

# The great inflation-deflation debate: a bet each way

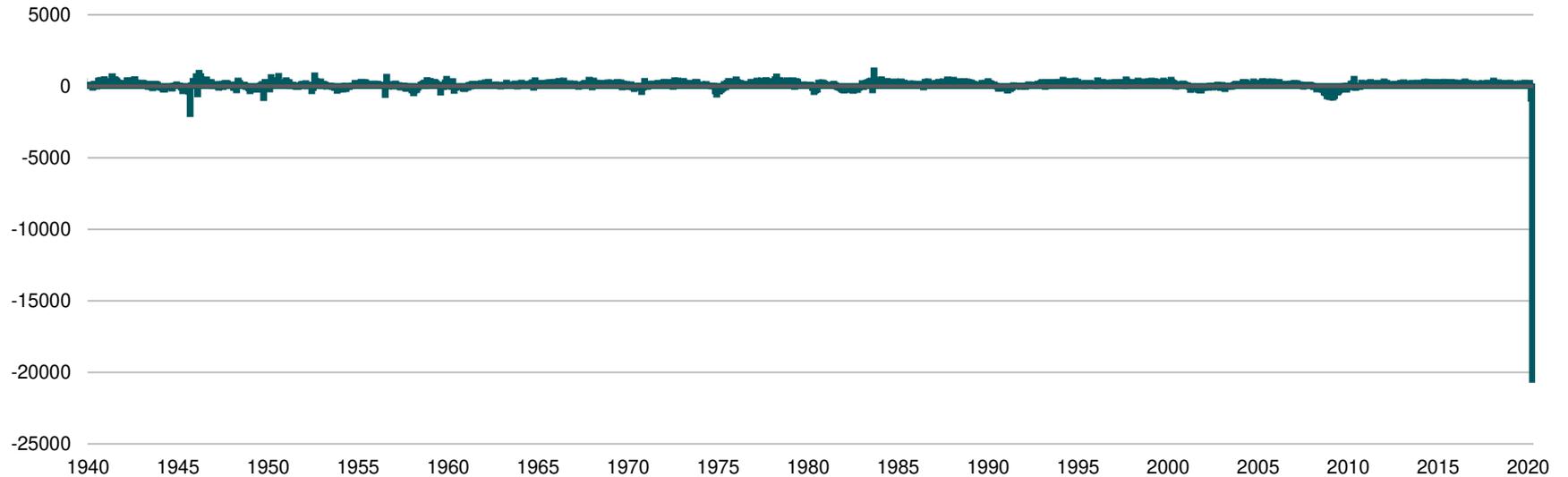
**Vimal Gor,**

Head of bond, income and defensive strategies

# The shock is massive

Is the “cure” worse than the disease?

US non-farm payrolls ('000)

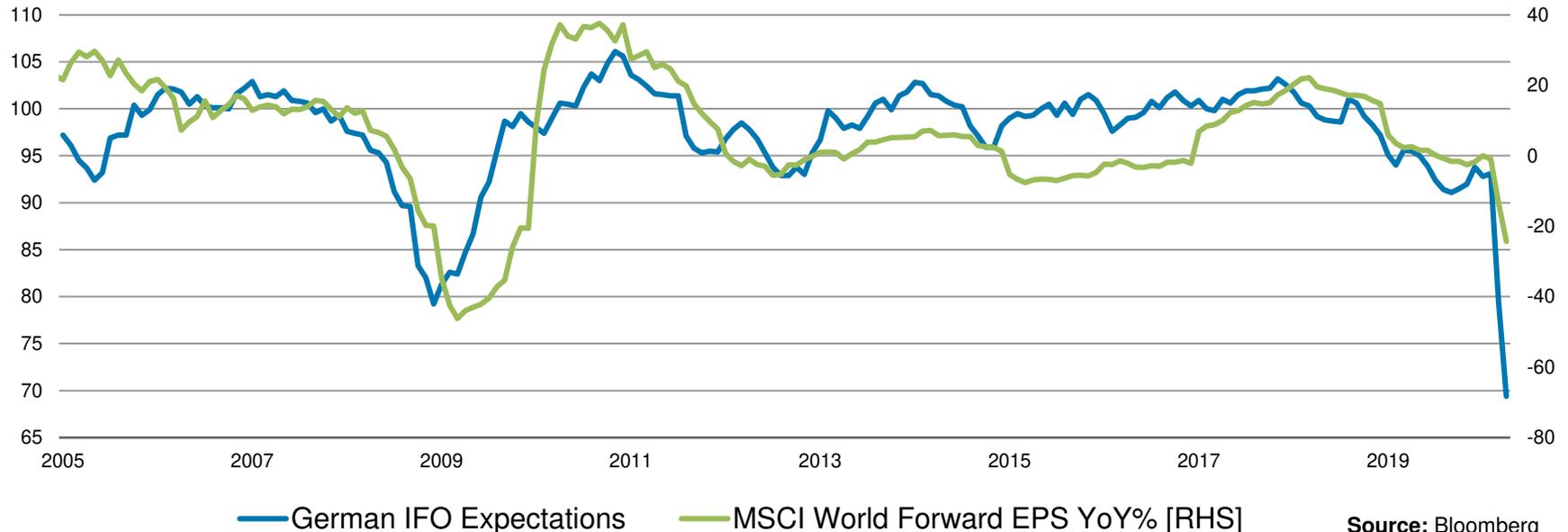


Source: Bloomberg

# But the bulk of the hit is still to come

The size of the earnings impact is difficult to fathom

## Germany IFO expectations & MSCI world forward EPS

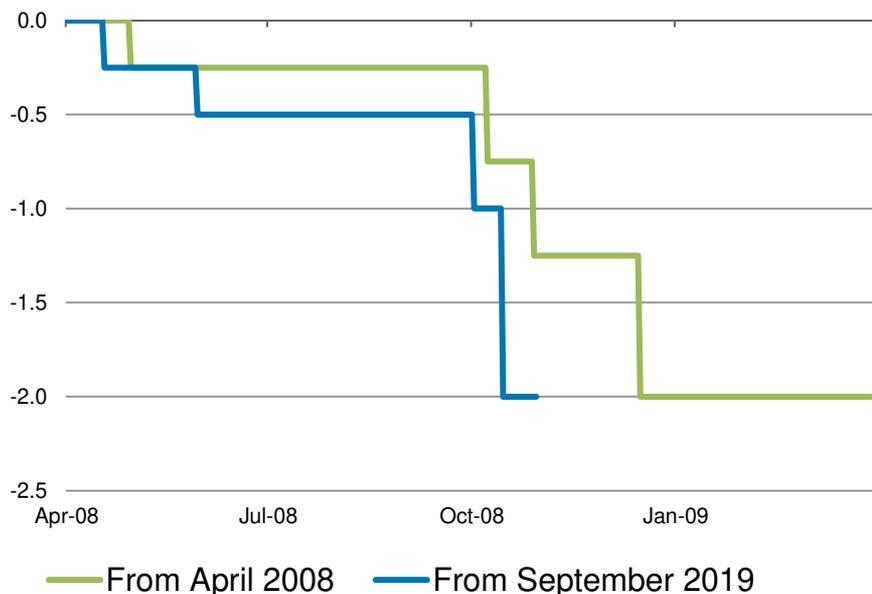


Source: Bloomberg

# Central banks responded very quickly

## Benefit of GFC playbook

### Cumulative Fed funds cuts



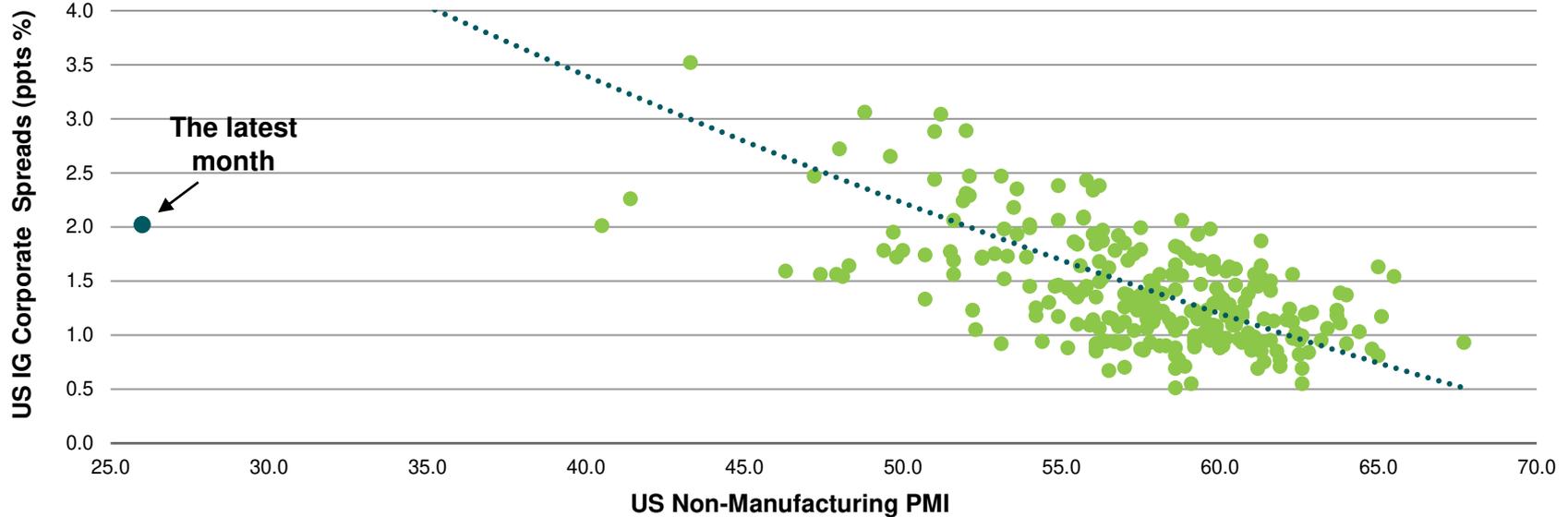
- Rates to Zero
- QE, YCC & Repos
- Fed & ECB support for credit (and employers)
- Fed establishes USD swap lines & Repo with other CBs
- Fed loosens banks' leverage constraints
- RBA & RBNZ QE

*Its highly likely the Fed will move to negative rates in the coming months*

# The Fed is backstopping the entire system

Free markets are now just an illusion

US IG corporate OAS & non-manufacturing PMI

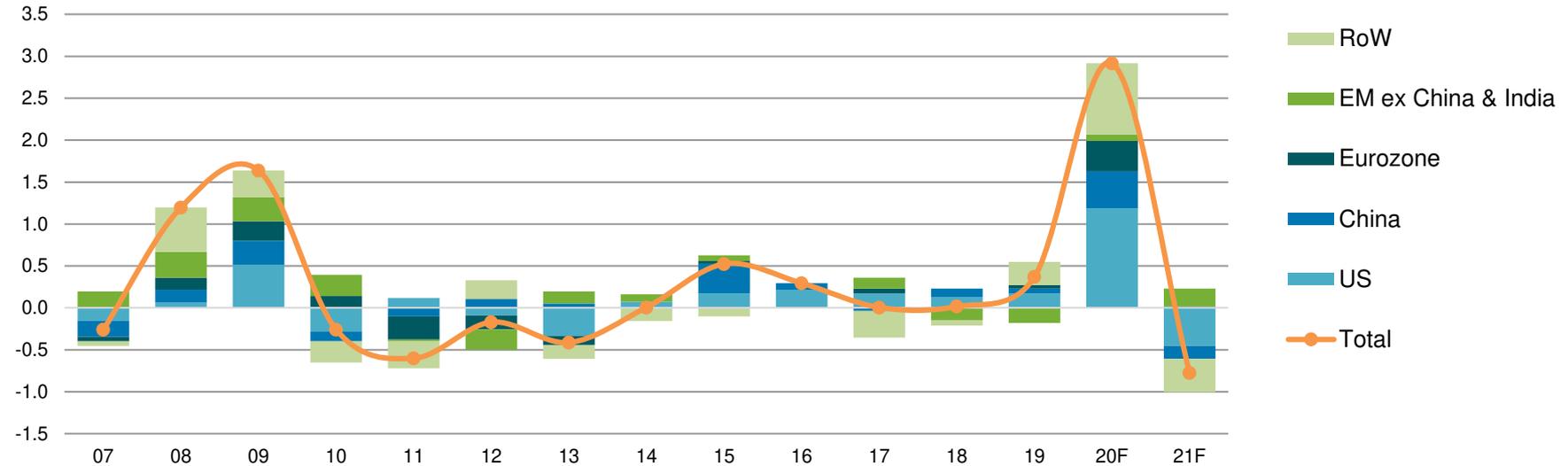


Source: Bloomberg

# The fiscal stimulus is unprecedented

And there is more to come

Change in cyclically-adjusted primary fiscal balance % of Global GDP

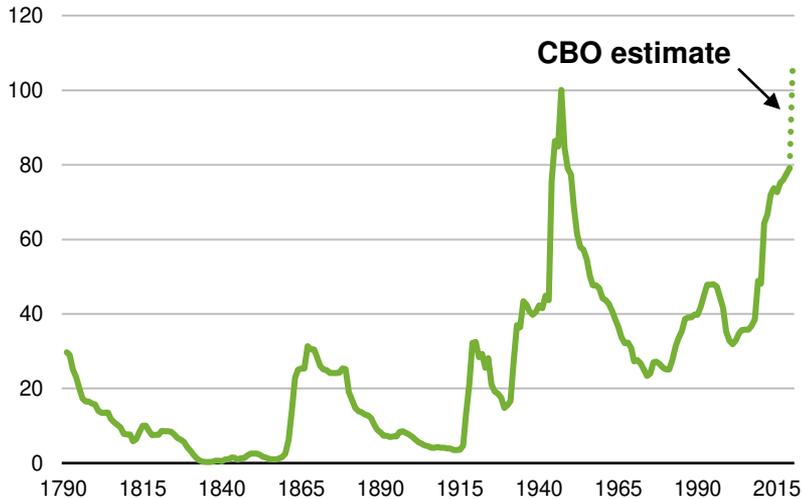


Source: Haver, European Commission, CBO, UBS

# But debt levels are now unsustainable

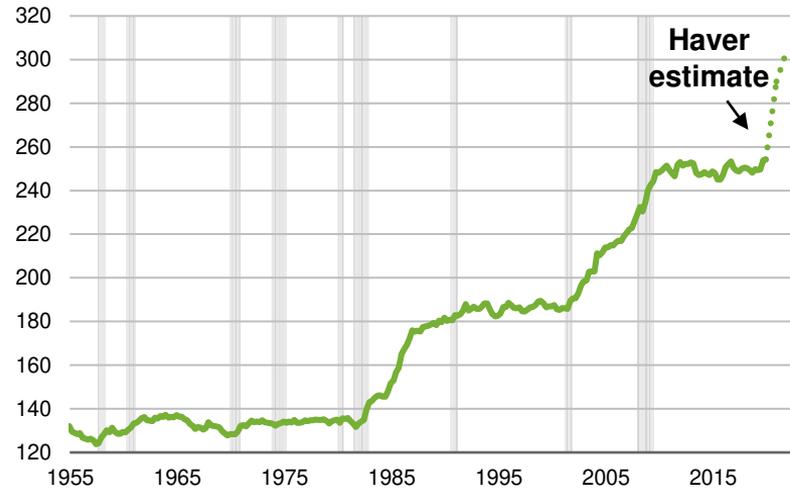
We are never going to be able to pay this back

## US federal debt to GDP %



Source: CBO

## US non-financial credit to GDP %



Recession Periods

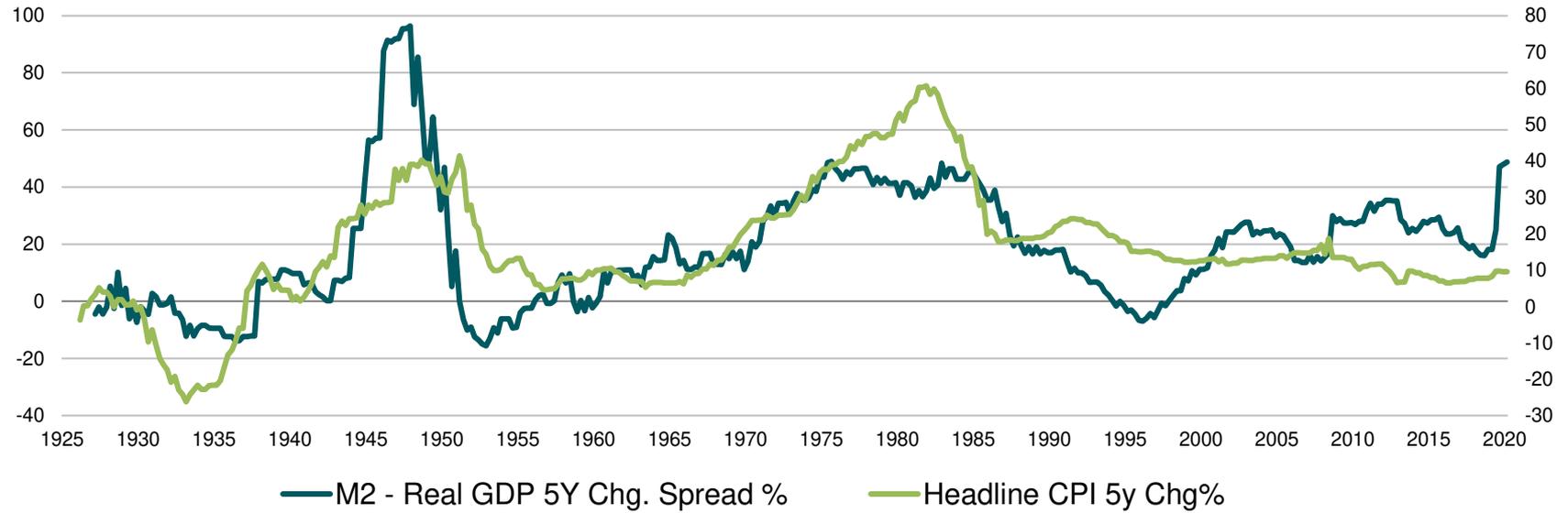
US Non-Financial Credit to GDP%

Source: Haver

# Central banks are finally growing money supply

Rapid money growth is a necessary condition for inflation

US CPI inflation (5y chg.%) & M2 – real GDP growth (5y chg.%)

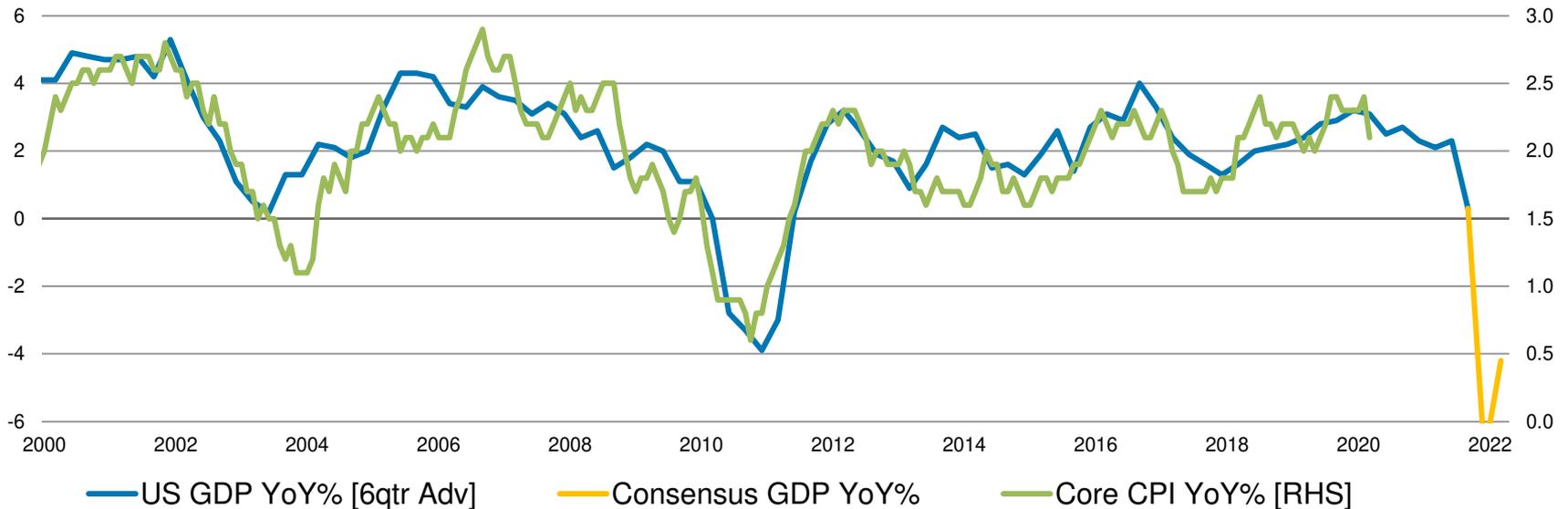


Source: Haver, European Commission, CBO, UBS

# But first deflation, as everything stops

The business cycle always drives inflation

## US GDP & Inflation

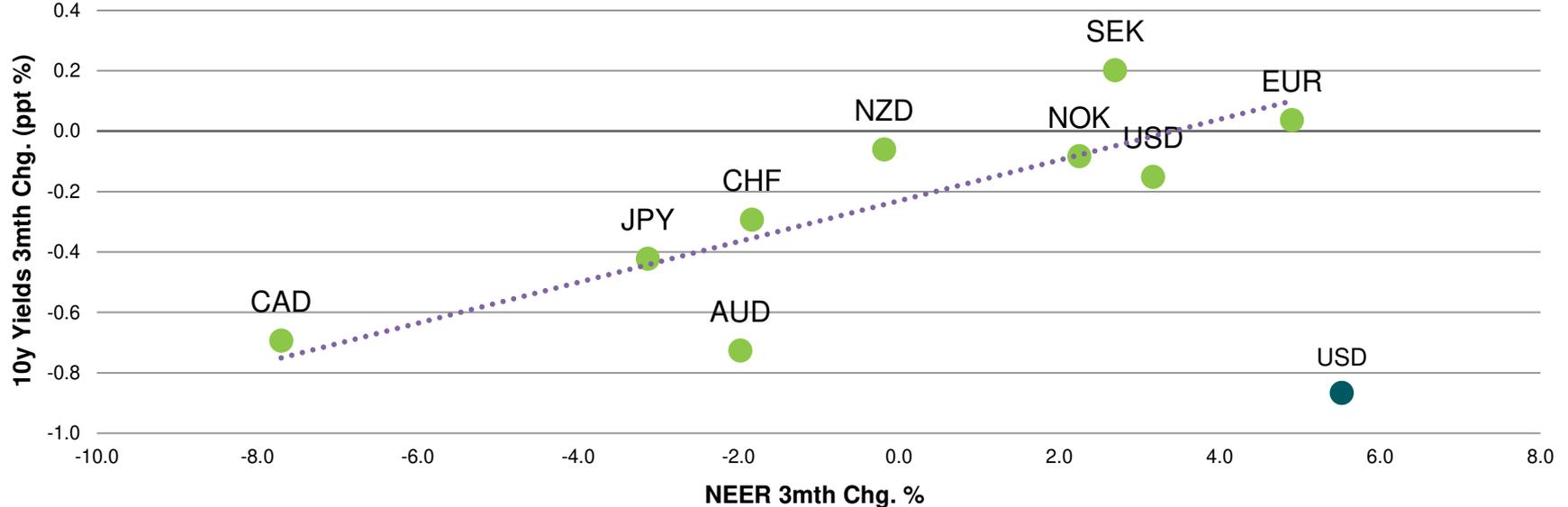


Source: Haver, European Commission, CBO, UBS

# The USD's exorbitant privilege

“The dollar is our currency, but your problem.”\*

DM FX & rates 3mth chg.



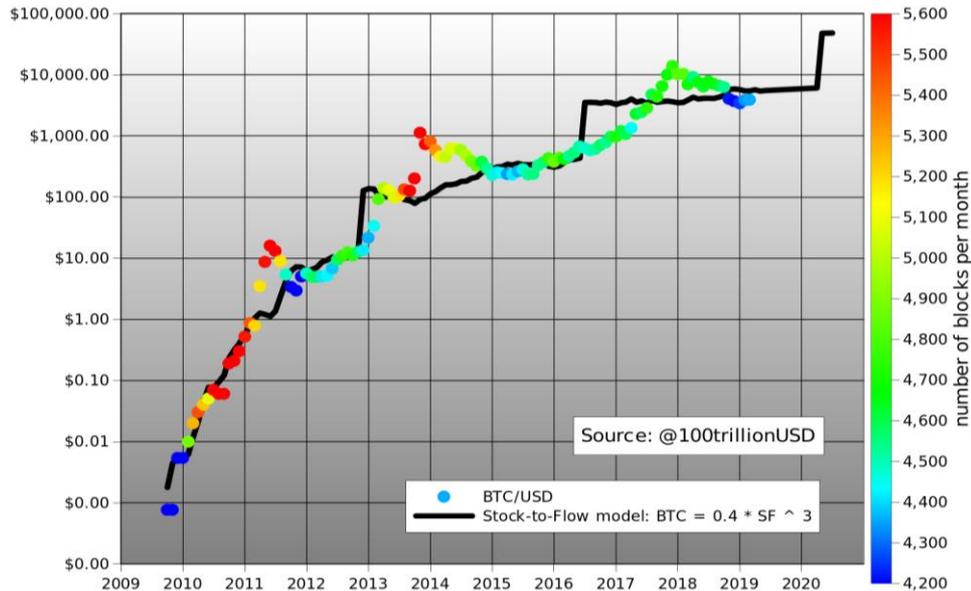
Source: Bloomberg

\* John Connally, US Treasury Secretary, Nixon Administration 1971-72

# The future is digital not analog

The future is so bright, I gotta wear shades

USD per Bitcoin | Bitcoin and number of blocks per month



Source: @100trillionUSD, Bloomberg

It is literally the only large tradeable asset in the world that has a known fixed maximum supply

The most compelling argument for owning Bitcoin is the coming digitization of currency everywhere, accelerated by COVID-19.

It scores 66% of gold as a store of value, but has a market cap that is 1/60th of gold's outstanding value. Something appears wrong here and my guess is it is the price of Bitcoin.

**"the Great Monetary Inflation"**  
Paul Tudor Jones May 2020

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