

When/Will Lightning Strike the Markets?

Wednesday, March 6, 2024:

Greetings!

In February, I traveled to Miami for a financial conference and the Northwestern Kellogg Leadership conference where fellow Kellogg MBA alum Gary Parr, Senior Managing Director of Apollo Global Management, spoke. Gary had a pivotal role in shaping the sales of Bear Stearns and Lehman during the 2007 - 2008 Global Financial Crisis. After graduating Kellogg in 1980, Parr was part of the founding team at Wasserstein Perella, advised Jamie Dimon while he was CEO at BancOne, and led Mergers and Acquisitions for Morgan Stanley and Lazard. In February 2008, Parr was watching a performance of Macbeth in New York City when he got a call: Bear Stearns was broke due to its over investment in mortgage-backed securities and even the Fed's emergency loan in 2008 could not prevent the collapse of the company. Who to call? Ghostbusters? No, Parr realized, as he quickly deduced who was the number one creditor to Bear Stearns: JP Morgan. Having worked with JP Morgan's CEO Jamie Dimon, Parr called Dimon on his personal line during Jamie's birthday and relayed the news which could severely negatively impact both JP Morgan and the banking system if not addressed. Shortly thereafter, JP Morgan bought Bear Stearns for \$10 a share (and originally agreed to at \$2 a share), far below the \$133 share price that Bear Stearns fetched in 2007 when it was also named as one of Fortune's "America's Most Admired Companies."



Maya Joelson pictured with Jamie Dimon, CEO of JP Morgan, and David Rubenstein, Co-Founder of Carlyle Group

At the Kellogg event, a woman asked Parr "why did it have to take so long to address the problem? Why did it have to get to a point where you and Jamie had to be called in one night to forge a rescue?". Gary responded that everyone knew there were "thunderstorms" in the market. But everyone kept the party going... waiting to see if or where lightning would strike.

And in what form will lightning strike? Do the recent outages of AT&T and Facebook indicate a greater threat from foreign adversaries?

Right now, there are many thunderstorms rippling in the background while the stock markets soar to historic highs. These thunderstorms include Commercial Real Estate, particularly office – even the untrained economic eye can see all the empty office buildings from San Francisco to DC to New York and wonder when the leases

will come due. Efforts to repurpose the office buildings into apartments face an uphill battle given lack of plumbing and windows suitable for individuals – and besides everyone wants to work from home and many Manhattanites have now fled to Miami. A year after Silicon Valley Bank and First Republic had to be rescued, New York Community Bank is demonstrating that banks are still having problems in managing loan and real estate portfolios after the biggest and shortest hike of interest rates in history.



Maya Joelson pictured with Jeff Gundlach, the "Bond King", CEO of DoubleLine Capital in February 2024

After the Kellogg conference, I attended an ETF conference and saw and spoke with the world's "Bond King" Jeff Gundlach of DoubleLine Capital. [When I warned in February 2020 that Covid was a Black Swan](#) that could crash the markets, the S&P fell by 35% before the Federal Reserve and US fiscal packages were launched to support and save the markets. But how big of a superpower is the Fed – is there a breaking point at which it can't "save" the market? Pundits on CNBC and elsewhere spend an inordinate amount of time postulating whether the Fed will raise or lower rates by 25 bps.



Maya Joelson pictured with Federal Reserve Chair, Jerome Powell

I've met Federal Reserve Jerome Powell and he seemed a like a nice guy--who wants to tell the market what it wants to hear. I've been suspicious of reportedly low inflation figures as they 1) exclude key components and lagging indicators, 2) include oil prices which are artificially low due to Biden's use of the Strategic Petroleum Reserve, and 3) have not yet factored in the supply chain cost increases of Red Sea Houthi attacks. Gundlach brought up more reasons to be suspicious of the reported inflation number – that national aggregates of inflation are way below the composite of the biggest states like New York and California. Gundlach noted

that the Fed has also now resorted to announcing “annualized” inflation rates- by essentially cherry-picking their favorite months and extrapolating to an annual number that most suits them. One of my favorite movies was *The Wizard of Oz* which was apparently inspired by monetarists worried who about inflation around 1900 and were, therefore, pushing the gold standard.



Dorothy and friends follow the yellow brick road to find the Wizard of Oz.

According to a display of the *Wizard of Oz* at the Federal Reserve Bank branch in Miami, “the original book, published in 1900, featured the yellow brick road (gold) being crossed by Dorothy in her magical silver slippers (changed to ruby slippers in the 1939 movie.) Dorothy leads a coalition of farmers (the Scarecrow), workers (the Tin Woodsman) and politicians (the Cowardly Lion) to petition the president (the Wizard) in his capital city of Oz (the abbreviation of ounce) on behalf of the common people (the munchkins),”

The dollar and markets remain strong, but how long can this last? All of the BRICS, and a [Global South consortium](#) which is growing, are seeking to replace the dollar as the reserve currency. The popularity of Bitcoin in the West also poses a challenge to the dollar. US markets have been fuelled by new Robinhood type investors – some would call them “[Dumb Money](#)” – who have been spending their excess time and Covid checks at home investing in the stock market like it is a never-falling casino. Meanwhile, “Smart Money” like Jamie Dimon of Chase, Jeff Bezos of Amazon, Leon Black of Apollo, and Mark Zuckerberg of Meta have all unloaded huge amounts of stock – [Jeff Bezos alone sold \\$8.5 billion worth of Amazon stock](#).

Besides domestic issues, thunderstorms are emanating from Russia, China, and the rest of the globe. Previously, [I warned of Putin’s invasion of the Ukraine while other pundits claimed he was bluffing](#), still Putin's threats are [barely covered in US and Western news outlets](#). Short of nuclear wars he has threatened, Putin and his ally Xi could launch cyber or other attacks on US or Western soil which is not directly

traced to them. What was that Chinese balloon doing last year? And did anyone besides me notice that the Mid-East Hamas attack happened on October 7 – Putin’s birthday- and certainly benefited Putin as US and other aid was diverted from the Ukraine to Israel. While Putin has struggled and been ridiculed for his ground campaign in Ukraine, *let’s not forget that Putin’s forte is as a KGB agent* – how much division in the West is Putin sowing and how many elections can he manipulate? After Navalny’s death, Trump was mum to condemn Putin. In contrast, Biden has chastised Putin and Xi and this may be the optimal time for Putin to exact revenge.

At the end of my Miami trip, my friend invited me to see Stevie Nicks and the song “Dreams” was playing on the loudspeaker:

*Oh, thunder only happens when it's rainin'
Players only love you when they're playin'*

The world today seems more than ever like a big game of chess with big power players like Xi, Putin, Biden and Powell having to sort out their next moves against formidable challenges and foes. Let’s hope that Powell can continue to thread the needle to prevent lightning from striking the markets.

Happy to hear your thoughts and feedback! Please contact me with any comments and feedback at maya@metapointadvisors.com or mmjoelson@gmail.com

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Maya is a Harvard-trained economist who leverages her two decades of top-level experience across Wall Street, the City of London, emerging markets, and advanced technology to devise investment strategies for her clients. She advised the CEO and Board of Rio Tinto on macroeconomic and geopolitical concerns. Maya founded Meta Point Advisors after several years as a Financial Advisor at Merrill Lynch. Maya's clients benefit from her ability to provide savvy active management without the cumbersome costs and structure of mutual funds. She has been quoted in ***The Wall Street Journal***, ***Barron's***, and the **World Economic Forum**.

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