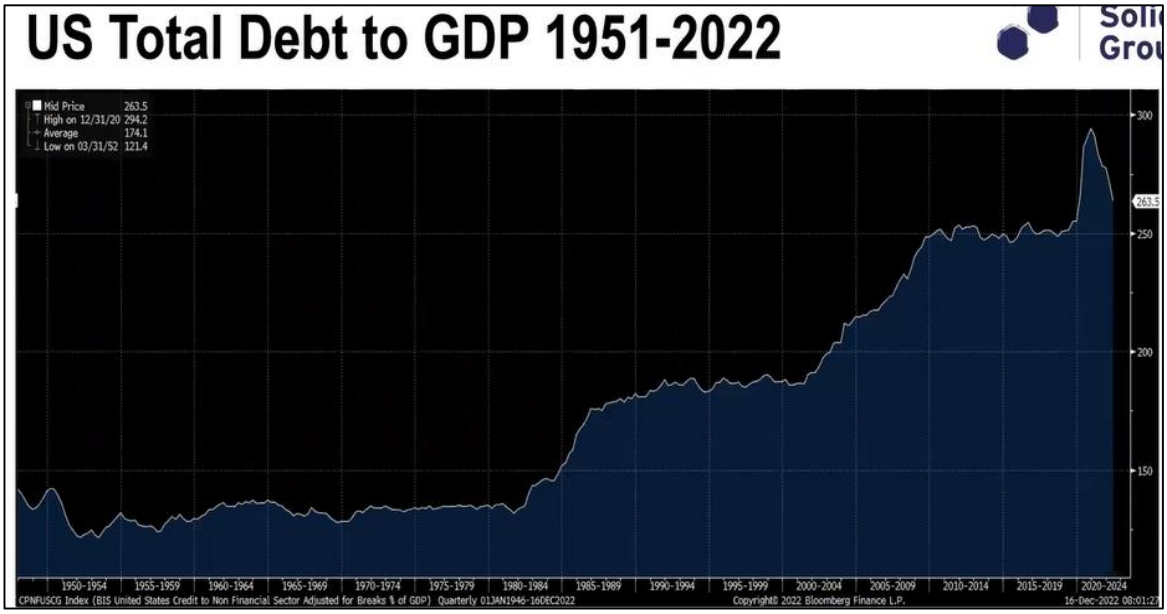
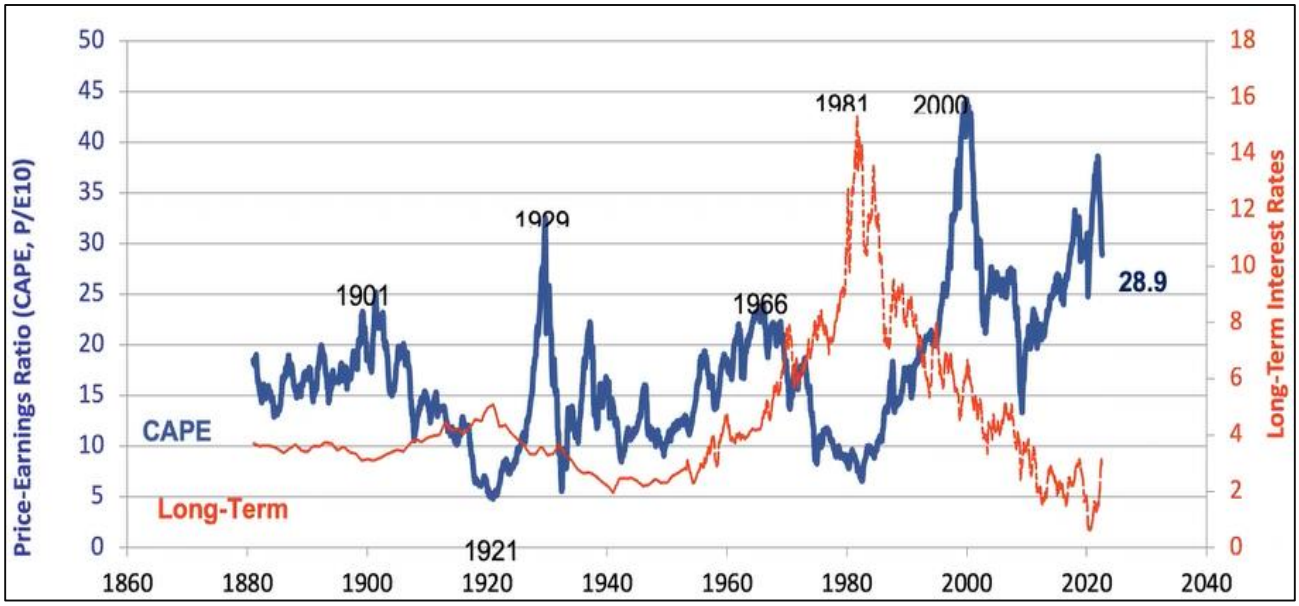
- World non-financial debt to GDP at record high – requires financial repression i.e., high inflation combined with low interest rates. There has nothing been like this ever in history. This is the highest level of Debt/GDP as interest rate hit 5000 year low. But interest rates may not stay at 5000 year low. And we may have to cope with the consequences of this for the next decade or two. But, this is why the developed world is in a mess not the emerging economies.




- OECD Broad money growth at 30 year high – a monetary revolution already in progress
- Government bank credit guarantees – regime change: Governments make money
- Yield curve control using private sector balance sheets – government also control the price of money
- Inflation usually brings Equity valuations down slowly but what would be the impact in a repression if the interest rates are not allowed to rise.
- Over owned stocks (the index) are dangerous and this favors value over growth – non-US and especially now UK stocks
- Key Emerging markets (ex-China) do not have dangerous debt levels, will not have to do financial repression and will offer good returns
- There will be a major developed world capex boom as credit is politicized to solve political problems and also solve the debt-to-GDP problem
- Less competition from China means a renaissance for some forms of industry in the developed world
- It's a long equity bear market like 1966-1982, but this doesn't mean that there aren't opportunities unlike in a 1929-1932 or 2007-09 bear market.

***(Article & Chart Source: Russell Napier, The Solid Ground)***




Interest rates are at a 5000 year low – That the bubble. Every other bubble stems from that bubble. There are a lot of structural reasons on why interest rates were 5000 years low but most of them have now come to an end. Now, there could be two things happening from here –

(1) Bubble Burst – Interest rates reset to reflect expected inflation. This will burst the asset price bubble - Equities, residential real estate, commercial real estate

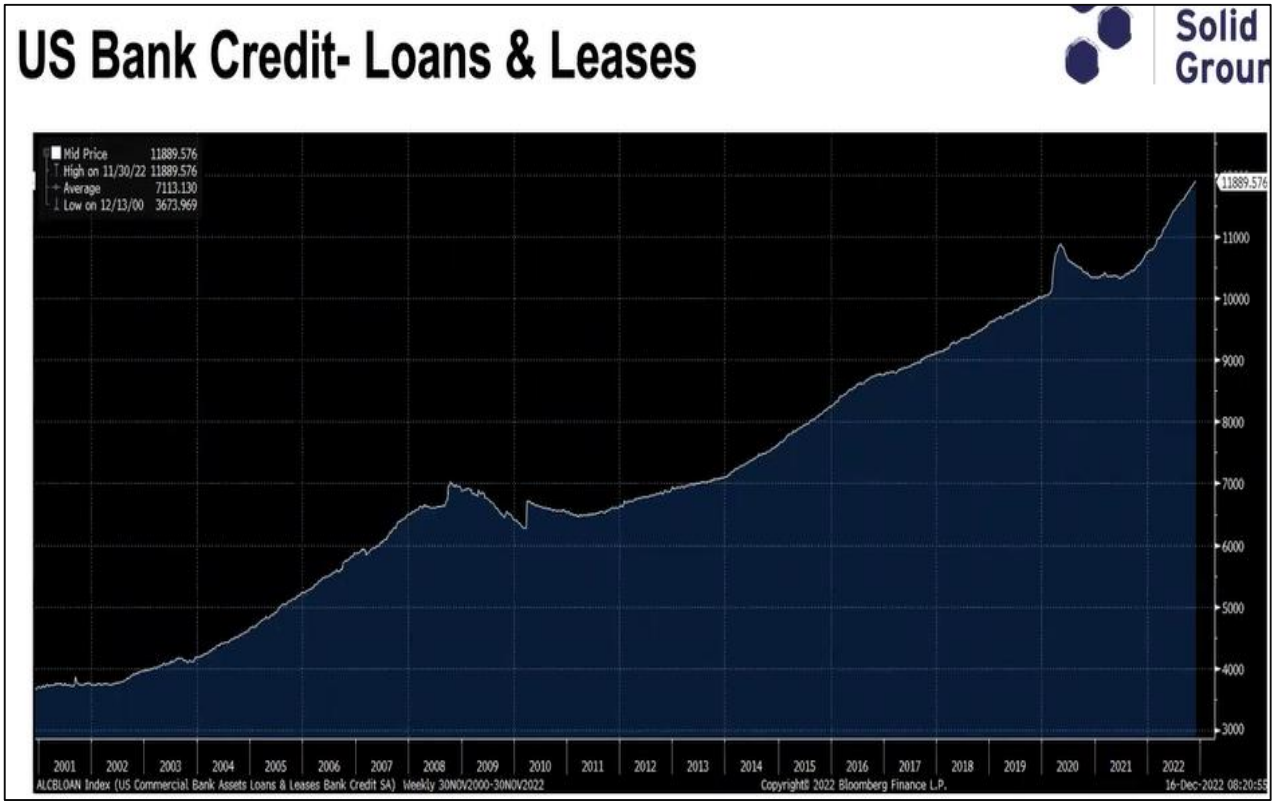
(2) Financial Repression – Authorities don't let the bubble burst. Economic, Political and Social consequences of bonds finding their right level through inflation are so dire that they will not be contemplated.

Structurally this is very bearish because this is a mis-allocation of capital which distorts everything. Last 20 years bond yields were mis-priced for reasons like Chinese buying of treasuries etc. which led to non-rational asset allocation decisions. Going ahead as market reprices financial repression, we could see long term yields rising slowly and CAPE declining slowly. There is some historical precedence for this 1901-1921 and 1966-1982; both of which were caused by high inflation and high rates. So essentially, had you not bought equities from 1966 – 82 you would have made money in real terms. In other words, its not that Equities don't defend you from inflation; its overvalued equities don't defend you, because you lose so much with decline valuation. That's what happens in financial repression not necessarily because interest rates go up but because we compel savings institutions to buy bonds to keep yields low is the different way of getting the same effect of grinding down the valuation.

Morgan Stanley calls it Deflationary bust. But this seems more like Inflationary recession…which may be not as bad on Equities as people think.

***(Article & Chart Source: Russell Napier, The Solid Ground)***

Countries are unable to get out of the debt trap as the difference between nominal GDP and interest rates which used to remain high is no more that high. Government will have to control that gap because they simply cannot live with the consequences of not controlling the gap in a situation where central bankers are controlling the rates and rates are going up.




Perhaps, somebody other than Central bankers are running monetary policy. Bankers do not contract credit into recession anymore infact they expand credit; because they know they are guaranteed by the state. So, in this recession they are getting quite high yields for lending and in their opinion, they have zero credit risk. Because they saw in 2020 people don't go bust.

Even in the US where government interference in the banking system is less; but bankers are behaving as if there is guarantee on private sector credit. Implications here are higher money supply, higher inflation and higher credit growth. Banking was the political problem and now it seems acting like a political solution.

If the government changes the nature of commercial risk (like 2020) then its not a very different type of bear market – collapse in inflation, deflation, corporate cash flows and asset prices.

***(Article & Chart Source: Russell Napier, The Solid Ground)***

**How to reduce High debt levels?**

- Austerity – usually post war but now we have social spending, where will the private sector growth come from?
- Default – BOE estimate a 7% decline in GDP: Painful for Greece
- Real growth: needs to be well above historical productivity growth
- Hyperinflation – 1944-50 France public debt to GDP 180% to 50%
- Repression- push inflation/nominal GDP growth above interest rates & force savers into government debt/deposits. UK government debt-to-GDP fell from 238% to 50% during 1945-1980 (most probable)

Financial Repression – Asset Price Impact

- Interest rates no longer linked to supply and demand – traditional economics that these has to be linked
- Capital controls – so far, an essential tool of repression
- Compelled liquidation of Equities to buy government debt by savings institutions
- Can the Euro survive financial repression – each government controls the supply of euros and capital controls may be necessary
- Inflating away debts is very bad for fixed interest securities
- Some corporations can benefit from high inflation and low interest rates
- Does the end of increased competition from China bring hope for many industries and in particular for those of Japan?
- Can emerging markets, ex China avoid financial repression? – EM price to book ratio is 1.6x vs. 4.1x for S&P 500 and 4.6x for Nasdaq. BTW, United Kingdom is also now at 1.6x
- Its 1945-1978 repeated- Never buy bonds, Buy Gold and Select Equities

***(Article & Chart Source: Russell Napier, The Solid Ground)***

**Naughty or Nice?**

Nice if solving government problems –

- Keeping private sector current on its debt (banks) – we are taking about a government that is deeply involved in asset allocation. Every time they issue a debt, they decide who gets and who doesn't get credit. Equity investors as a whole should be beneficiary of cheap credit.
- Positive for the climate agenda (renewables)
- Producing what we no longer buy from China (production)
- Building the capex to solve all these problems
- The friends in the 'friend-shoring' regime (many EMs)

Naughty if the debt is used for non-productive purposes –

- Investment banking to gear up existing income streams
- Private equity to be re-equitized to bring down debt
- Commercial property in surplus and re-equitized
- Buying back own shares using debt -financial engineering
- Re-equitizing at a time when savings institutions are forced sellers of Equity!

***(Article & Chart Source: Russell Napier, The Solid Ground)***

## Mr. Ritesh Jain

*Co-Founder*

Master of Business Economics (MBE)
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He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

## Ms. Chanchal Agarwal

*Head - Products*

Chartered Accountant
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She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

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