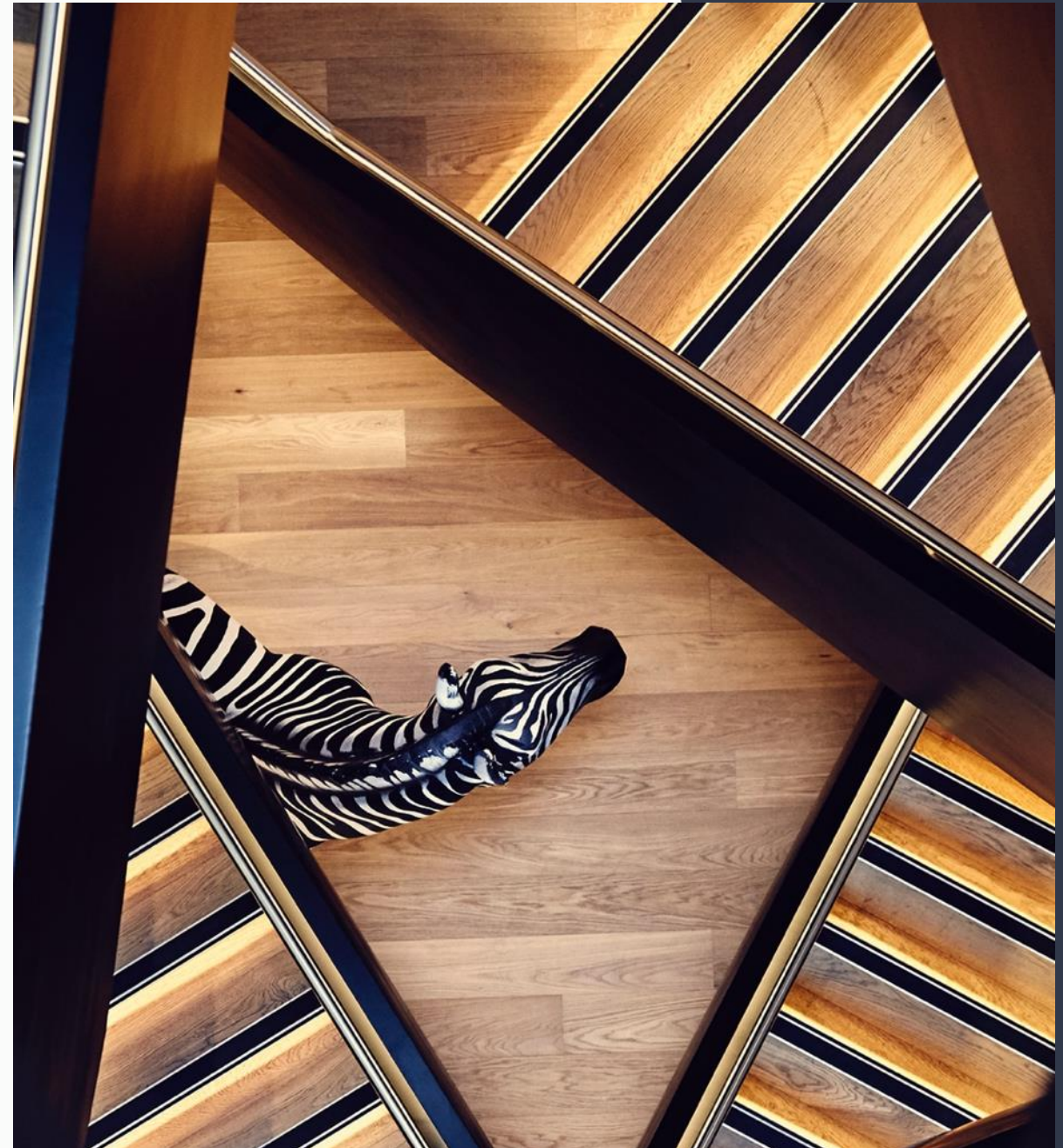


# SAMBA

Understanding long-term inflation and interest rates

9 October 2024



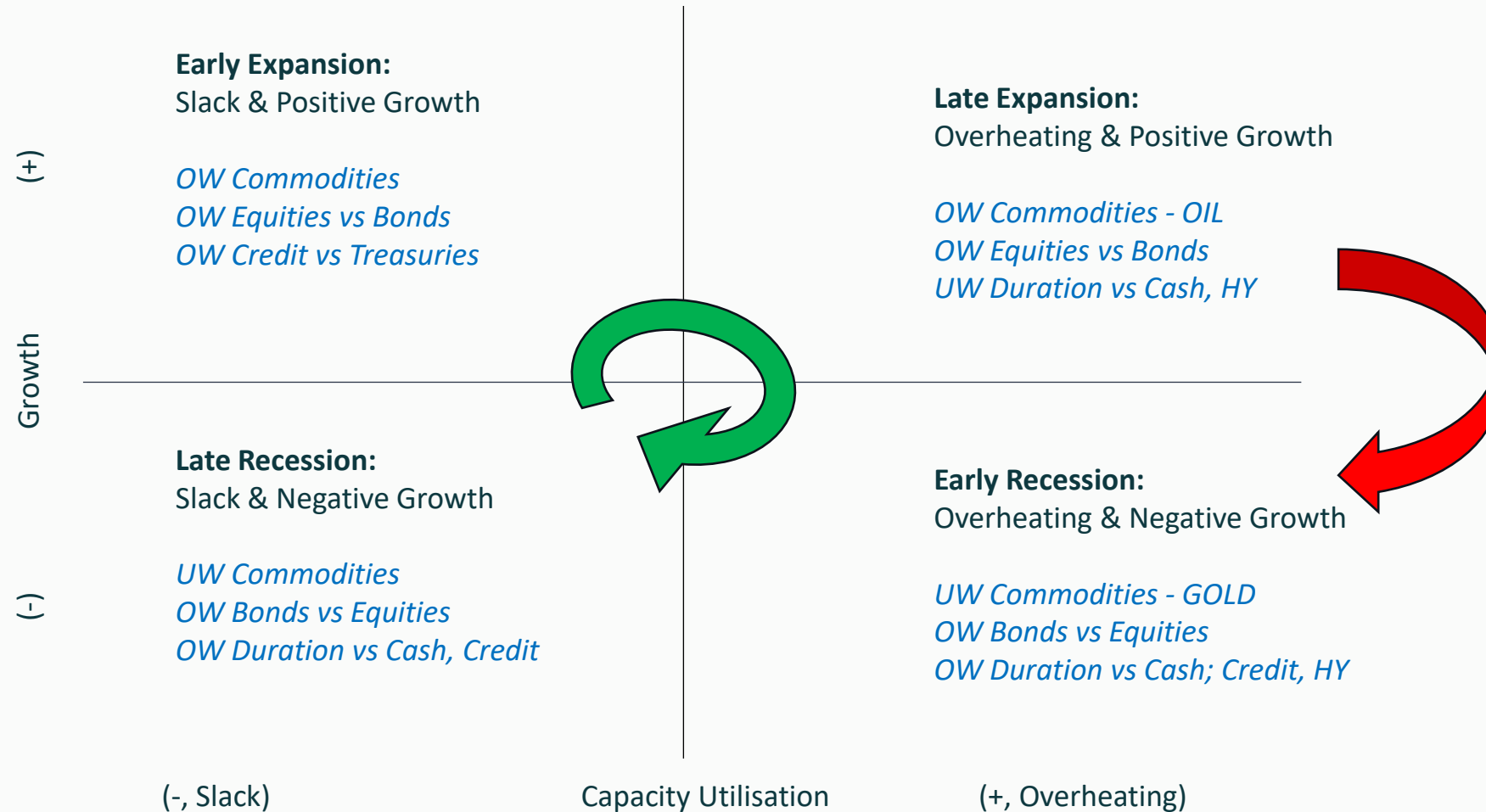
# Macro trends that influence inflation and interest rates

- ✓ Economic cycle
- ✓ Debt levels
- ✓ Wars
- ✓ Monetary and fiscal policy
- ✓ Big currency moves
- ✓ Demographic trends
- ✓ Tariffs
- ✓ Geopolitics and energy prices
- ✓ Current Outlook

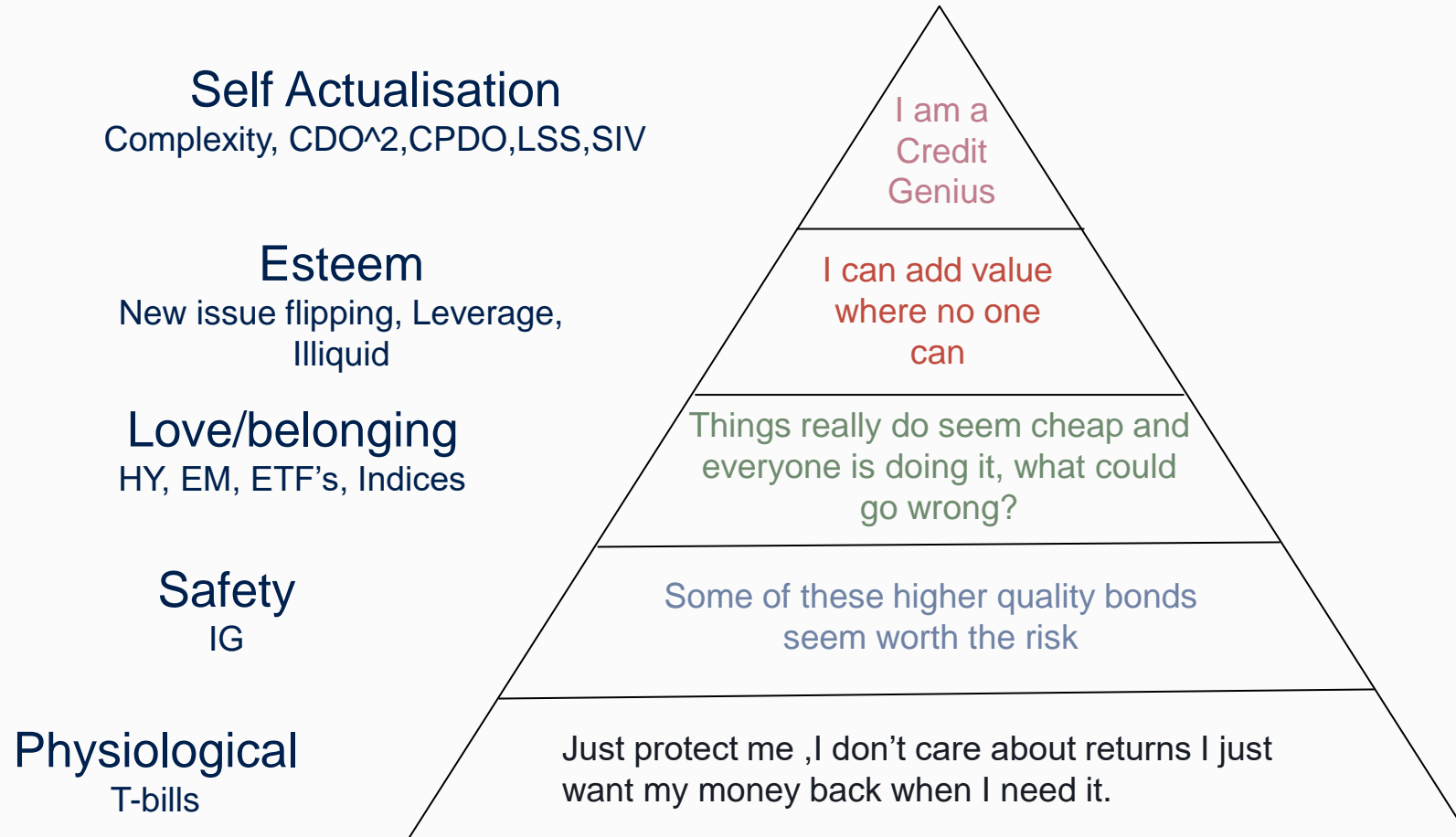


# We are in the “Overheating” phase of the Cycle

An Economy operating above capacity tends to lead to higher Inflation



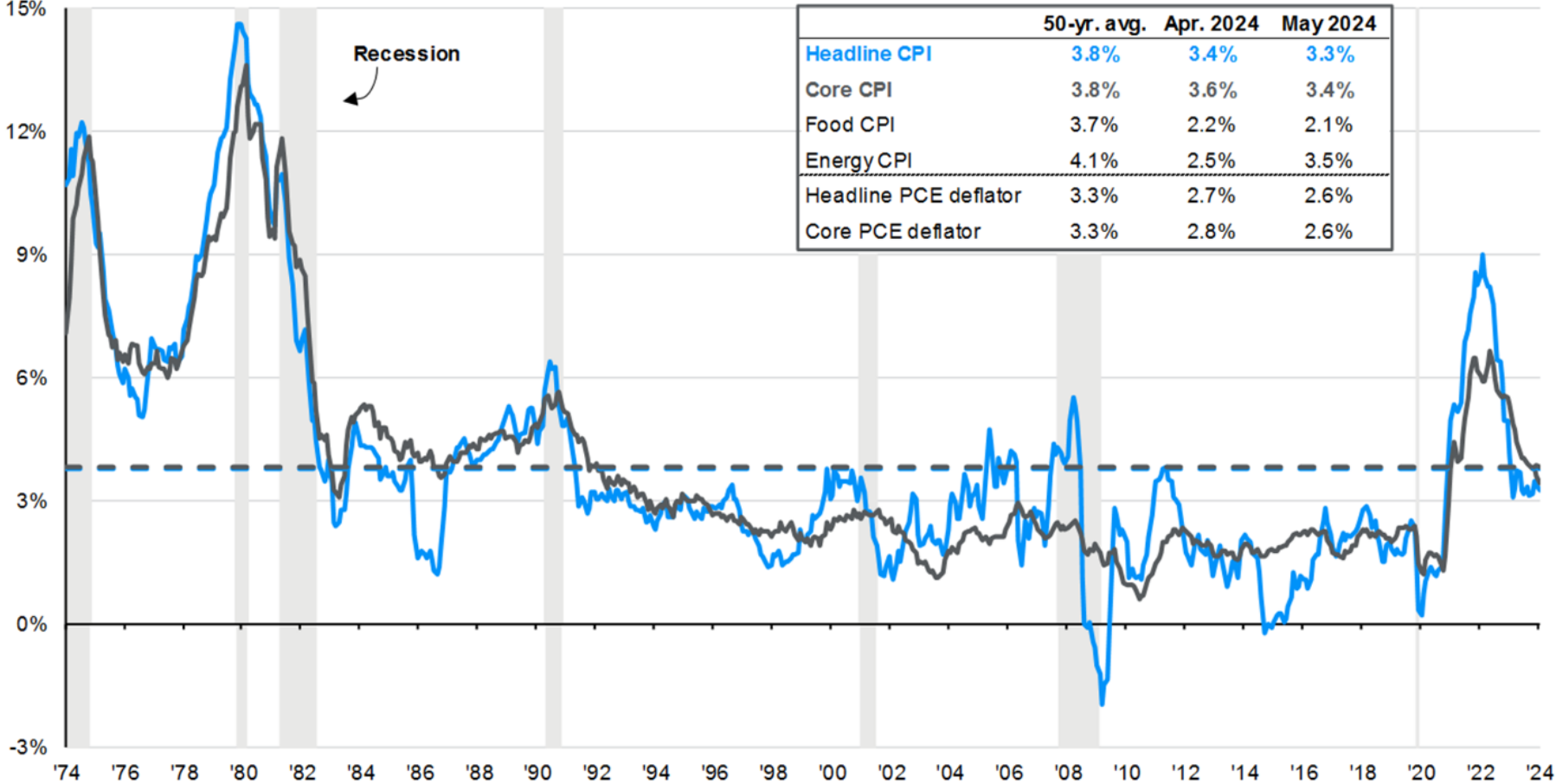
# Where is the market now?



# US Inflation history and recessions

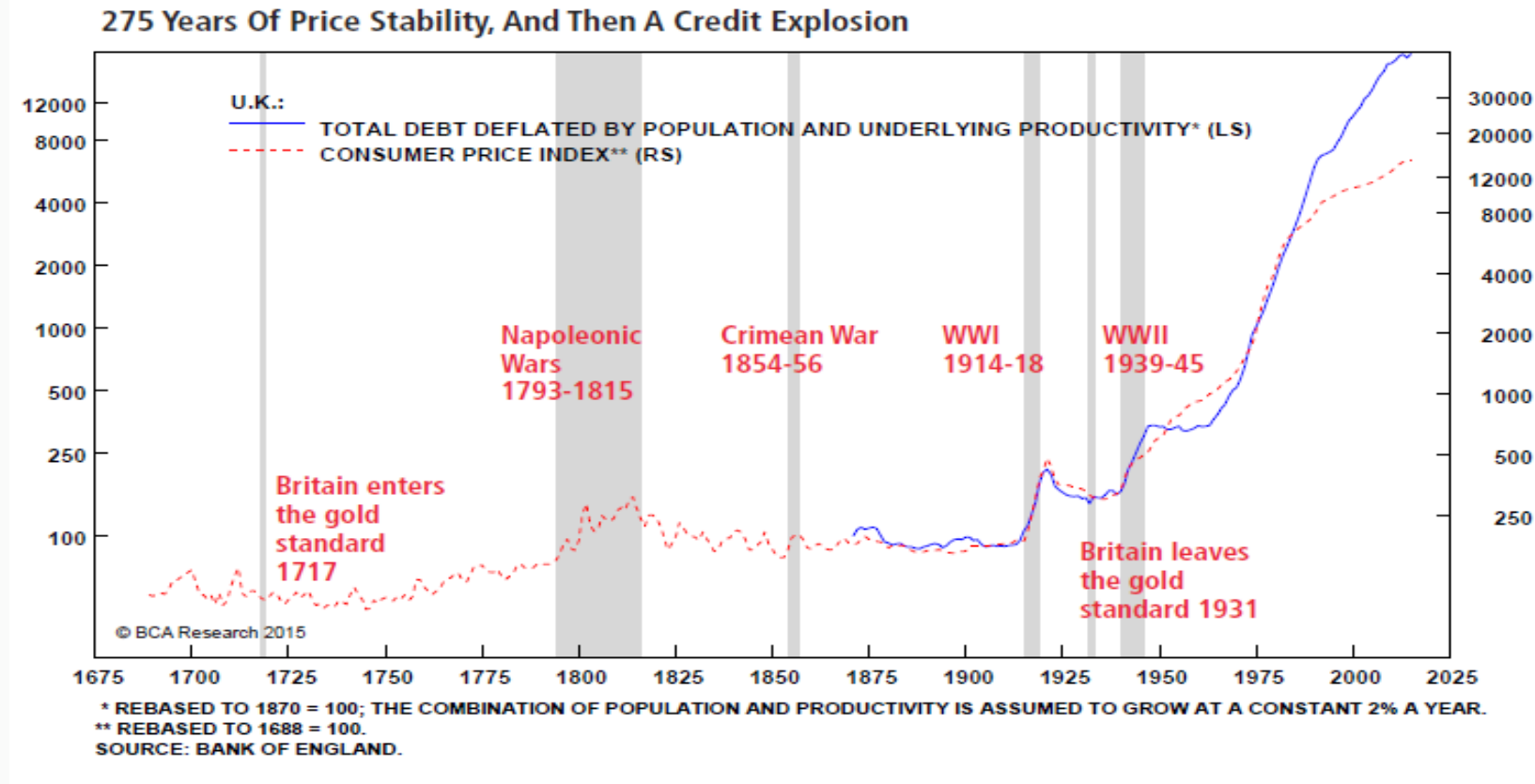
## CPI and core CPI

% change vs. prior year, seasonally adjusted



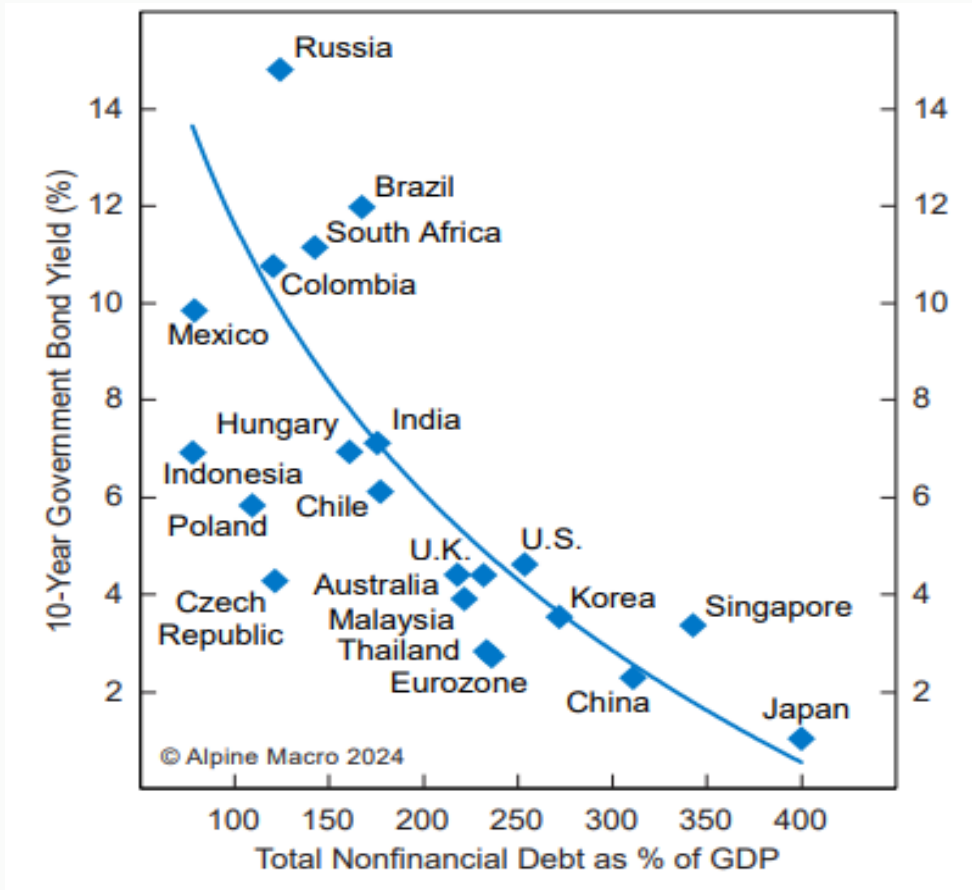
# The credit supercycle

Credit is the cause of the increase in inflation and adds to lower global growth



# The higher the Debt Load, the lower the Bond Yields

The so-called "fiscal risk premium" based on debt levels is a flawed concept.



Money, like government paper, is also a form of public sector liability owed by the central bank to the public.

The only difference between the two IOUs is that the central bank debt – money – has zero maturity, while government paper does have a maturity date.

# Inflation history does not repeat but echos

US CPI Urban Consumers YoY NSA





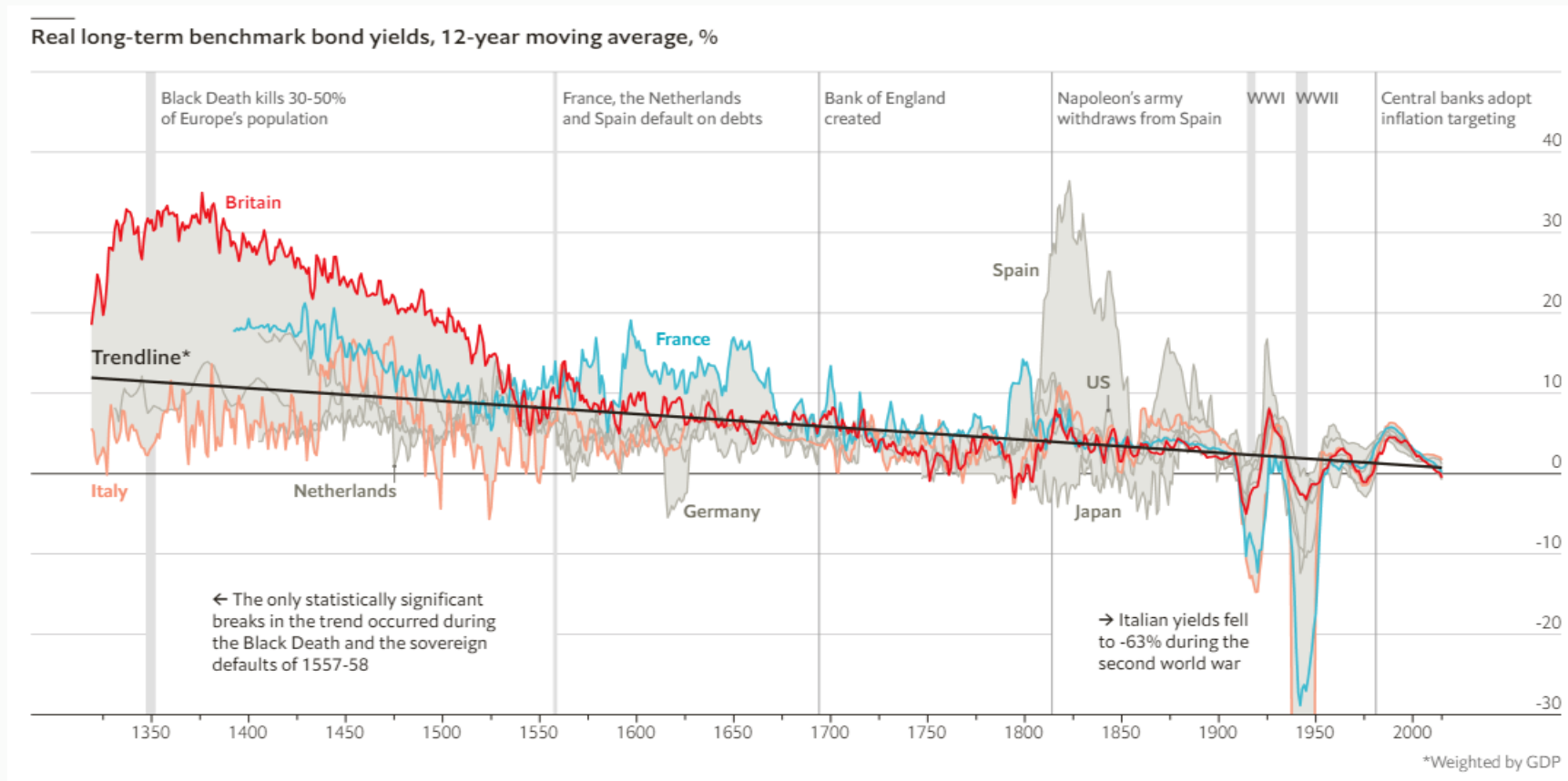
# Inflation history does not repeat but rhymes

Swiss CPI All Items YoY



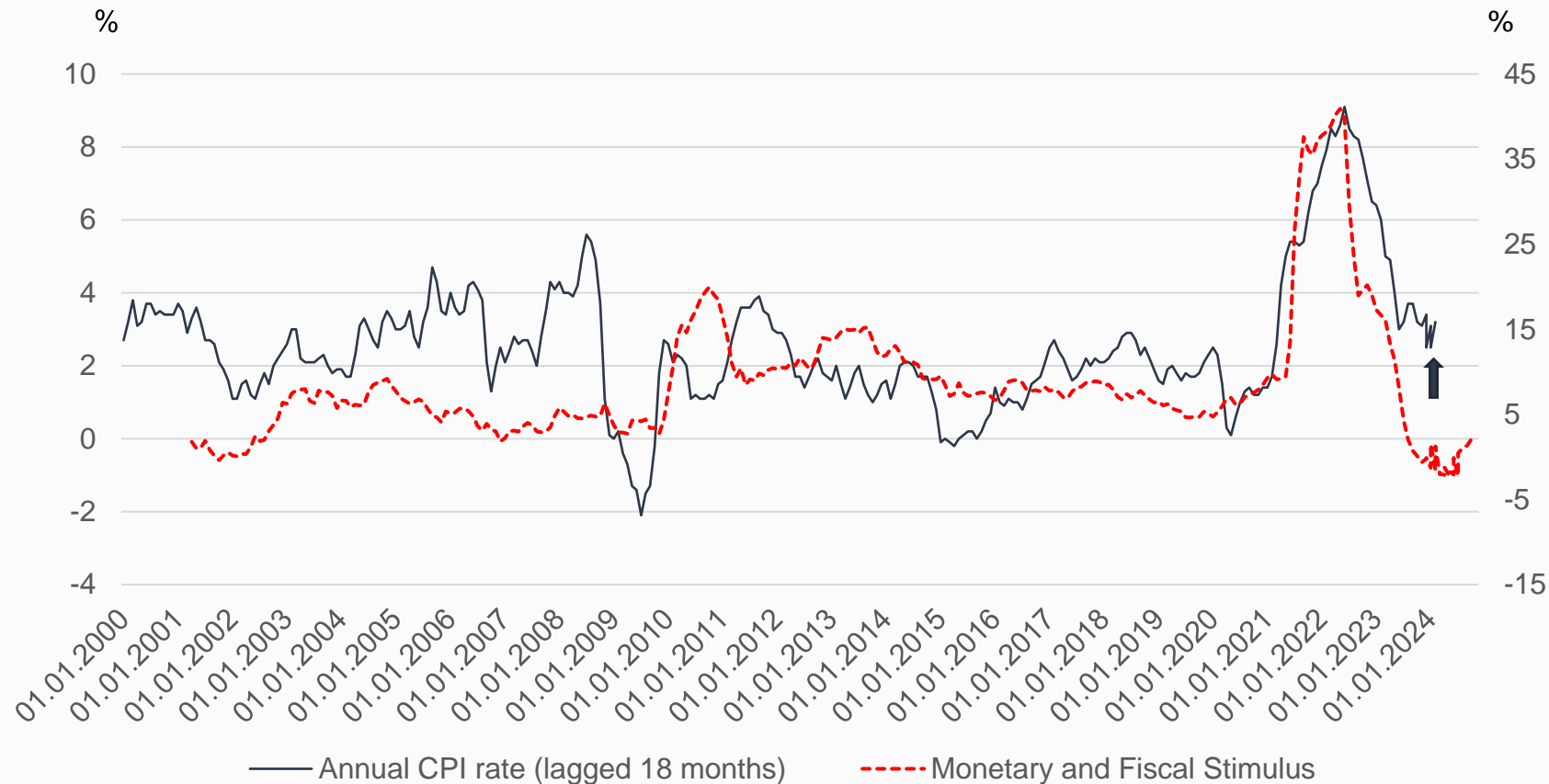
Source: Bloomberg  
SZCPIYOY Index (Switzerland CPI All Items YoY) Swiss CPI YOY Monthly 31JAN1922-09OCT2024 Copyright© 2024 Bloomberg Finance L.P. 09-Oct-2024 10:53:51

# Since 1310 bond yields have fallen with metronomic regularity

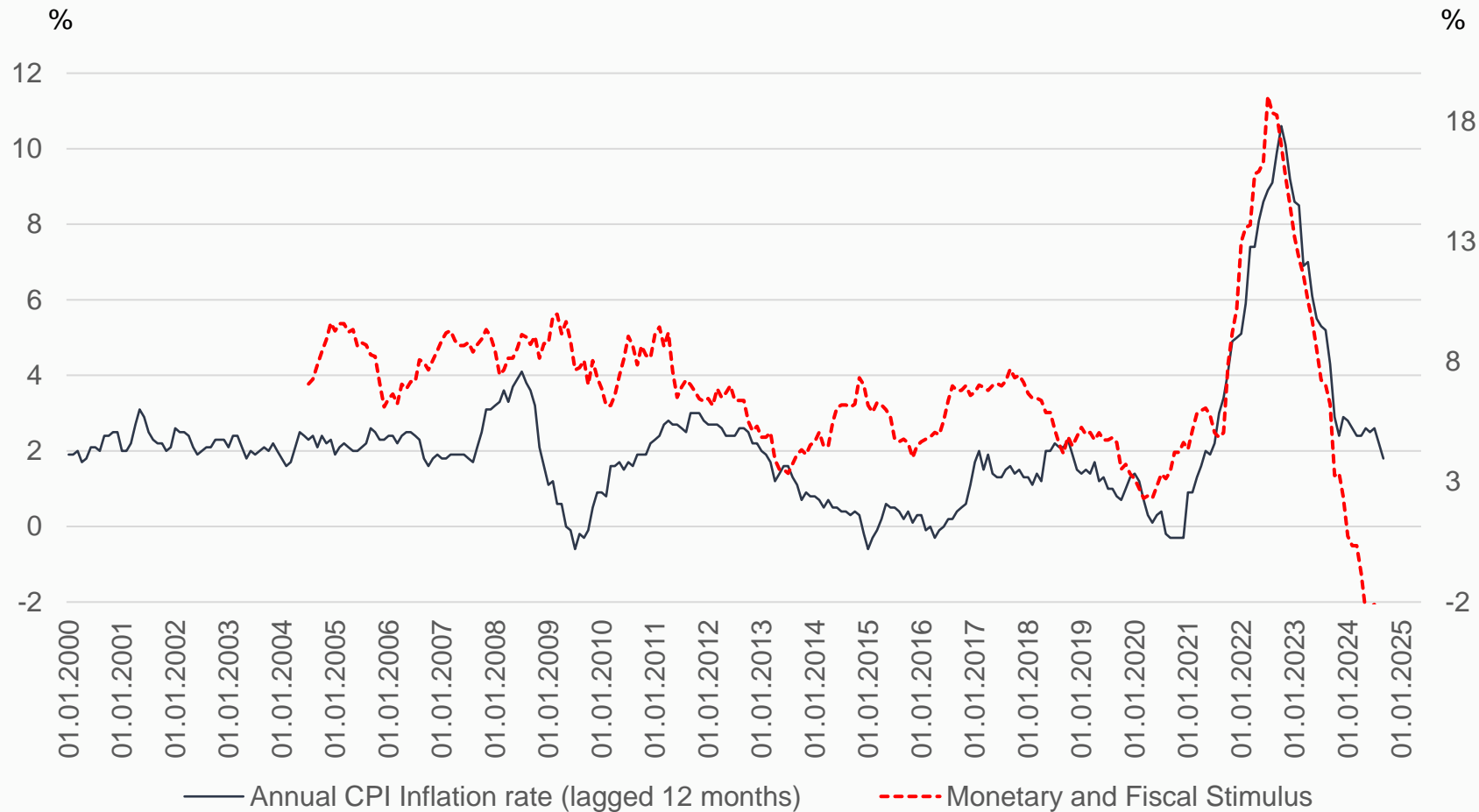


# Past policy expansion (printing more money) led to an increase in inflation with an 18-month lag.

US inflation will continue to fall as money continues to be destroyed

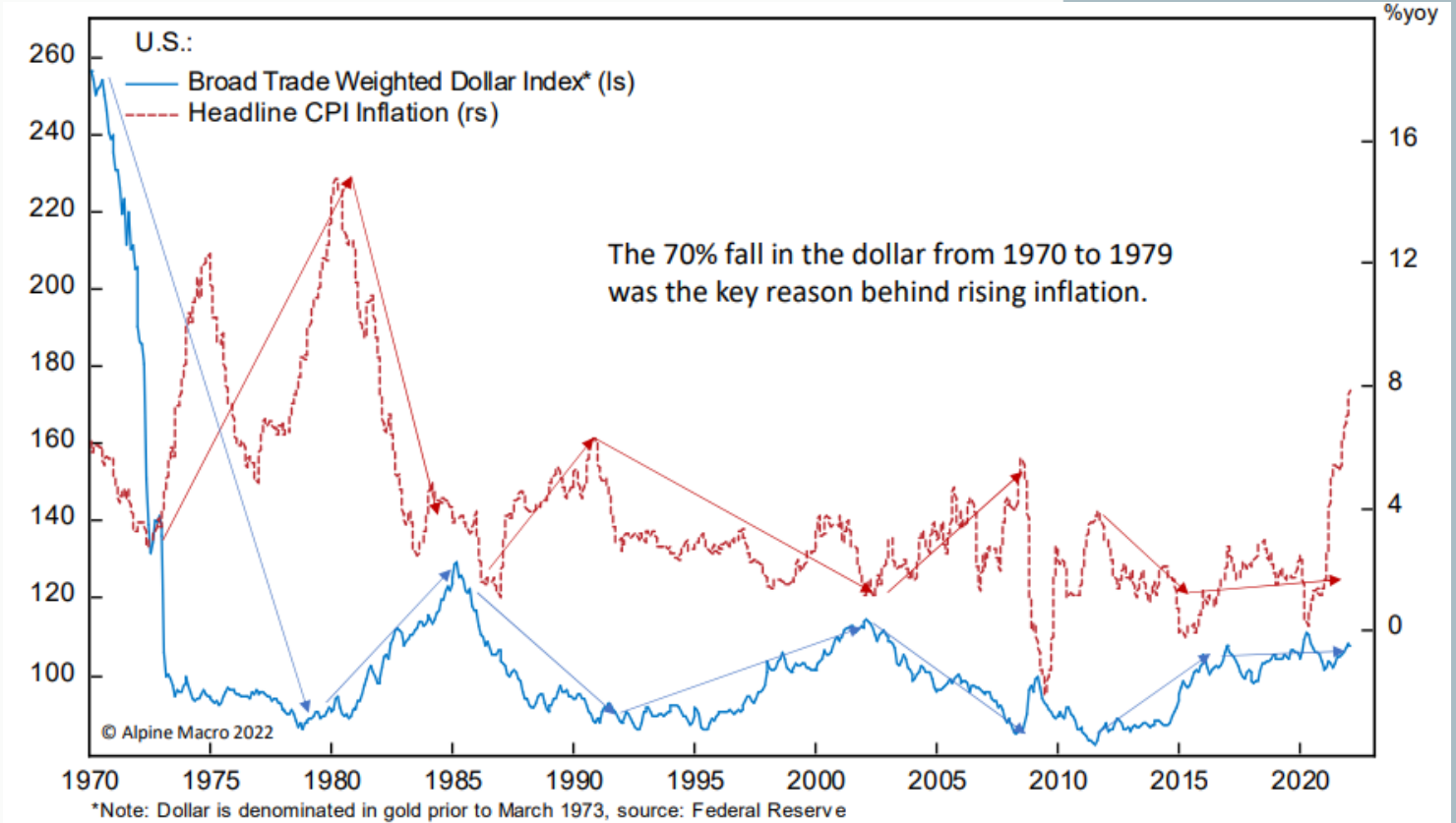


# EU: Past policy tightening did the JOB



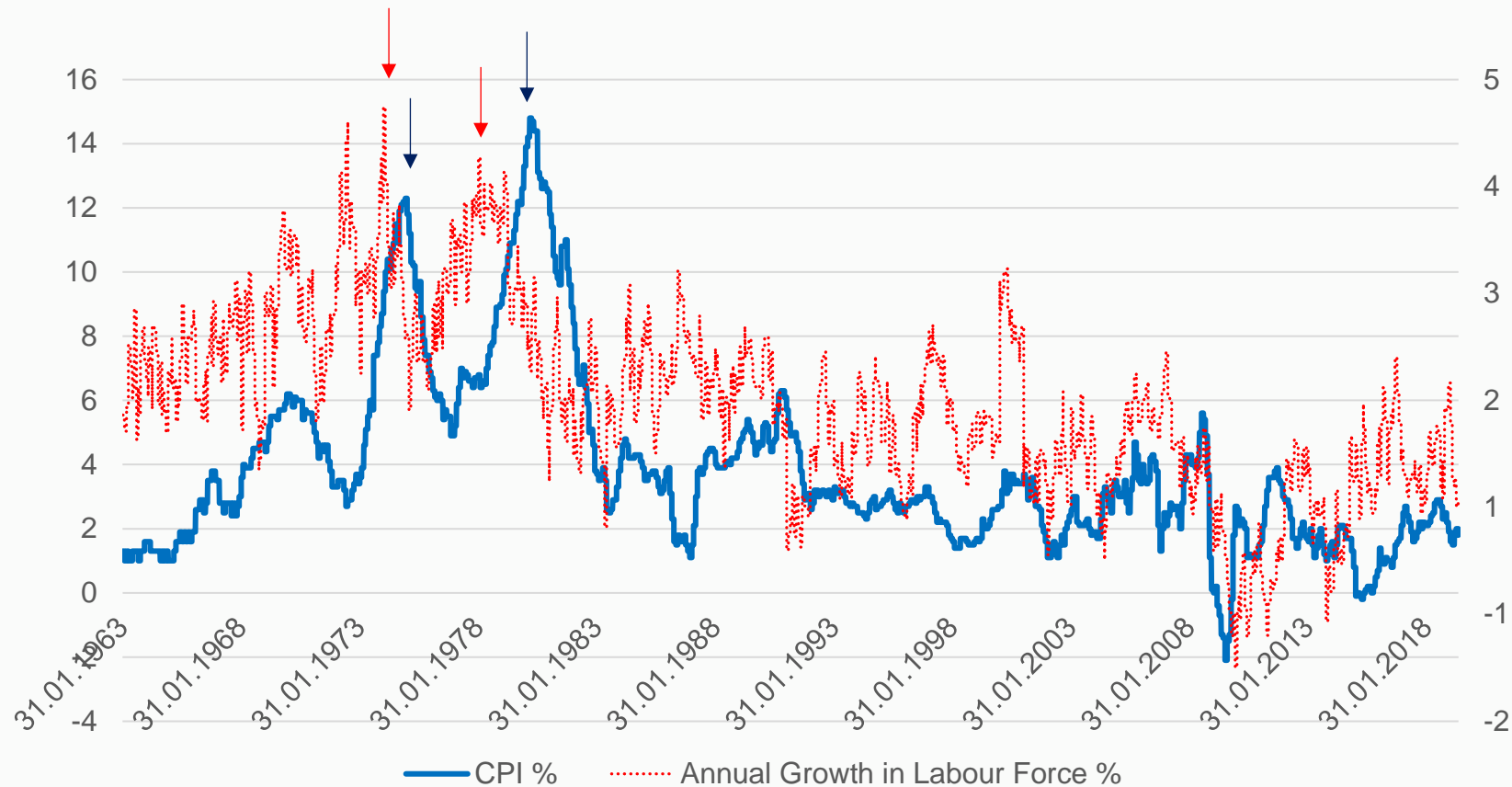
# Dollar devaluation is one of the key reasons behind rising inflation in the 1970s

Source: BCA Research



# The second push in inflation came from Demographic Trends

Labor force growth leads inflation by +/- 4 years

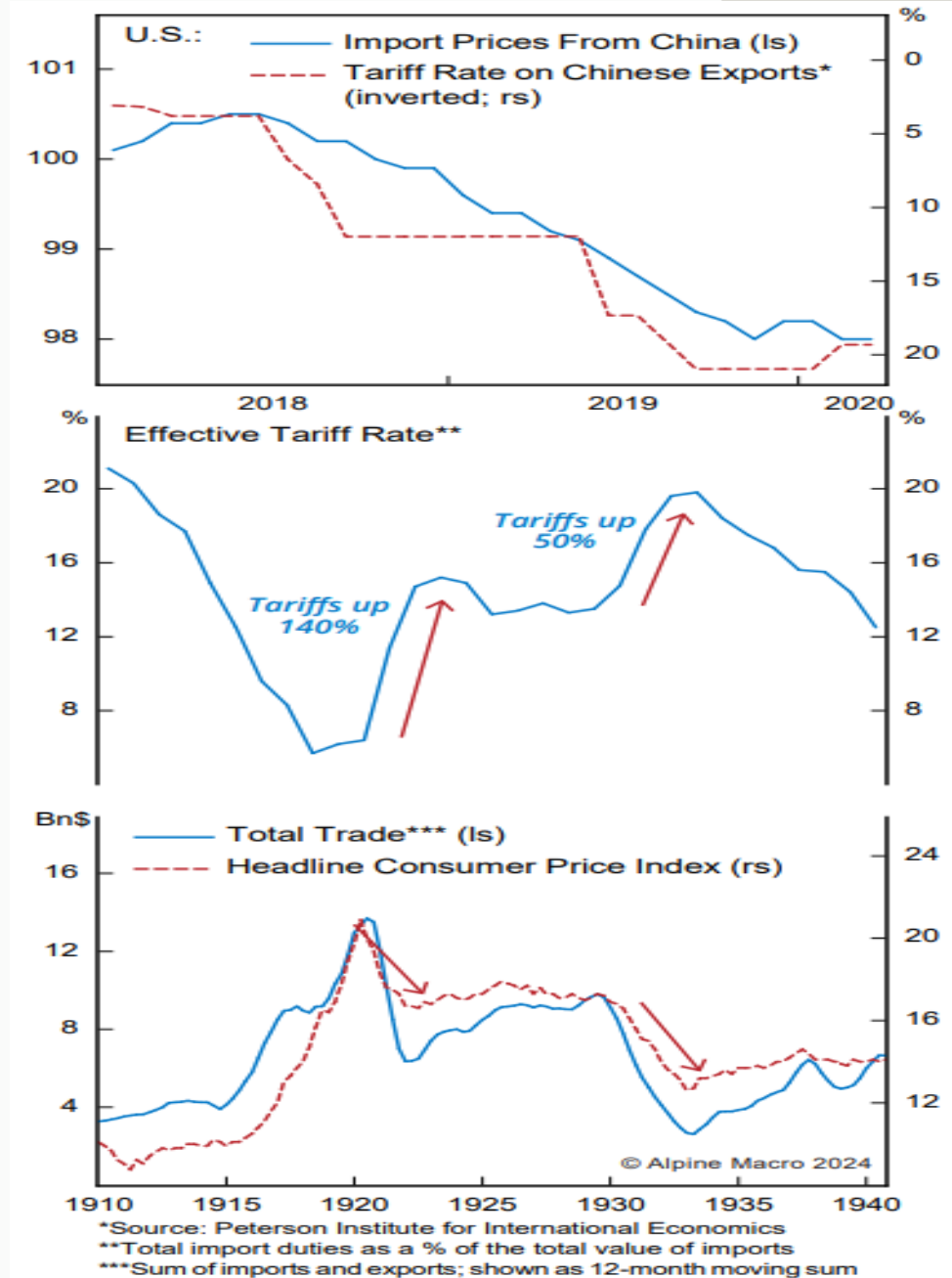


# Rising Tariff and Protectionism is Deflationary

It is intuitive to think that protectionism, rising tariffs or manufacturing re-routing will add production and import costs, leading to higher prices. In reality, however, this has not been true.

The reason is that **tariffs caused a huge contraction in global trade and income levels.** As a result, the negative income effect dwarfed the relative price effect of higher tariffs.

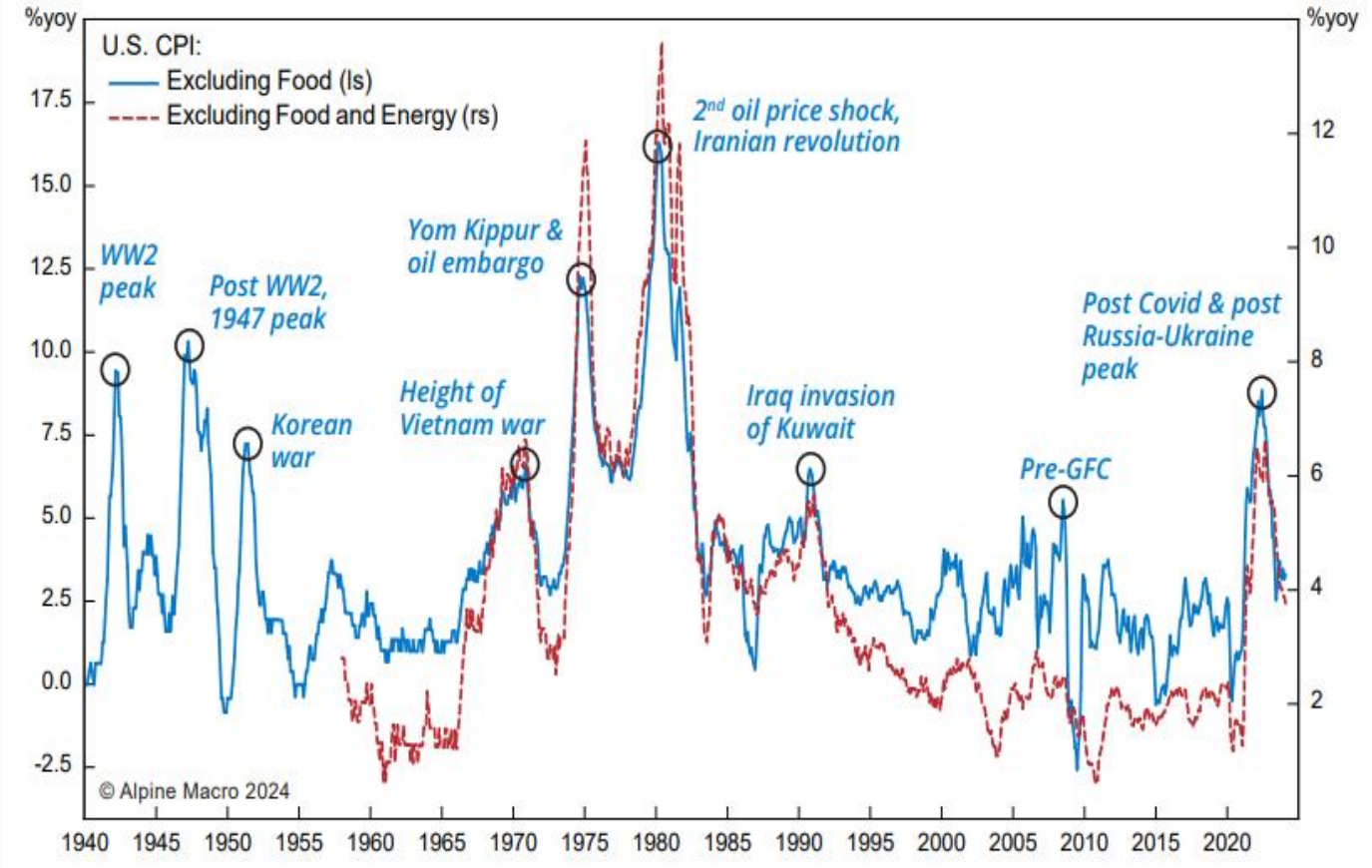
Source: Alpine Macro



# Inflationary peaks often coincide with Geopolitical Tensions

Inflation is expected to continue to come down in the U.S. and elsewhere this year.

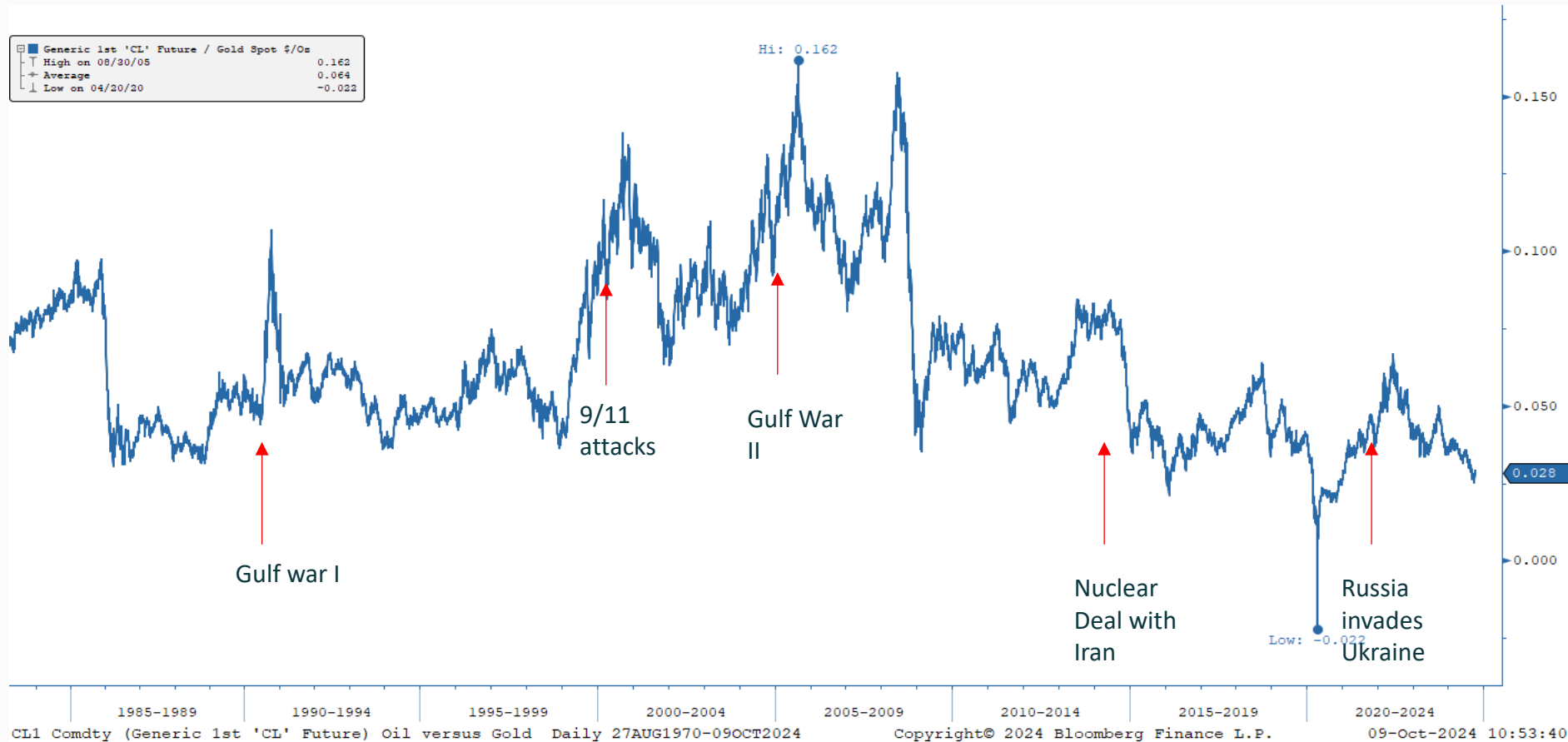
Source: Alpine Macro





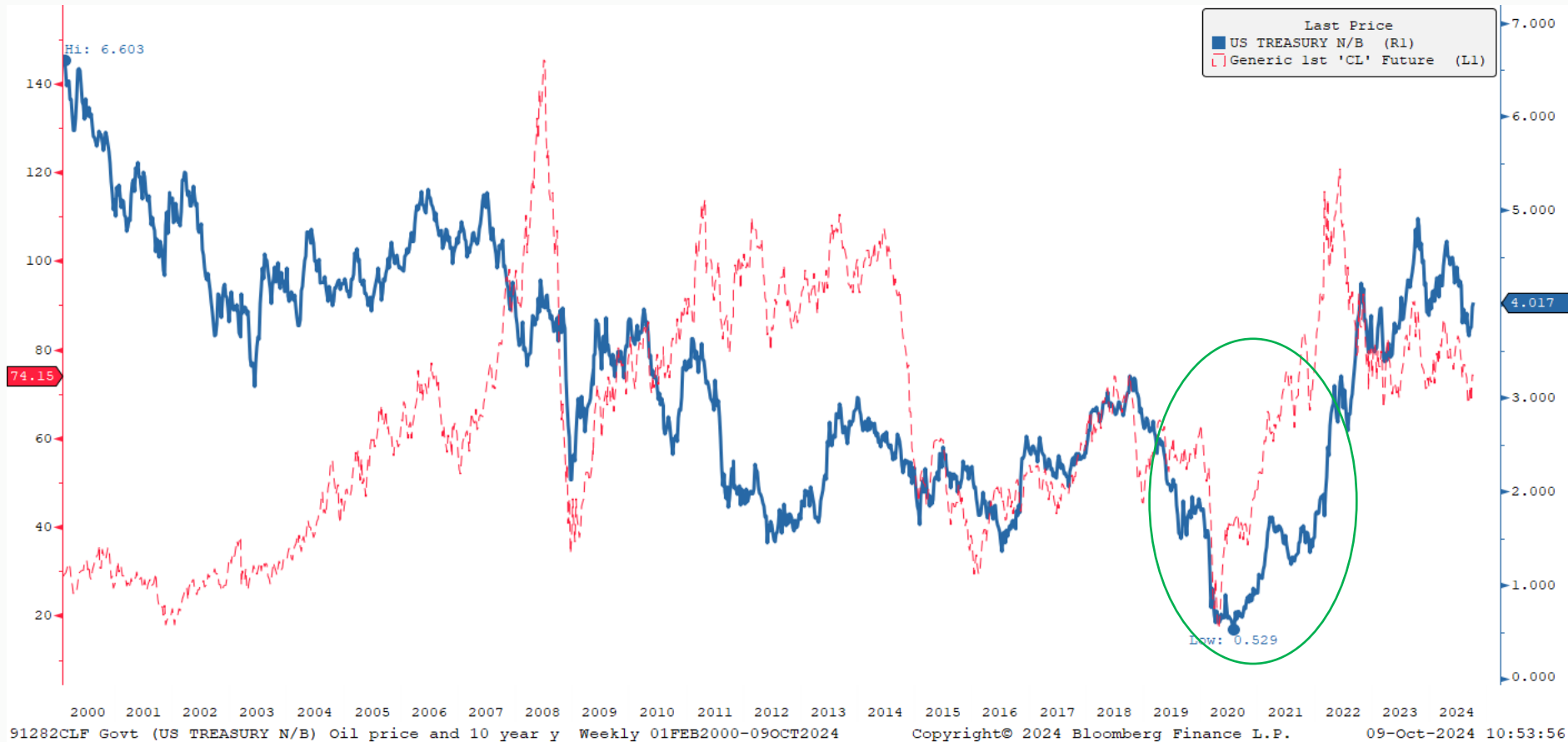
# Oil is not pricing Geopolitical Risk

Oil to Gold ratio



# US 10-year yield vs Oil price

The latest decline in bond yields follow the decline in oil prices

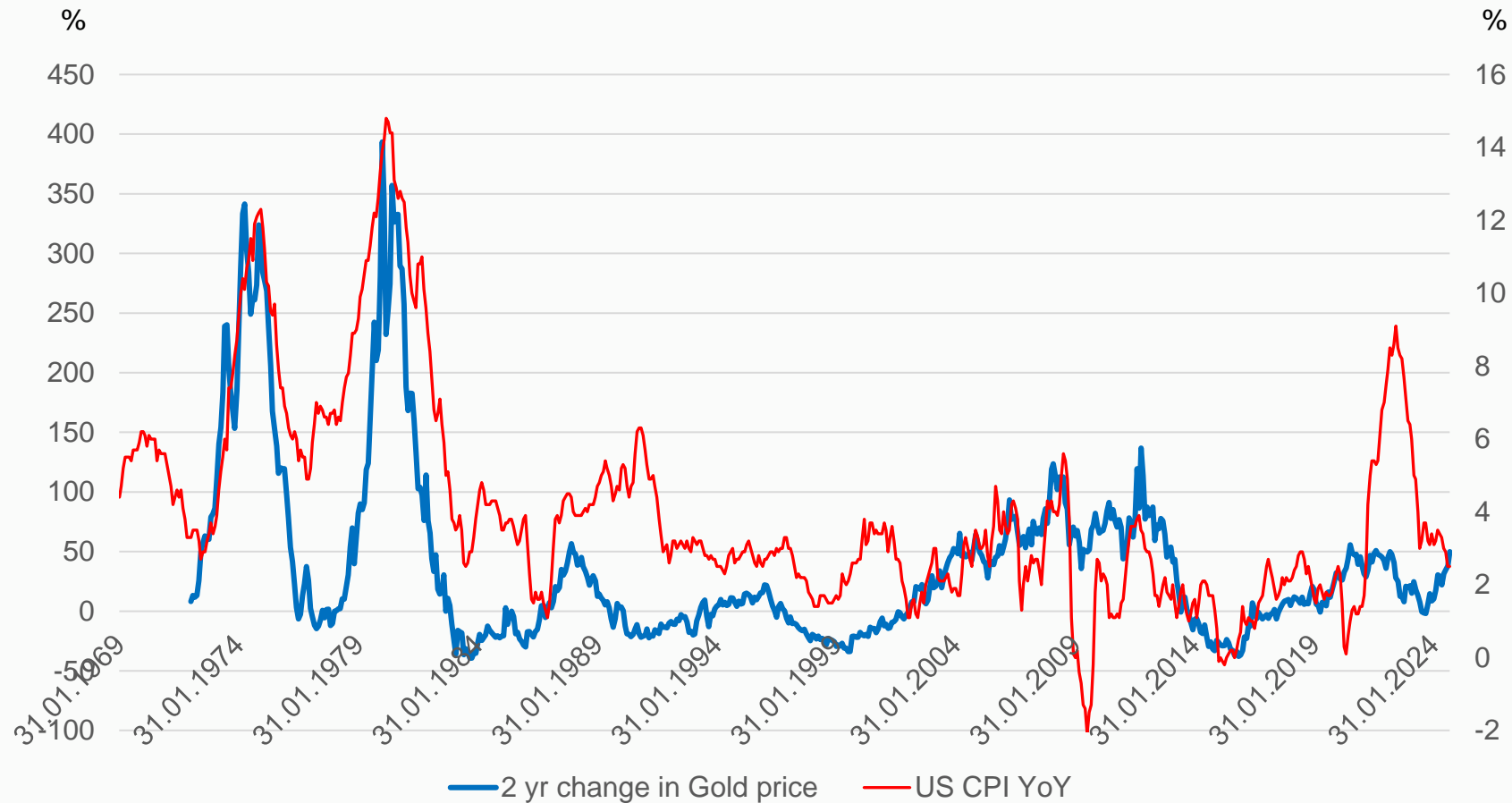


# EU 10-year yield vs Natural Gas price

Falling Gas prices keeping inflation contained in Europe.

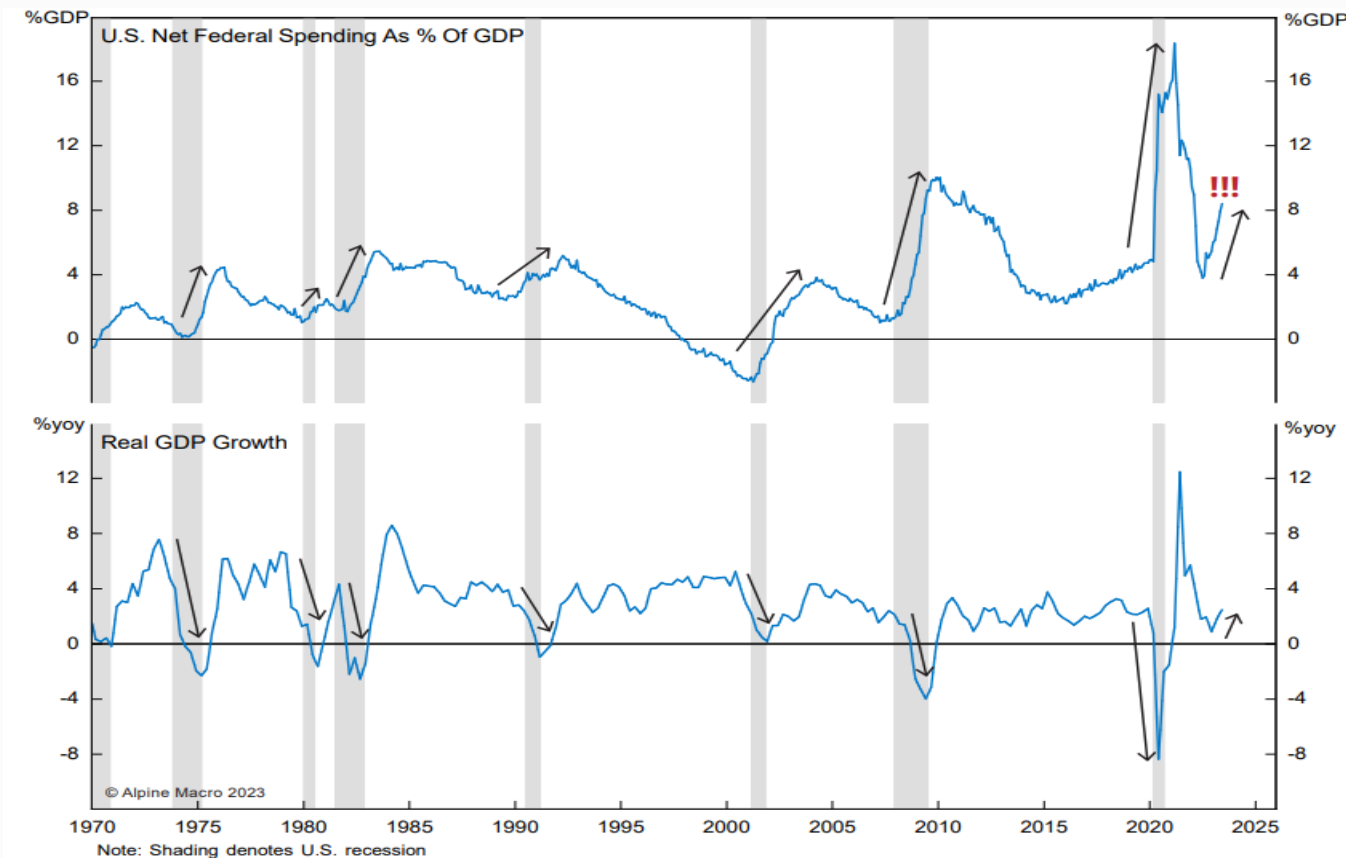


# Gold prices are not consistent with a sustained inflation outbreak



# Unprecedented pro-cyclical Fiscal Policy

... due to major spending Acts, such as the CHIPS Act, the Infrastructure Investment and Jobs Act (IIJA), and the Inflation Reduction Act (IRA)?



Total federal outlays increased by **9%**, or **\$534 billion**, over the period. This rate of spending growth is unparalleled, except during recessions and the Vietnam War.

State and Local (S&L) government expenditures added another \$150 billion to GDP in the year to Q2 2023, marking a 4.2% increase

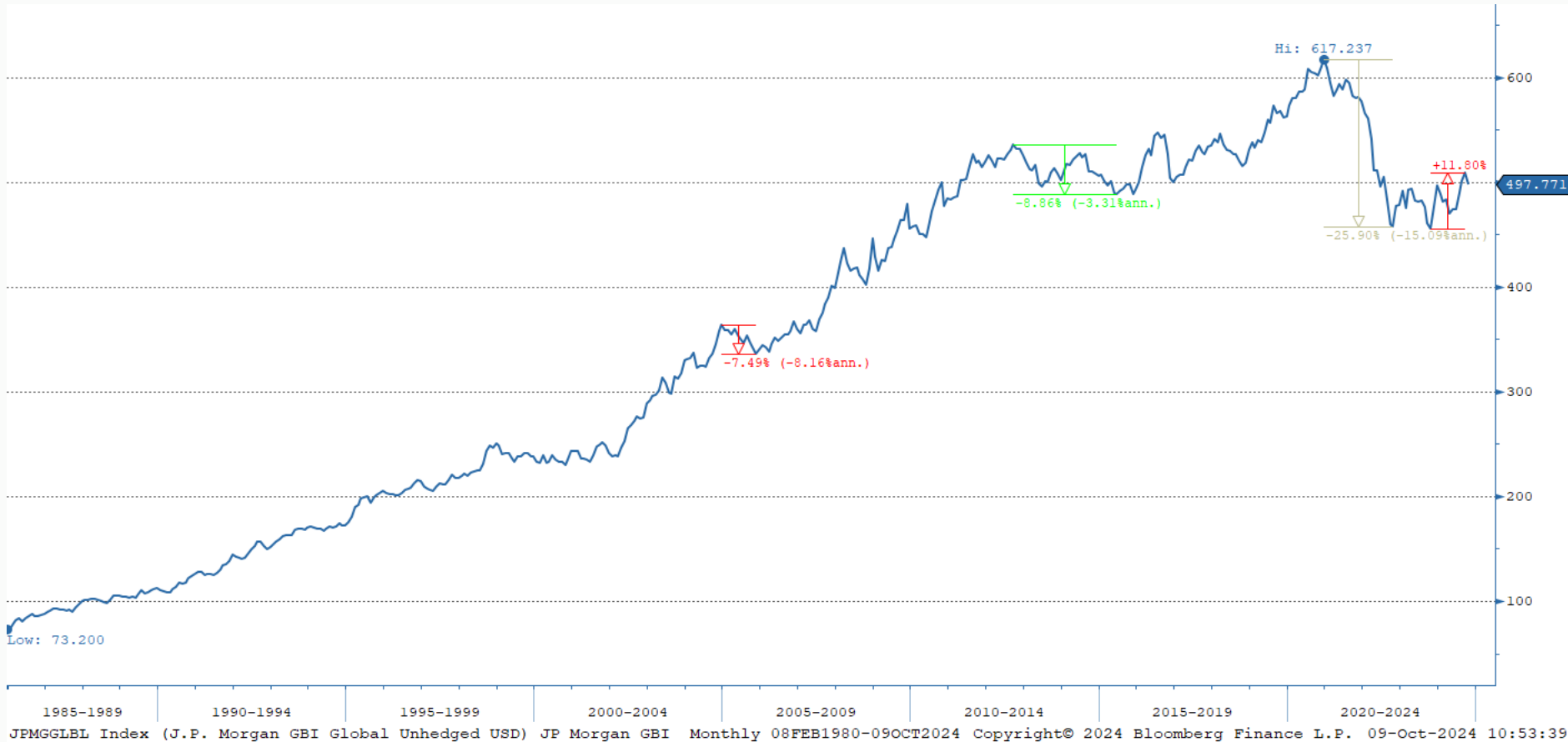
# Caused the biggest Bond market bear in a 150 years

10-year yields broke the long-term downtrend line following the Covid and Fiscal stimulus



# JP Morgan Global Govt Bond Index Unhedged US\$

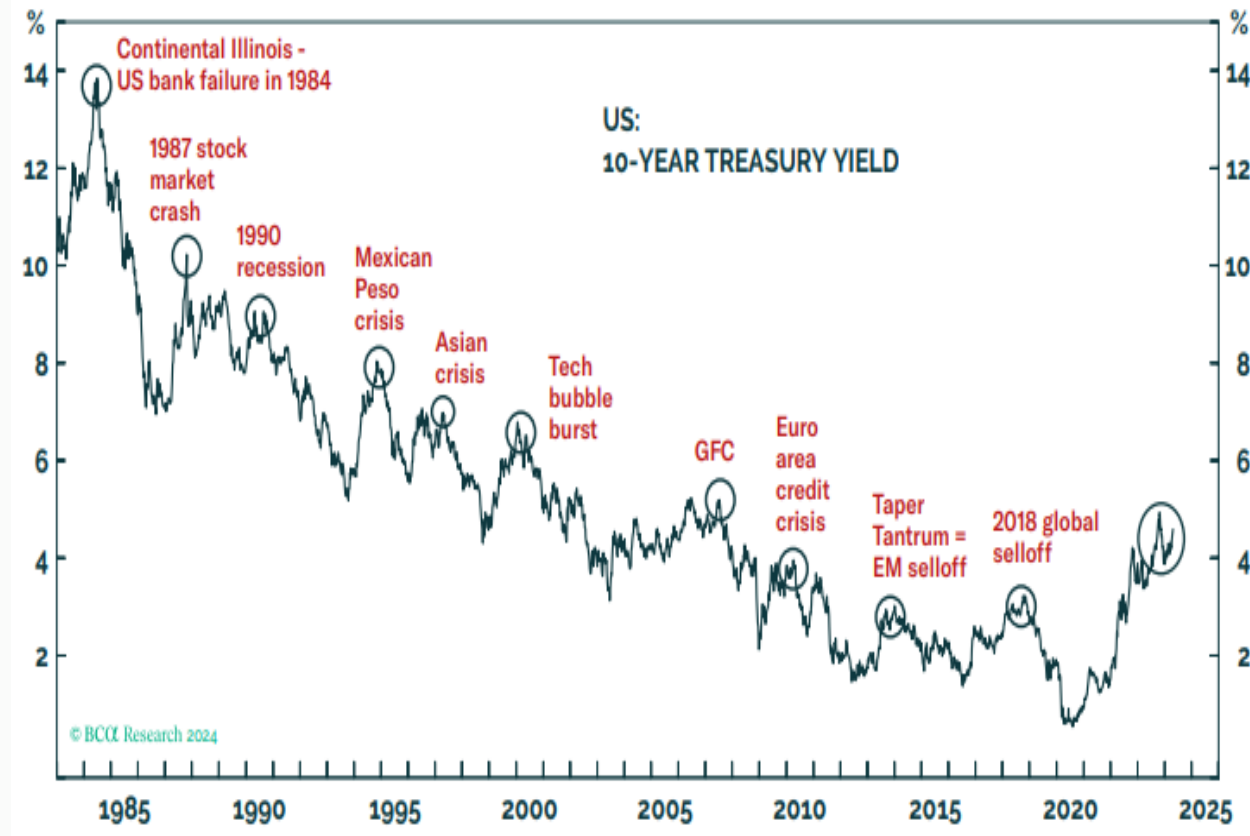
Finally seeing some life back in this index – after a 3 year bear market.



# A rise in US Bond Yields ends with a Financial Accident

This time there is no Covid Savings cushion

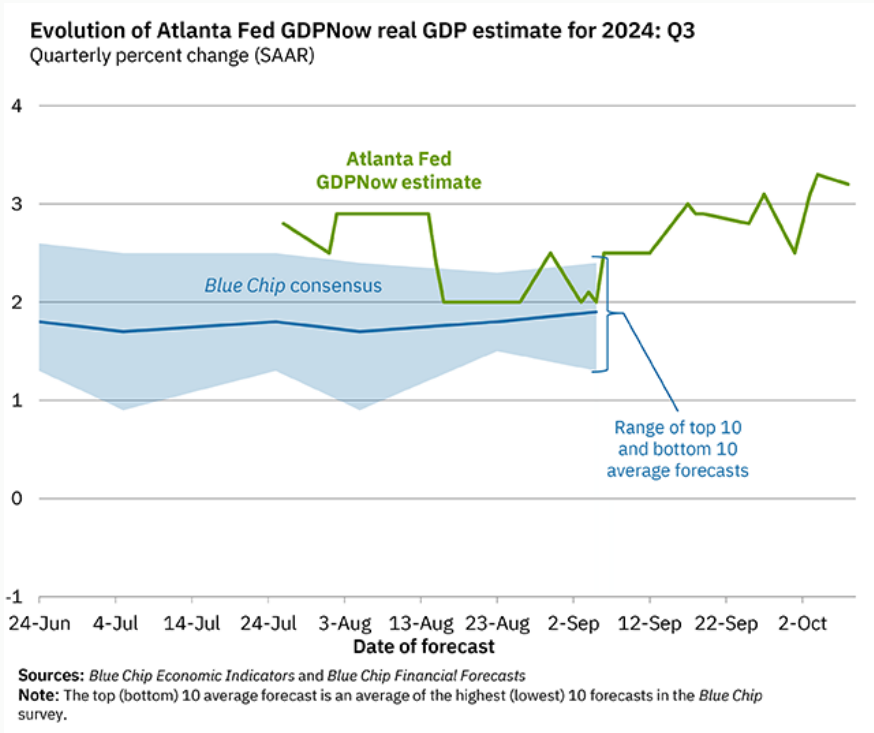
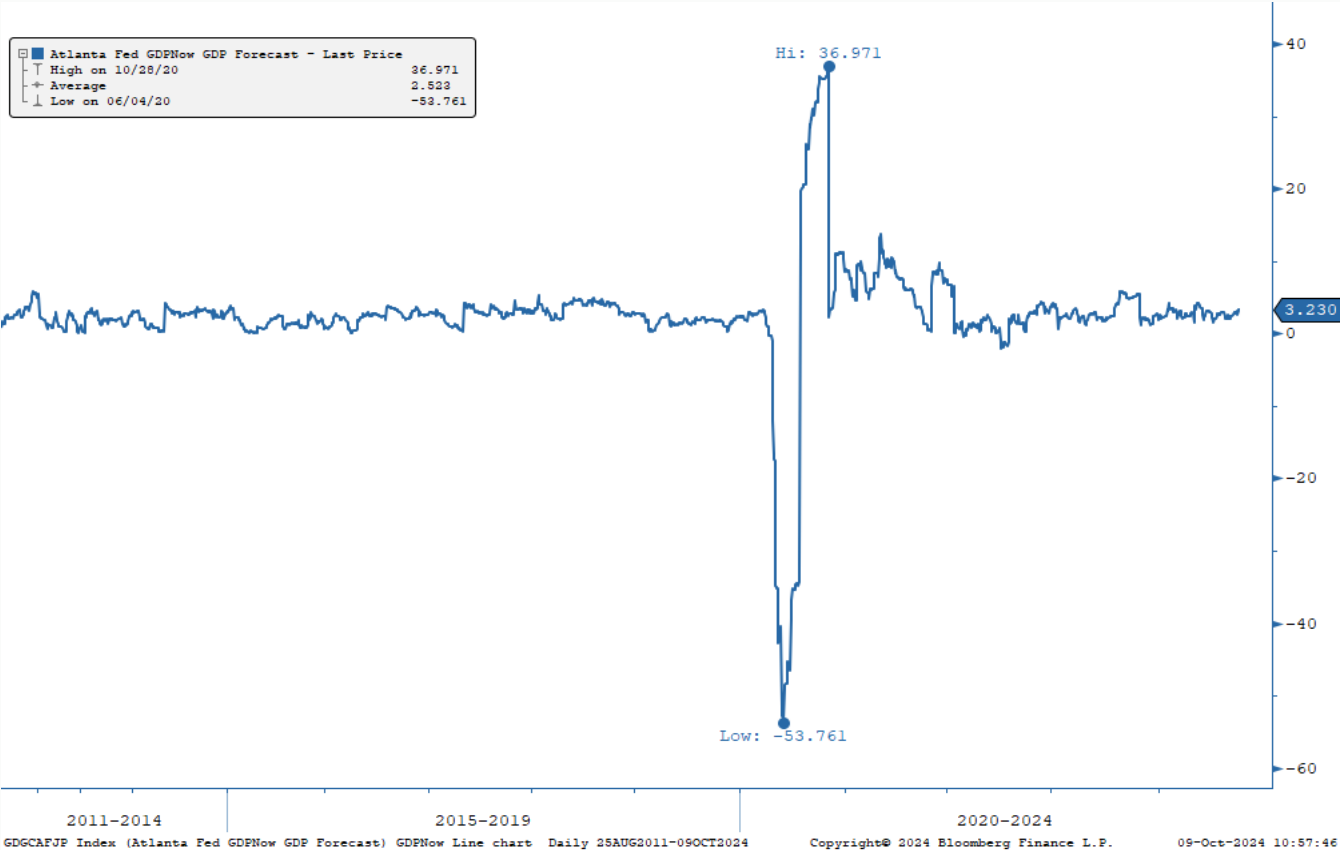
Source: BCA Research





# Atlanta Fed GDPNow Forecast now 3.2%

Growth is holding steady



# Trump vs Harris

## Split Congress

### Trump:

Fiscal Outlook:

Taxation

Spending

GDP

Inflation

Budget Deficit

UST yields

US Equities

USD

Geopolitics China

### Harris:

Fiscal Outlook:

Taxation

Spending

GDP

Inflation

Budget Deficit

UST yields

US Equities

USD

Geopolitics China

# Trump vs Harris

## Sweep

### Trump:

Fiscal Outlook:

Taxation

Spending

GDP

Inflation

Budget Deficit

UST yields

US Equities

USD

Geopolitics China

### Harris:

Fiscal Outlook:

Taxation

Spending

GDP

Inflation

Budget Deficit

UST yields

US Equities

USD

Geopolitics China

# Thank you

