Synchronized Slowdown. The Global Recession of 2012.

We are in the midst of a global synchronized slowdown.

In the long run, the US economy will recover and likely outpace the Chinese economy. In the even longer run, the Chinese economy will likely outpace the US economy. The Chinese themselves are likely to be outpaced by the Indian economy. If only someone could define the long run and the longer run.

No one has a crystal ball, and I don’t purport to possess one. These are my educated guesses.

In the short to medium term, the world faces a synchronized slowdown. The recoveries in the US and Germany were indirectly and directly driven by the massive fiscal boost of China post 2008, as well as its domestic debt monetization policies. Now China has slowed, as it must, with a massive debt hangover after a drunken orgy of infrastructure investment. Risks run high in China given the lack of transparency and the ubiquitous instances of dodgy accounting and statistics which confound even the Party itself. The poor performance of the domestic onshore share market is indicative of the ills of the Chinese economy. Still, China’s neighbours bet heavily on it as an engine of growth, as do many Western investors. Only a minority understand the difficult position that China is in with an overlevered shadow banking credit system akin to the SIVs of pre 2008, diminished demand for its exports in a newly financially responsible (and slowing) US and a recessionary Europe.

As the global equity markets continue to tumble it is time once again to gradually reduce shorts and increase longs. China plays like Caterpilar and Yum for example, will struggle to maintain their pace of growth. US brands and intellectual property will regain prominence as production is brought home and consolidated.

Banks are for tactical trading (or gambling on). Anyone with an inside view on banks will know that their business models are complex beyond the comprehension of the board, CEO or senior management. Investors should beware. China banks' balance sheets are the stuff of fiction with systemic mis-classification of non performing assets. All other banks may not be as disjointed from reality but still defy understanding or quantification by management, shareholder or market. Regulators haven't got a chance.

In Europe, emerging market assets can be bought at depressed if not distressed prices. In the US, structured credit assets also represent good value.

Assets that have remained resilient through the 2008 crisis and continue to appreciate include fine art, rare wines, important antiques and luxury prime real estate. Decades of oppression by the rich and widening income and wealth inequality have created two worlds, one which remains vibrant and another in depression. Its not a bad idea to ransom the rich. Or ransom other rich.

For more sophisticated investors long short and arbitrage strategies present rich opportunities. Dislocation and mayhem always result in less sophisticated investors making strategic errors resulting in inefficient pricing which can be monetized. Basically, if you're not the sophisticated investor monetizing such opportunities, you are the unsophisticated investor paying for the sophisticated investor's next Patek Philippe or Bentley.

An as yet unaddressed fracture in the market for capital is the failure of the fractional reserve banking system. Banks do not need to fail in order to fail the economy. Banks are no longer even slightly inefficient conduits of capital, they are broken conduits, leaky pipes and ruins of financial infrastructure. Replacement conduits will be richly rewarded. Venture capital, private equity, mezzanine finance, hedge funds and other private finance institutions fill this gap.