Debt has grown to all-time record levels and we have reached the trigger point

We've entered a new era that's strikingly different from past 3-4 decades of Global credit expansion & investors need to see the changing characteristics & change the investment Playbook that was so simple consistent & successful over that long period of time. GDP is reached an all-time high; the Consumer Debt plus government debt to GDP reached an all-time Global high at a time when interest rates reached a 5000 year low. So, the question now is if we have record high debt GDP and interest rates go up what happens next? It is crucial in a market system long-term rates should be related to the rate of inflation so they should be priced off inflation and that may mean that they have to go to a level which just brings their crisis. There are two possible responses to this situation – crises or government takes extreme action to stop the crises. Second response means we abolish market determined interest rates and capital pricing mechanism as risk free rate fails to reflect the inflation. there's going to be such a huge structural shift in how even America works never mind France Germany & UK.

Japan will be lynchpin- this test case may be unfolding this quarter, watch carefully

Japanese are already losing control of the central bank balance sheet. By enforcing artificial yield curve control & using central bank balance sheet from the period of low inflation to high inflation got them to negative feedback loop, as you create more money you get more inflation & you have to try more harder to get inflation down. Result is their exchange rate fell by 40%. This is going to be very volatile period of global history because this time probably financial repression comes one country at a time.

Bretton Woods in perspective and other contributing factors

Bretton Woods 1971 separation of the dollar from gold which was the last major currency to separate from gold was the enabling factor for record levels of debt. It said to those who wanted to borrow that there probably wouldn't be any deflation again there would only be inflation and your debts would effectively be inflated away. It began with Michael Milken in the mid-1980s that showed that you could go to outside the banking system you could go to the savings institutions and you could mobilize debt capital from Pension funds and life funds and you can mobilize that to gear up. The end of the Bretton Woods made it safer to get into the business of borrowing money and find a way of turning on creating non-bank credit. And if you look at the history of the US and why ultimately, we have got high debt and GDP it's the Boomin non-bank credit. The beautiful thing about buying credit is as it expands it creates money in the nature of a fractional Reserve banking system; so while bank debt to GDP may still remain balanced but when you add non-bank credit then you can get way out of balance. So arguably we have been trying to stop this debt problem financial repression is the likely outcome.

(Russell Napier via Markets Policy Partners)

Debt vs Debasement- What is the history?

During the last stages of UK as the reserve power, Sterling was not the best currency and yet government debt the GDP ratio came down. However, part of the way debt was brought down was by invading and occupying other countries and stealing their wealth. Those days have probably gone. It's very unlikely in a democracy that we choose the tough way which is austerity maybe even default. Debasement which is not hyperinflation; it's just keeping inflation that bit above rates is in a democratic system.

A FEW GOOD MEN- Governments can't handle the truth

Bond markets that bring discipline and then the question is do the bond markets discipline the government or does the government discipline the bond markets. That great line from A Few Good Men by Jack Nicholson the Box you want the truth you can't handle the truth. The governments cannot handle the truth of where bond yields should be to protect me and you from inflation over the next 10 years and therefore they'll abolish the truth.

See how European countries have been undermining central bank monetary policies

Most people do not understand what governments can do to undermine the power of the essential banks around the world. Monthly policy is the quantity of money in the economy it's not the price of money in the economy the price of money in the economy is like your accelerator and brick but it's there to control the engine and the engine is the quantity of money. Now, there are two ways in which the government's actually taking over both but the first one it's taking over is one that's happening and no one's really noticing now this is much more prevalent in Europe than America.

Government guarantee of Bank landing and asking the banks to lend money is the Central Bank trying to control the growth in bank credit and money for adjusting interest rates & the size of Reserves. This already happening particularly in Europe and that means they have more direct control over the quantity of money which essentially means called credit controls. These were fairly prevalent after World War II. The second thing is they can also control the price of money and the form in which we now secure a yield curve at a price the government wants is forcing savings institutions to buy government bonds it's the government that determines the yield it wants to pay and it's the government that forces savings institutions into the marketplace so the government would then be controlling both the price and quantity of money. Financial stability now that's not taking a political view it's just saying that the consequences of interest rates at the right level would be so dire that no one's really going to let them come to pass.

(Russell Napier via Markets Policy Partners)

The Surprise about freezing dollar assets in Russia Central Bank was not that the US did it…

The important news was not that the U.S seized the reserves of Russia that wasn't the story. The US is quite good at seizing people's reserves and nobody was surprised at that action; the surprise was Europe seized those Reserves. Switzerland seized those reserves. Singapore seized those reserves. That's the story that doesn't undermine the dollar that supports the dollar in a bizarre way; because, it's not as if I'm a reserve manager I can think oh let's just put all the money into Euros because the Europeans would never do that let's put all that money into Switzerland because the Swiss would never do that so in some strange ways the dollar was hanging out there particularly under the Trump presidency and people thought particularly the Iranian situation that Trump would weaponize the dollar it turns out that everybody will weaponize when it comes to this situation. So this hasn't negatively affected the dollar at all it's made gold more interesting because it's one of the few places of one of the few assets you could own that perhaps wouldn't be sanctioned.

How does liquidity factor into the growing repression that would happen over the next decade? How long will the repression last until things are fixed?

Over a decade more like 15 years because you have to bring the debt to GDP to a reasonable level. You have to just work out the gap between the two things; which is growth in nominal GDP and growth in debt, and then whatever rate you think is sustainable is how quickly this can come down. The Gap has to be relatively small; because, of the sheer social chaos if it was too big you know the inflation is running way ahead of interest rates and then you can get out of control and you can lose control of velocity which would be particularly dangerous.

Worst and best performing asset for the next 10-15 years of financial repression

What we learned from the 70s is equities do not defend you from inflation. We would disagree that S&P did not defend you from inflation in the 1970s; but the reason was that in 1966 the PE 23 and a half times and by 1982 it got to seven. Now if the valuation is going to call from 23 and a half to seven it's highly unlikely that equities are going to give you a positive return relative to inflation so the secret of Defending yourself from inflation is don't buy equities in 23.5 times PE. So that rules out the S&P because it's on 28 so that not going to be a place for you to make money. However, all the other equity markets in the world in dollar terms are below their price they were in 2020. They have gone nowhere in 20 years even today they're only marginally higher than they were in March 2020.

(Russell Napier via Markets Policy Partners)

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