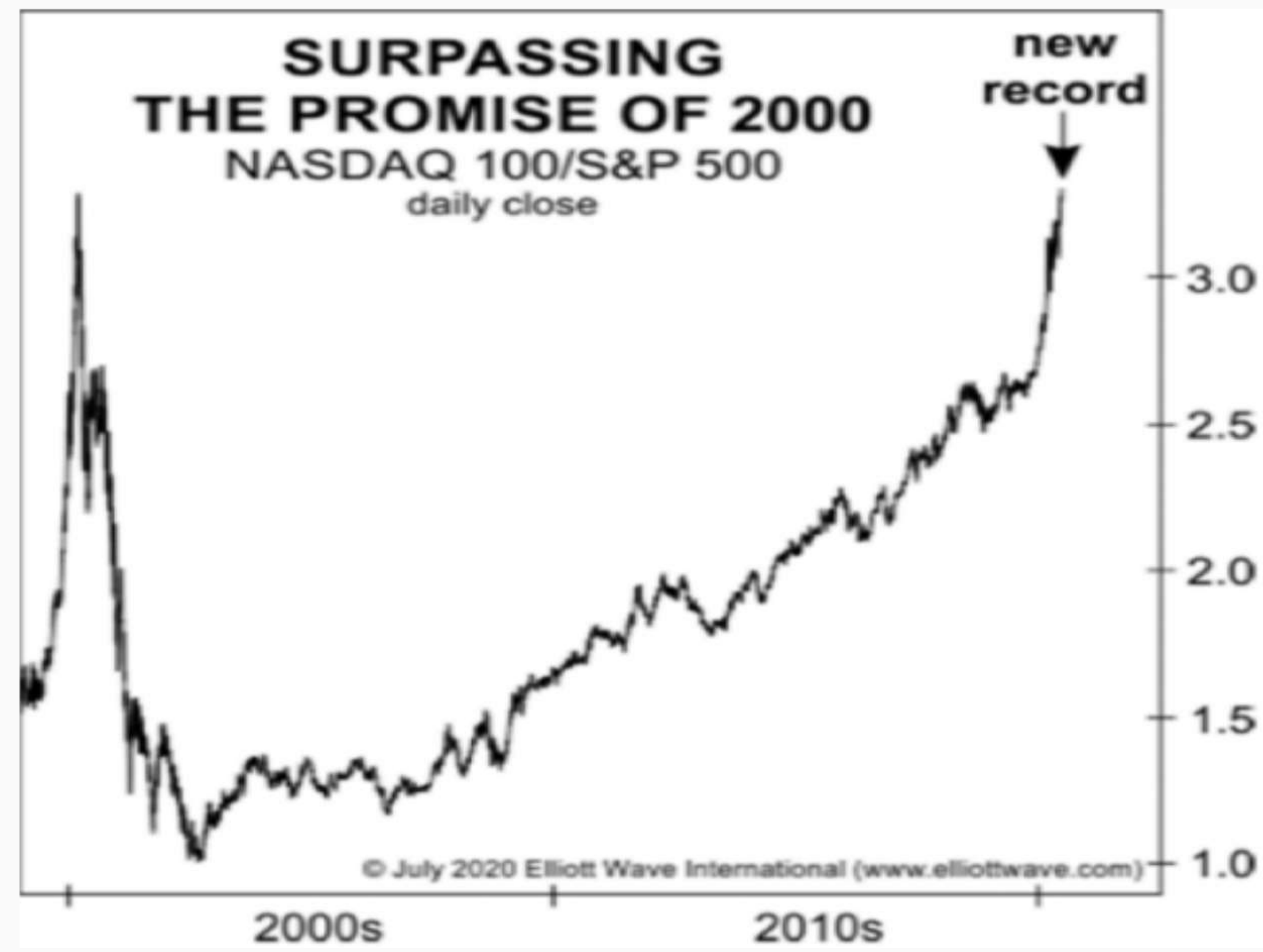
2 TECHNOLOGY STOCKS ARE MORE OVERVALUED THAN THEY WERE IN 2000.

To those who are following our newsletter every month, I might sound like a broken record, as I have written about stock overvaluation so many times in the past. However, I can't help but continue commenting on it, as things have gotten worse, particularly in the tech space.

Right now, many tech stocks are overvalued. I want to highlight one: Zoom Video Communications (Ticker ZM NASDAQ). Zoom became extremely popular after the COVID-19 pandemic hit. Many companies chose this online conferencing tool to stay in touch with their workforce. However, Zoom is not the only choice for such a service. Cisco WebEx, GoToMeeting, Google Hangouts, Join.me, BlueJeans, TeamView, and Adobe Connect, to name a few, offer similar services. Despite competition and a lack of high entry barriers like Microsoft and Google, at close on July 8, the company was trading at nearly 1500 times earnings and valued at over 75 billion USD! To put this into perspective, consider that Alphabet, Google's mother company, is trading at only 31 times earnings. In contrast, Elixir's share price today is based on 6 times earnings plus an additional 60% discount that the board decided to apply to be on the most conservative side.

Zoom is only a microcosm of the overall technology stock market (Nasdaq). According to the study released by Elliot Wave International in early July, the Nasdaq 100 is currently valued at three times higher than the S&P500. The last time this happened was in March 2000. We all remember what happened shortly after that—Nasdaq dropped 60% and took 15 years to recover back to its March 2000 level.

History always repeats itself, and I can't think of a better word than "chutzpah" to describe this madness.



3 INVESTORS ARE DISMISSING WHAT EXPERIENCED INVESTORS ARE DOING.

Rejecting warnings from veteran investors is a typical investor behavior during the peak time of a bubble. When the majority dismisses investors who have decades of experience, it is a sign that the bear is nearby.

Here is an example. In May 2000, Time Magazine featured an article called "Fall of the Mighty"[17]. The article talks about how investors like Warren Buffett were out of touch and what investors could learn from his errors.

Sound familiar? Recall Dave Portnoy's comment that Buffet was washed up and that he (Portnoy) was the new captain now. Dave's chutzpah was further supported by Business Insider's June 9. featured article called "Robinhood traders are betting against veteran billionaire investors like Warren Buffett and Carl Ichan – and they are winning[18] ". As a for-your-information side note, Henry Blodget is the editor at Business Insider. His unimpressive bio includes working as an internet company analyst at Merrill Lynch in 2000 and he was charged with securities fraud for recommending companies that he viewed as junk.[19]

Final Remark

These three examples are only a small selection of investors' chutzpah in the market. We agree with Jeremy Grantham that we are in an asset pricing bubble. The economic uncertainties are real and cannot be ignored for long. In June, we saw that the stock market exuberance was becoming exhausted. Therefore, we are optimistically looking forward to the drop in asset pricing in the second half of the year—though the ride will be bumpy, as always.

Monetization (Printing Money) –

What does it mean and how concerning is it?

This article will first explain the concept of "printing money," then discuss our current situation and the possible consequences of relentless money printing. Our financial world has entered uncharted territory. Although many well-known economists have tried to predict the future, no one can—or should—feel confident that they know how long it will take for the risks to materialize and how bad things will get. We don't attempt to predict the future; this article aims to share our concerns and let our investors know that we are actively and closely monitoring this risk area.

PART 1

Monetization Overview

"Printing money" is a popular term that the media has used since the 2008 recession and financial crisis. Similar words, such as helicopter money, quantitative easing (QE), monetization, and modern monetary theory, have often been used interchangeably. Among all these names, "monetization (monetizes nation's debt)" is the most accurate way to describe this tool that central banks worldwide (the Federal Reserve in the US) have at their disposal.

In laymen's terms, this phrase means that a country's central bank could artificially increase its money supply through electronic means to pay for its national fiscal deficit. While no actual printed money is released to the public, the money eventually channels into the market through bank loans, fiscal stimuli, etc.

The US is the best example of this monetization tool in action. On the first day of 2020, the US national debt was $23.1 trillion. Then COVID-19 came along and shut down the economy. The US needed lots of money to fund its fiscal stimulus programs and stabilize its society. On July 1, the US national debt had risen to $26.4 trillion. This means the US government raised $3.4 trillion in just six months!

It is impossible to quickly raise this much money without having the government bond interest rate go through the roof. The truth is, the US raised only $600 billion through regular channels in the government bond market.

The US Federal Reserve (the Fed) monetized the rest of the $2.8 trillion. The reason the Fed had to use the monetization tool is simple. There isn't enough demand in the market for such a large amount of US treasury bonds at low yields, and if the Fed doesn't find a way to increase the money supply, the US Treasury Department would not have enough money to fund its stimulus program.

Speaking of this, for those who aren't familiar, the US Treasury is the governing body for fiscal policies. The department oversees collecting taxes, setting the tax rate, and spending taxpayer money based on decisions made by elected officials. On the other hand, the US Federal Reserve supervises monetary policy. The Fed has two primary responsibilities: keeping inflation at a healthy 2% per year and keeping the unemployment rate low. The reason why monetization is within the Fed's mandate is because it could help with fighting deflation, which we will discuss in more detail later.

When the Treasury Department doesn't have enough taxpayer money to fund its spending plan, it has to raise money through Treasury debt (government bonds). Government bonds do not trade on an exchange like stocks. They are bought and sold only by investment dealers—and not just any investment dealers. Only 24 dealers in the world are approved to engage in this trade; they are called primary dealers. As an interesting fact, four Canadian banks made the list: BNS, BMO, RBC, and TD.

Here, I use an example to explain how the Fed's monetization works.

Let's say, in the past, BMO purchased $100 million worth of US government bonds from the US Treasury with cash. These bonds would appear BMO's balance sheet as an asset. When the bond price increased slightly, BMO would sell it to a traditional buyer (insurance company) and record a profit on the spread. In addition to traditional buyers, BMO could sell its $100 million bond holdings to the US Federal Reserve—if the Fed is buying. It is important to understand that the Fed does not have money in its account, but it does have the power/authority (no one else does) to send a $100 million wire transfer to BMO. When this fake money arrives digitally, BMO is allowed to debit $100 million to cash and credit $100 million to its bond account on its balance sheet. After this, BMO legitimately has $100 million in real money to buy more US Treasury bonds or give out bank loans and mortgages. The US Treasury and the US Federal Reserve are at arm's length and do not work together. Therefore, the Fed would have to go through the primary dealers to buy the outstanding treasury bonds through monetization instead of buying the Treasury debt directly.

The Fed successfully applied monetization during the 2007-2009 financial crisis to prevent the banking system from collapsing. In addition, monetization is currently helping the US provide financial support to its citizens and businesses so that they can get through the COVID-19 health crisis. Additionally, these free relief cheques and bank loans, issued through various stimulus programs, will turn into spending power, thereby effectively fighting deflation in the short term.

Deflation

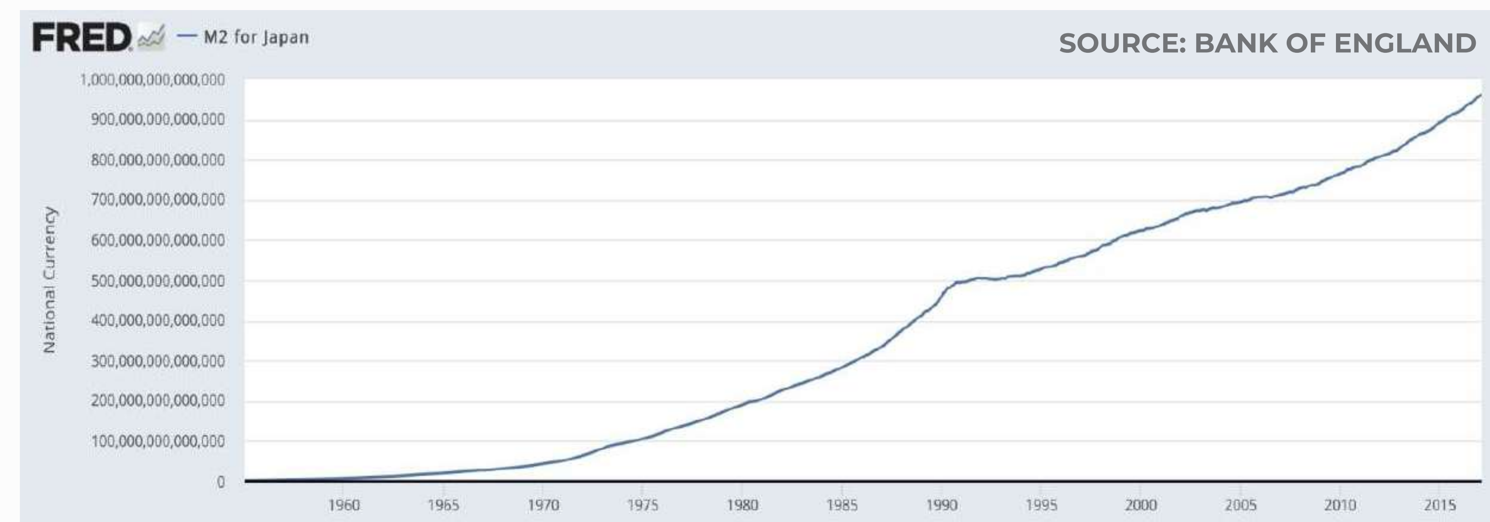
Deflation describes the general decline in the prices of goods and services in an economy, which, in turn, increases the purchasing power of money. Some may wonder why deflation is so bad. Things get cheaper and my money is worth more: Isn't that a good thing?

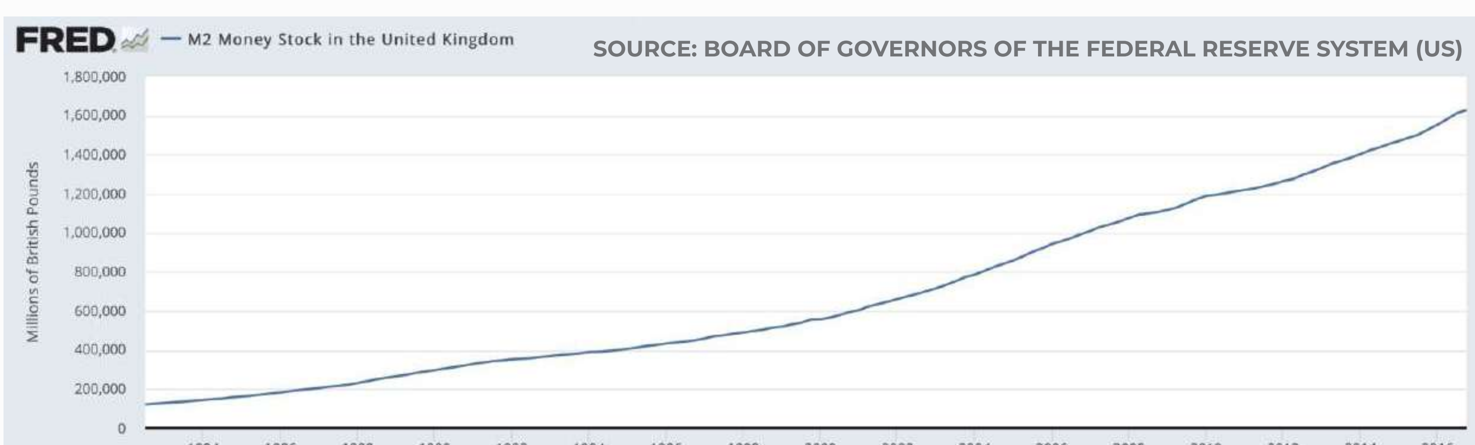
Top-ranked economist Paul Krugman wrote a great article listing the top three reasons why deflation is damaging to the economy and must be avoided if possible.[20] Here, I summarize it in simple language.

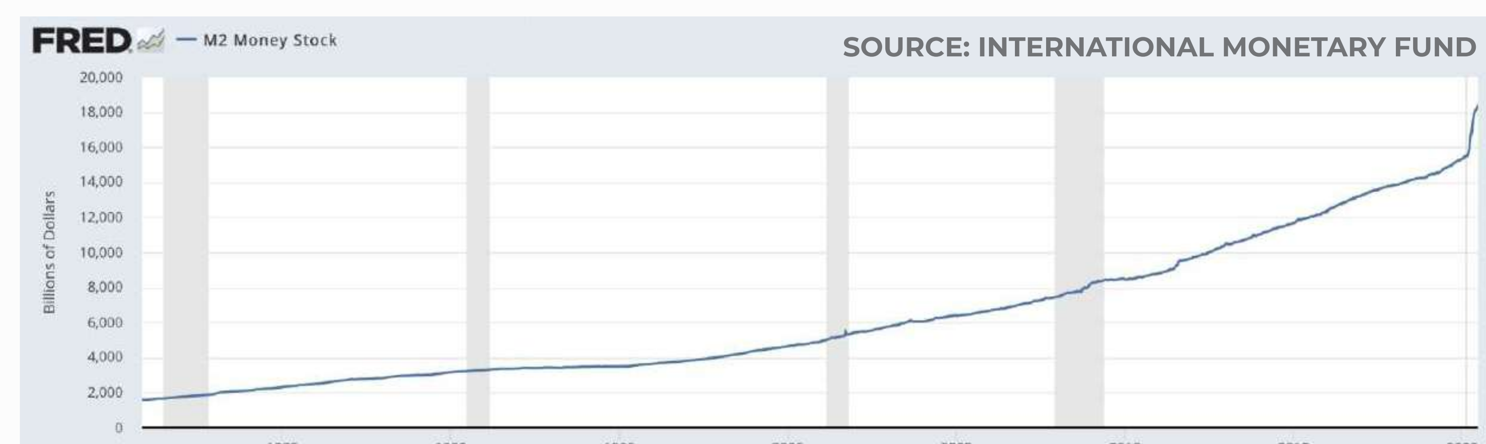
First, if you know something is going on sale next week, typically you won't buy it this week. It is the same with everything during deflation. If people think that prices will fall in the future, they will wait to make purchases. Second, people don't want to borrow money because the money they borrow today will be worth a lot more in the future. This means they will have to pay back more. When people don't want to buy or borrow, there is less consumption, which leads to a slower economy. The third problem related to deflation is that not all costs go down—for example, employment wages. Legally, it is almost impossible to lower employees' salaries when deflation happens. Companies would have to keep paying high salaries even though their businesses were suffering from the first two effects mentioned above. Labour cost is usually one of the biggest drains on a company's cash flow. Plus, its goods or services are sold at reduced prices, while high costs and low income could force many companies—especially small and medium-sized companies—to lay off staff or shut down their businesses entirely.

The biggest fear is that a deflation cycle could keep getting worse. The reason why the Great Depression was so terrible and lasted so long was that the economy was caught in a deflation cycle. To fight the Great Depression, the US government deployed the monetization tool, too, but on a small scale. It was about 6% of outstanding debt—nothing like the scale today.[21]

Though we have talked mostly about the US, monetization is not unique to that nation. The Bank of Japan used monetization during the 1990s and 2000s [22] to stabilize its economy and financial market. Since the great recession of 2007-2009, the US, the UK [23], the EU [24], and Sweden [25] have all participated in monetization. How significant has monetization been in these countries? Very! One way to measure its significance is to see the increase in the country's money supply. Money supply, also known as M2, includes cash, chequing and savings accounts, money markets, mutual funds, and GICs. The following charts demonstrate how the money supply of major economies has exploded over time.







PART 2

Risks of Monetization

While monetization has short-term benefits, it creates tremendous risks and uncertainties in the long run. Monetization allows countries to take on a large amount of debt in a short period. Carrying such a large national deficit is never viewed positively. When people perceive that the government bond in their holding is getting riskier, they will sell it, causing major problems for the issuing country.

At its core, evaluating national debt risk is similar to personal debt risk assessment. When determining an individual's credit risk, a credit agency will look at two main factors: payment history and utilization ratio. An excellent credit score is granted to individuals who have a long history of never missing a payment and whose borrowed amount is within a manageable percentage of their total income. While the US government has an excellent track record of paying back its debt obligations, the amount of current and rising treasury debt is concerning. Although the current number is not yet available, we know that its government bond to GDP ratio was already at 107% at the end of 2019. Adding the $3.4 trillion in newly issued debt and a declining GDP, we estimate that the current US national debt to GDP ratio could be around 125 to 130%. We don't know what credit agencies' benchmark for the national debt to GDP ratio is for their rating system; currently, the US bond still has a low risk "AAA" rating from Moody's and Fitch.

As a result, we still see strong demand (outside of Fed buying) for US Treasury bills. However, it's worth pointing out that since the last monetization ended in August 2011, S&P reduced the US credit rating to "AA+"—a rating that has been maintained ever since. While we don't know how long the US could hold its top debt rating, the 2011 Greece debt crisis may provide some insight. Two years after the 2008 financial crisis, Greece debt to GDP climbed over 140%, and S&P moved its rating on its sovereign debt to junk status.

Rising debt and a sluggish GDP will eventually lower the US's credit rating. When that happens, investors will be spooked and sell their holdings. As a result, the bond value will decline and yield will increase. When government debt yield goes up, corporate bond yields must go up, too. This is because the national debt is viewed as less risky than corporate debt, and companies would have to raise their bond yields to compete with the federal bond.

The adverse effect of higher corporate yield is the higher costs that companies pay to service their debts, which is often a significant drag on their cash flow. The higher cost of business would drive the price of goods and services higher, thereby causing inflation. To fight inflation, the Fed will have to raise its overnight interest rate.

The higher cost of business would drive the price of goods and services higher, thereby causing inflation. To fight inflation, the Fed will have to raise its overnight interest rate.

When the Fed's interest rate increases, it drags the economy into a deeper and more vicious cycle. Higher interest rates would be devastating to all bond values, individually, corporately, and federally. Because of the higher debt serving cost, everyone will have less money to spend, which would cause a worse recession and more job losses. A high interest rate would also pull down the stock market's value over time as companies' earnings decrease. The only asset that becomes attractive during times of rising interest rates is GIC or term deposits. So, investors would take their money out of the stock market and run to GIC-type products, placing more downward pressure on the stock market.

Another negatively effected market is the real estate market. With a high mortgage rate, people would be qualified for smaller mortgages, which hurts the demand and causes real estate prices to fall. When the value of all assets is declining, investors will invest less, which causes the country's currency to decline as well.

Speaking of currency, the currencies of the four major economies (US, EU, Japan and UK) still make up over 92% of the world's currency use [26]. The world cannot switch to currencies that have a small footprint—such as the Chinese RMB, the Canadian dollar, the New Zealand dollar, or the Australian dollar—any time soon. Some may wonder if this presents a good opportunity for cryptocurrency as an alternative. Currently, Bitcoin's total outstanding currency is only 0.97% compared to the US dollar [27] . It is not feasible for a digital currency that small to replace the world's reserve currency anytime soon.

Conclusion:

We are confident that the national debt outpacing GDP growth represents a tremendous risk for the US and other major economies. That said, things don't change overnight. Possibly, new countries' bonds and currencies may become dominant, though that could take an even longer time to happen. For now, at Elixir, we continue to monitor the situation.