



AAA government bond markets and helped contribute to the so called "bond conundrum". The lower yields that this entailed could only help encourage more and more debt accumulation elsewhere.

Back to 1998 though, as a consequence of the Russian default and trades associated to it, US hedge fund LTCM unraveled leaving many US banks exposed. The Fed responded by brokering a bail-out and by cutting rates which prevented the crises spreading to systemic proportions. However one can argue that this triggered the excess of the global equity bubble over the next eighteen months as investors felt that the Fed was providing moral hazard. This triggered a decade of financial excess as market participants increasingly felt that the Fed had their back whatever was thrown at the financial system. Obviously this excess was punctuated by the equity crash of 2000 but as rates were cut from 6.5% to 1.75% in 2001 alone and to 1% by 2003, the moral hazard was back and the excesses allowed to build again.

A fairly widespread global property bubble was ignited with that seen in the US ultimately the most destructive to the financial system given how many levered financial products were created on the back of it. Regulation as we now know was light and central banks generally felt that markets were the best judge of risk. Shadow banking activity was a huge driver of the excess in the system which would never have been possible in the heavily regulated markets of the Bretton Woods period or in any period where money creation was tied to precious metals.

As the shockwaves spread, so Central banks and Governments had to intervene in sizes never before seen across the globe. The stresses this placed on European Government's balance sheets, coupled with the sharp reduction in activity and capital flows out of their debt then led to the European Sovereign crisis including the various rescue packages and Greek debt restructuring. Prior to this many European peripheral countries were heavily reliant on external funding for their debt. Fickle international investors in financially liberalised markets have been a common ingredient across many of the crises seen since the end of the Bretton Woods system.

A cataclysmic European Sovereign default crisis was perhaps prevented by the historically unique expansion of the ECB's balance sheet over the last 5 plus years.

So after a whistle stop tour of post 1971- crises we arrive at the present day where volatility is at multi-decade lows and asset prices are at increasingly expensive levels around the globe largely due to the extraordinary global monetary printing seen over the last decade. It doesn't feel that we've come to the end of a period of regular financial crises - just a lull before the next consequence of previous actions manifests itself.

In the next chapter we highlight potential catalysts for the next financial crisis. Obviously their occurrence and timings are highly unpredictable but that shouldn't prevent a discussion on where they may arise.

China and Demographics facilitated the credit boom bust cycle
Before we move onto looking at what could cause the next crisis, we should add that China and demographics have perhaps both contributed to the modern boom/bust culture. In our eyes these two are linked as around the end of the 1970s both created a positive disinflationary shock on the global economy by dramatically increasing the size of the global labour force - a trend that has continued to this current day. This 'positive' disinflationary shock allowed central banks and governments to solve every problem thrown