

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

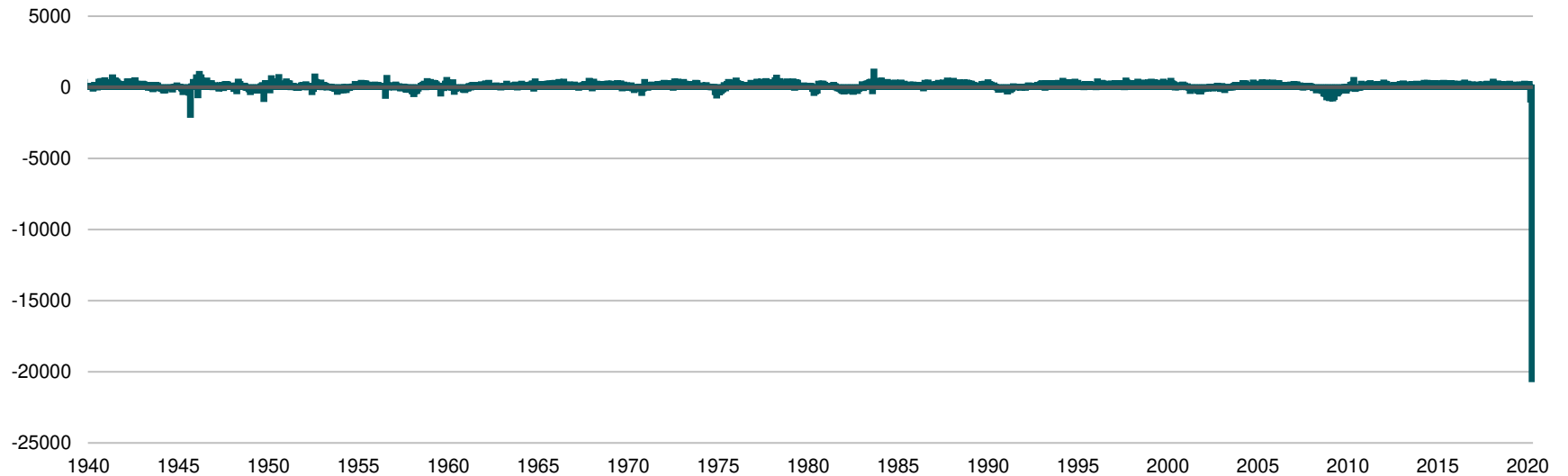
**Vimal Gor,**

Head of bond, income and defensive strategies

# The shock is massive

Is the “cure” worse than the disease?

US non-farm payrolls ('000)

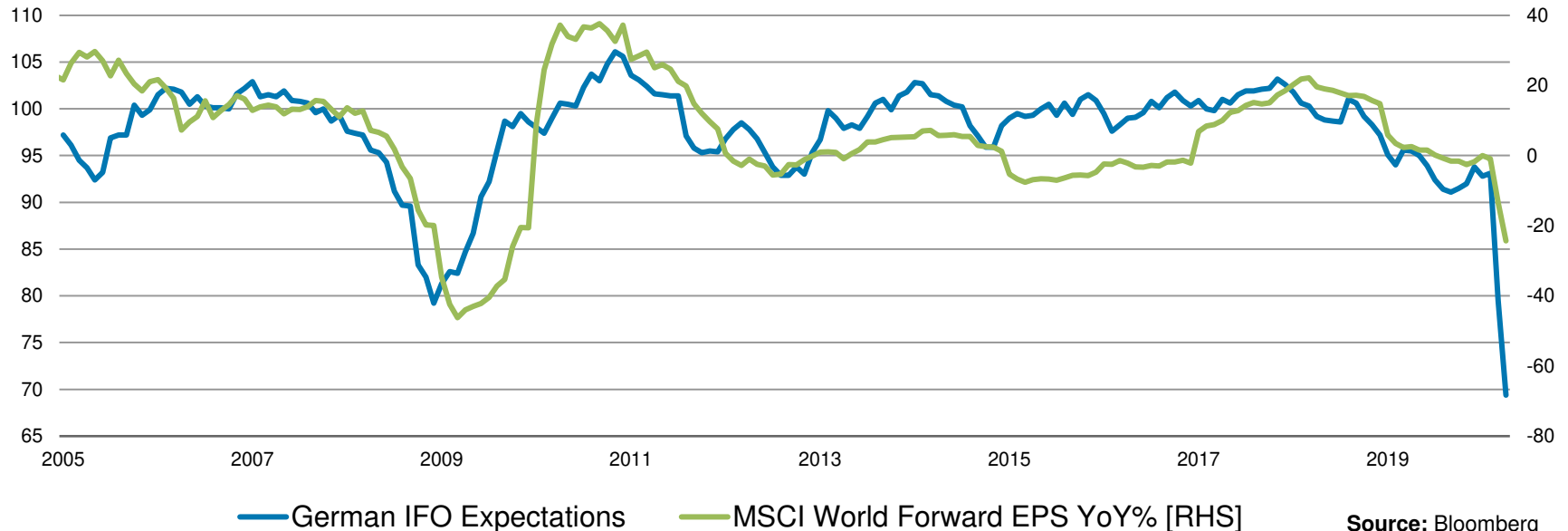


Source: Bloomberg

# 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

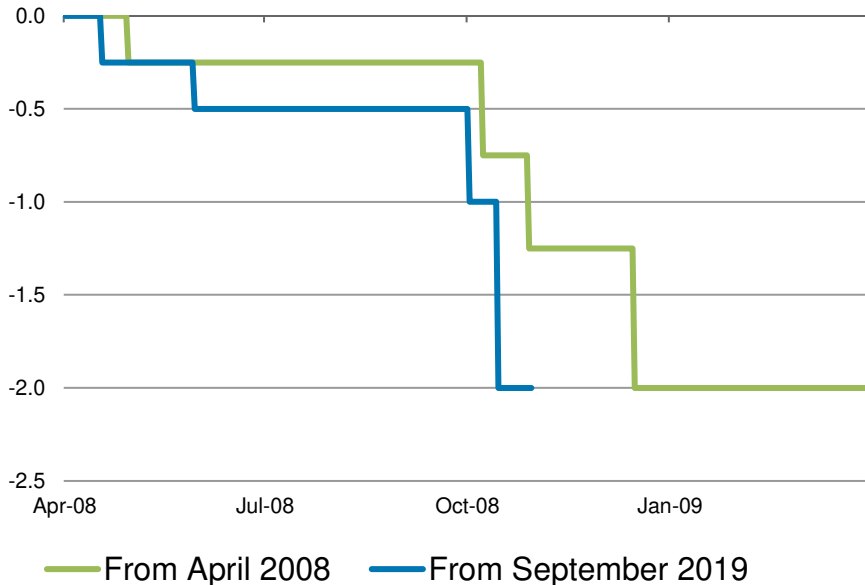


Source: Bloomberg

# Central banks responded very quickly

## Benefit of GFC playbook

### Cumulative Fed funds cuts



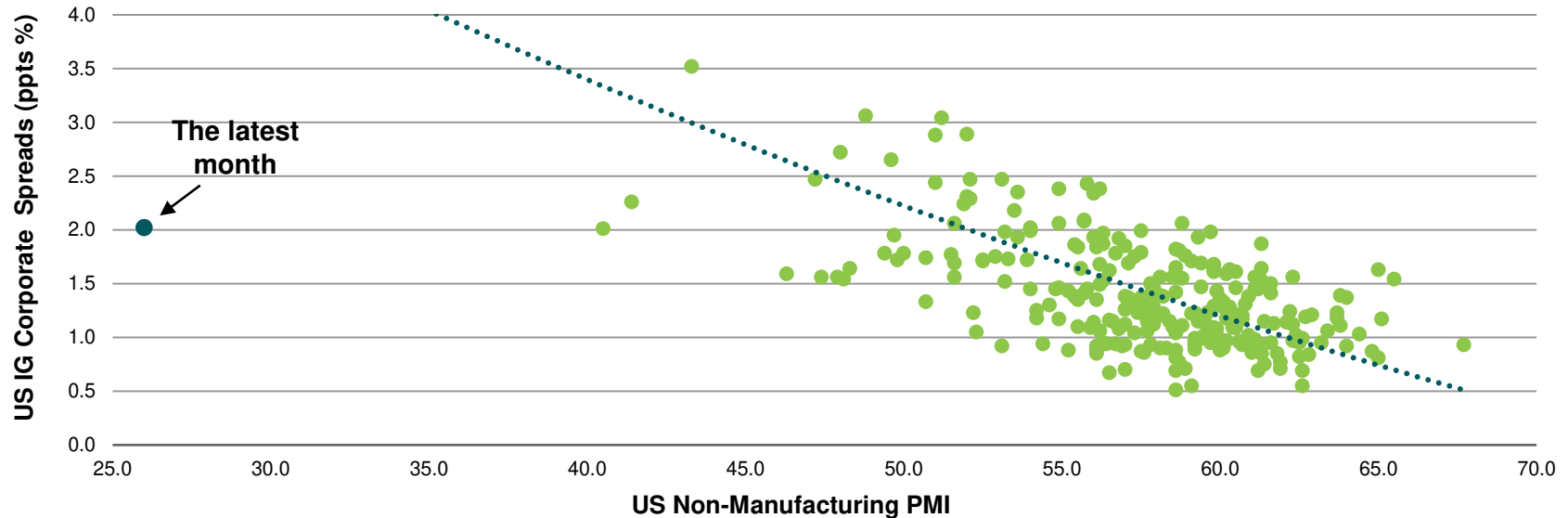
- Rates to Zero
- QE, YCC & Repos
- Fed & ECB support for credit (and employers)
- Fed establishes USD swap lines & Repo with other CBs
- Fed loosens banks' leverage constraints
- RBA & RBNZ QE

*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

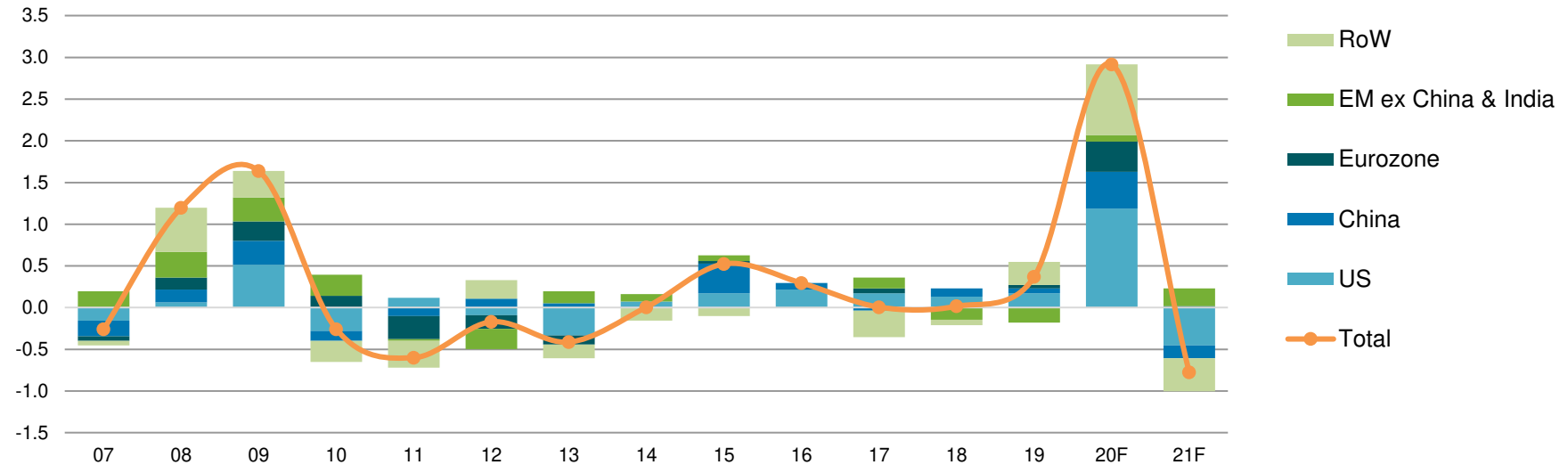


Source: Bloomberg

# The fiscal stimulus is unprecedented

And there is more to come

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

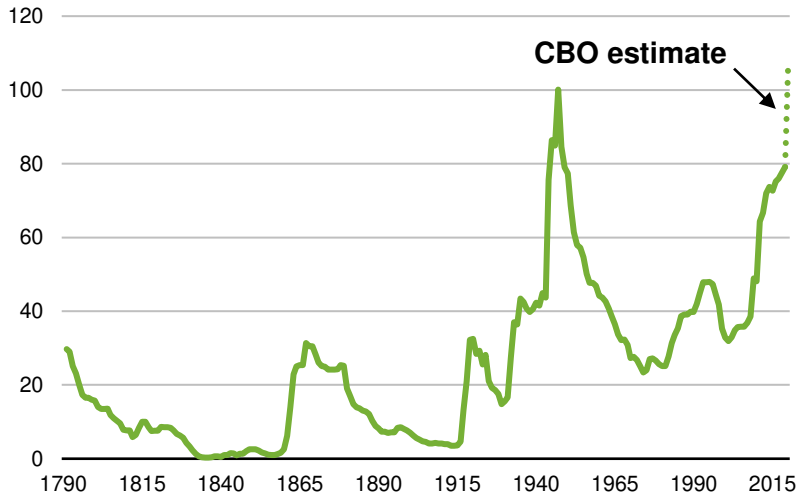


Source: Haver, European Commission, CBO, UBS

# But debt levels are now unsustainable

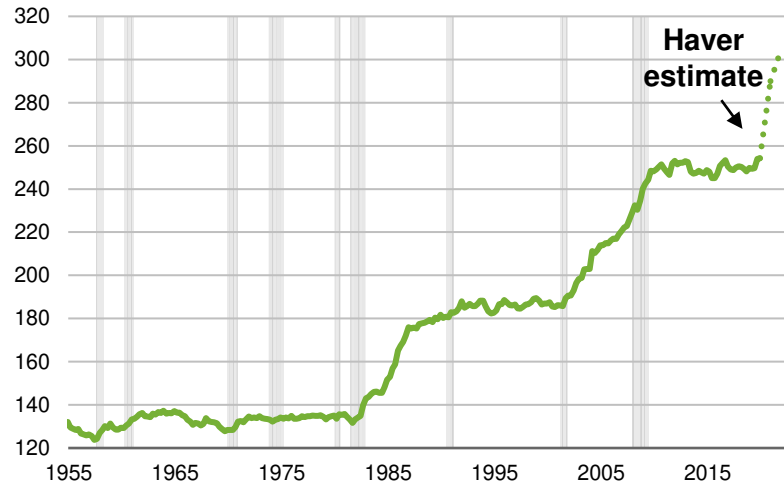
We are never going to be able to pay this back

## US federal debt to GDP %



Source: CBO

## US non-financial credit to GDP %



Recession Periods

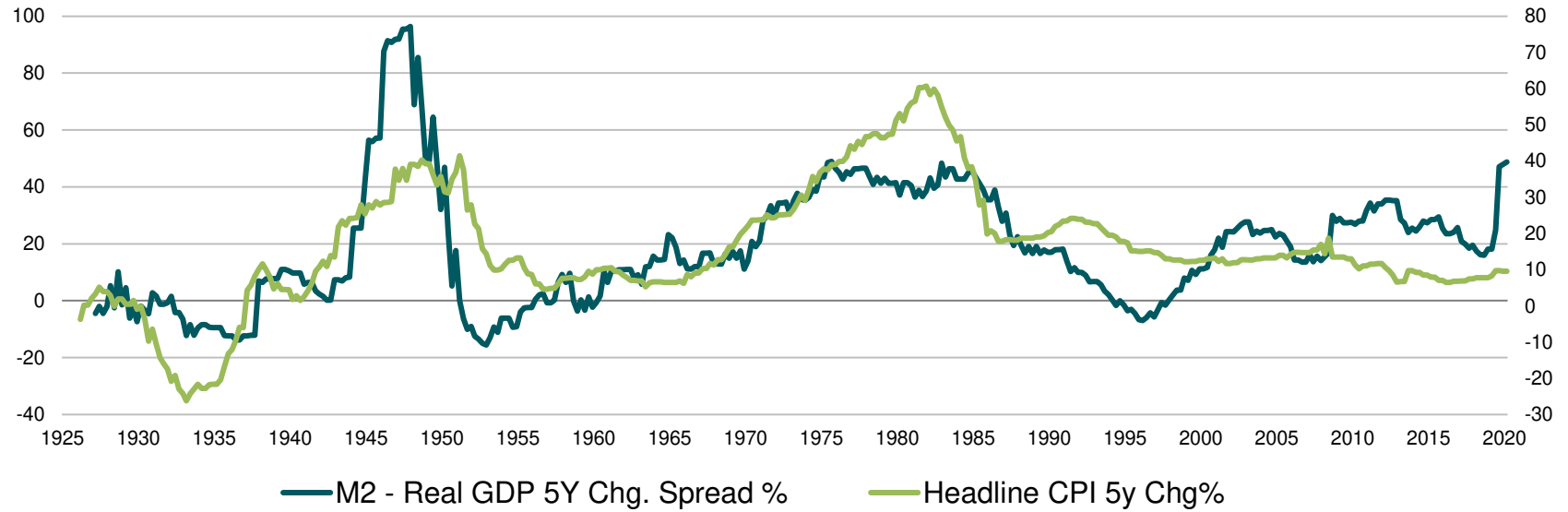
US Non-Financial Credit to GDP%

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.%)



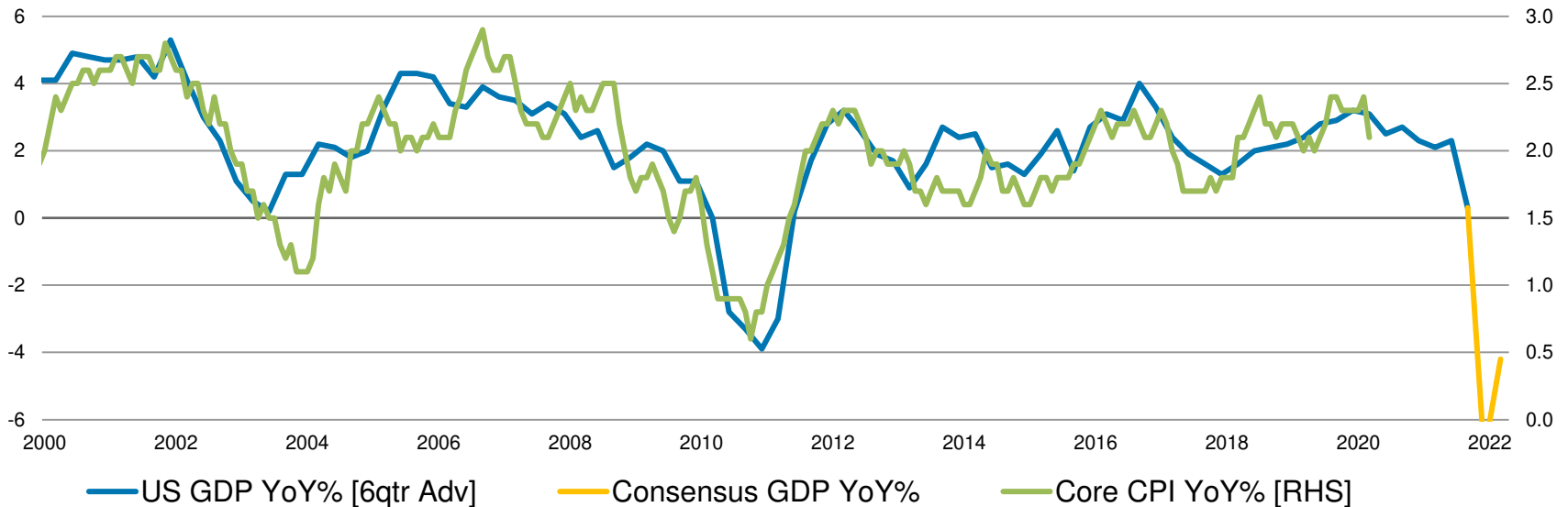
Source: Haver, European Commission, CBO, UBS



# But first deflation, as everything stops

The business cycle always drives inflation

## US GDP & Inflation

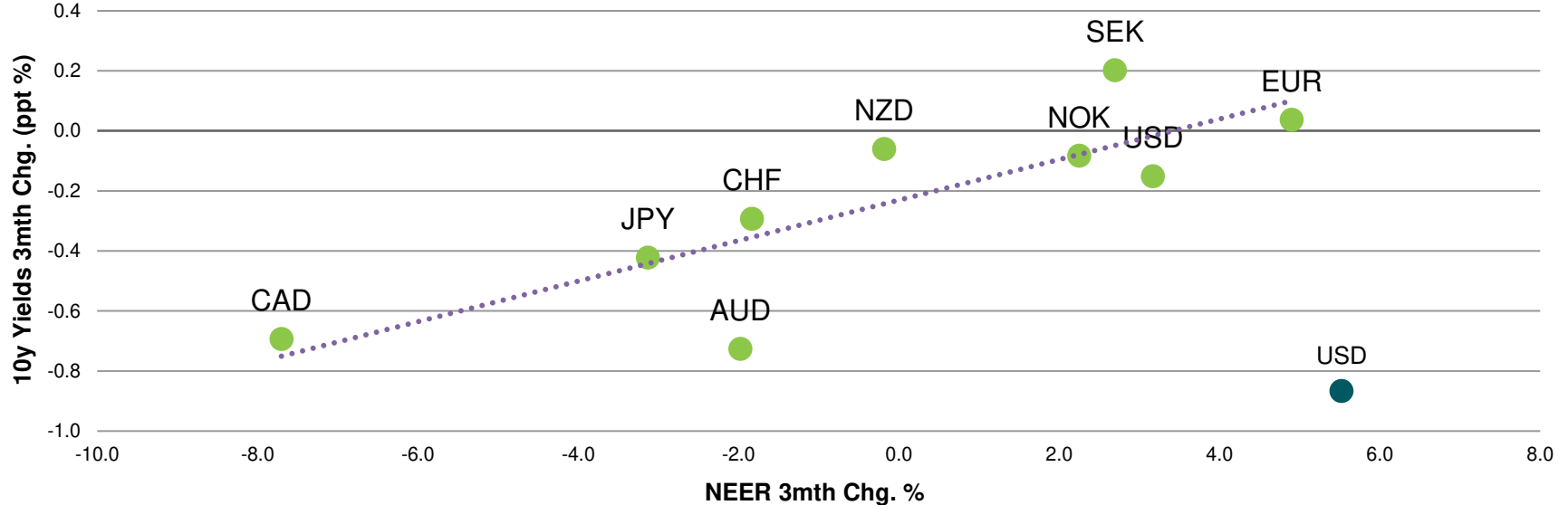


Source: Haver, European Commission, CBO, UBS

# The USD's exorbitant privilege

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

DM FX & rates 3mth chg.



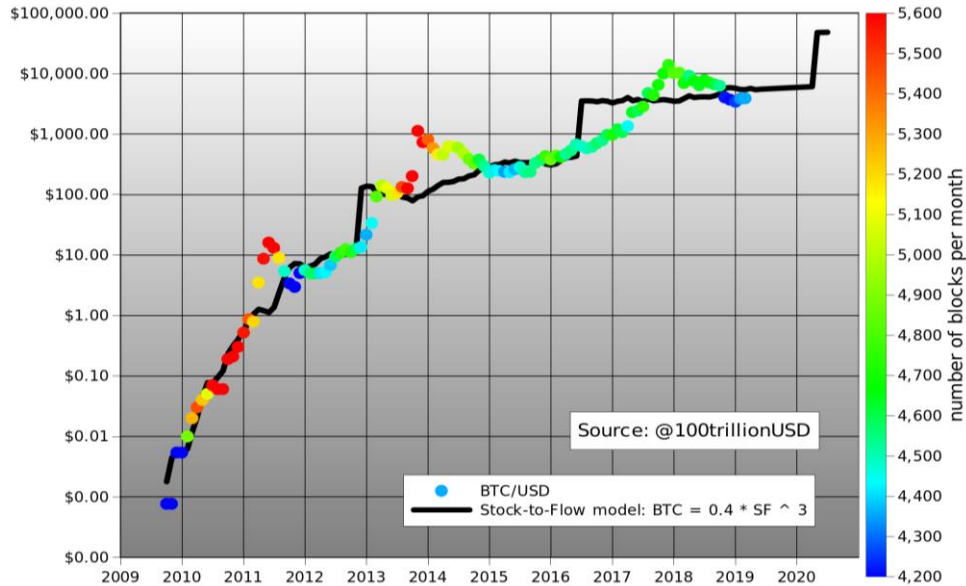
Source: Bloomberg

\* 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

# Disclaimer

The information in this brochure is current as at the time of presenting and has been prepared by Pental Institutional Limited ABN 17 126 390 627, AFSL No 316455 (PIL, Pental). It is not to be published, or otherwise made available to any person other than the party to whom it is provided. Prior to May 2018, Pental Institutional Limited was known as Pental Group (Institutional) Limited.

This brochure is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this brochure contains material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this brochure is complete and correct, to the maximum extent permitted by law neither PIL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

For more information call us on 1800 813 886 or visit [pentalgroup.com](https://www.pentalgroup.com)