About this event:
The punditry of contrarians finally came true! The world economy is officially in a recessionary mode as a direct fallout of the global pandemic engulfing almost all nations with impunity without an exception. The relapse of recession twelve years since the global financial crisis in 2008 appears to have taught little to the ‘big boys’ of the wall street – sulking at every opportunity to generate big buck to satiate income-hungry fund managers. Consider this: even as economies worldwide continue to crack under unprecedented circumstances marred by slowing investment and record number of job losses, Goldman Sachs – who’s unofficial motto has been to be ‘long-term greedy’ – reported one of the best quarterly numbers buoyed on the back of record gains from bond trading resulting in whopping 150% bonanza (even as it continues to weigh under heavy litigation costs in connection with the Malaysian 1MDB crisis). JP Morgan and Bank of America are not far behind in posting better-than-expected numbers for Q1-2020.
At the heart of the income-churning machinery lies the grand old accounting acoustics – borrowing income from the future. With the yields falling as a result of monetary easing worldwide and more particularly in US, it becomes lot more lucrative for investment banks to generate capital gains by selling bonds (inverse relationship b/w bond prices and interest rates) even as they forego steady income stream due by holding bonds until maturity. If it weren’t for the intervention by US Federal Reserve through quantitative easing (QE) way back in 2008, most of the investment banks would have sunk into oblivion. Proponents of free-market economics would argue the markets ultimately perform their functions effectively by transferring capital from inefficient to efficient units. To corroborate the idea, they would argue the markets punished Lehman for dabbling excessively into mortgage-backed securities (MBS) whilst rescuing Goldman Sachs, which
attracted significant investment from Warren Buffett led Berkshire Hathaway despite being weighed down due to its own exposure to MBS.
On the other side of the continuum lies the conservative view led by the proponents of Islamic Finance laying the case to build safety net in financial transaction by drawing recourse to real-economic activities. In principle, ‘interest’ and ‘excessive uncertainty’ are explicitly prohibited under Islamic Finance. Contrarians like to argue Islamic Finance ultimately mimics conventional side by disguising interest rates as ‘profit rates’. After all, Islamic Banks offering ‘credit cards’ isn’t entirely unknown and it is common knowledge despite arguments against hedge funds, there are at least some well know ‘Islamic hedge funds’ touting Sharia-compliance without alluding to the underlying contract by soliciting refuge under the garb of ‘proprietary’ curtains! The big question is – where does the future of finance lie?

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